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S. HRG. 103–631

S. 2002, THE AMTRAK INVESTMENT ACT OF 1994 AND S. 1942, THE LOCAL RAIL FREIGHT ASSISTANCE REAUTHORIZATION ACT OF 1994

HEARING

BEFORE THE

SUBCOMMITTEE ON SURFACE TRANSPORTATION

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

APRIL 13, 1994

Printed for the use of the Committee on Commerce, Science, and Transportation

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S. 2002, THE AMTRAK INVESTMENT ACT OF 1994 AND S. 1942, THE LOCAL RAIL FREIGHT ASSISTANCE REAUTHORIZATION ACT OF 1994

WEDNESDAY, APRIL 13, 1994

U.S. SENATE,
SUBCOMMITTEE ON SURFACE TRANSPORTATION OF THE
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:28 a.m., in room SR–253 of the Russell Senate Office Building, Hon. J. James Exon (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: William Clyburn, Jr., staff counsel; and Gerri Lynn Hall, minority professional staff member.

OPENING STATEMENT OF SENATOR EXON

Senator EXON. The subcommittee please will come to order. I want apologize to all, especially the witnesses, for our delay. It is first-come, first-served around here with regard to priorities, and as you know, we had to go to the floor to vote. But we are back now, and we are going to move along as rapidly as possible to try and catch up.

Today, the Senate Surface Transportation Subcommittee will take a careful look at investment in two key segments of America's rail infrastructure; namely national passenger rail service and freight service to rural and small communities. The subcommittee will consider S. 2002, the Amtrak Investment Act of 1994, and S. 1942, the Local Rail Freight Assistant Reauthorization Act.

In many ways, it is a miracle that we are here today at all. The past two administrations put the National Railroad Passenger Corporation—Amtrak—under unrelenting pressure. There were proposals to end Federal investment in Amtrak, ill-fated proposals to privatize the system, and recommendations that the most profitable segments of the system be spun off. If any of these proposals had been adopted, it would have been an end to the national passenger rail service system.

Through many tough fights, hard work, leadership, and the determination of many individuals, including the recently retired president of Amtrak, Graham Claytor, Amtrak has survived. The selection of Tom Downs as the successor to Mr. Claytor puts Amtrak in very able hands in the opinion of this Senator.

Just prior to Easter recess, the Clinton administration asked me to introduce their bill to reauthorize Amtrak. It was an honor and a pleasure to do so. I never have had that kind of a request by any administration previously. That legislation marked a turning point in the history of American passenger rail service. For the first time in 12 years, a President is seeking increased investment in passenger rail. In addition, we have an administration committed to advancing high-speed rail from the dream it is today to a reality at some time in the future.

As one of the attending physicians to Amtrak during its darkest days, I am pleased to report that the patient, so to speak, is finally off life support and ready to begin rehabilitation.

In spite of our enthusiasm for passenger rail transportation as a Nation, we face a larger burden, and that is the deficit. The need to reduce the deficit moderates what the Federal Government can do. I would like to explore at today's hearing whether there are resources or revenues within the Amtrak system which can be tapped to meet critical investment needs, and whether there are combinations of investments which the U.S. Government can make in conventional passenger rail and high-speed rail that yield the greatest benefit to the Nation. We have to make every penny count every time.

The subcommittee also will look at legislation to reauthorize the Local Rail Freight Assistance Program, commonly known as LRFA. I know that the Clinton administration, like its predecessors, did not seek to fund this program. Coming from a rural State, I know well that the rural rail infrastructure needs of such States as Nebraska and others are very significant. We cannot have a seamless transportation system without attention to our rural fringes.

The cost-benefit ratio of modest investments in the Local Rail Freight Assistance Program is very favorable. The presence or lack of rail service in a rural or small community often spells the difference between economic life and economic death. I just returned from Omaha where the Interstate Commerce Commission held a conference on grain car shortages. I left convinced that the rural rail infrastructure needs are greater than ever before. A modern LRFA program can begin to address these needs. I also would like to explore at this hearing whether LRFA or a program like it can help solve persistent grain car shortage problems. Mr. Chairman, your comments, please.

OPENING STATEMENT OF SENATOR HOLLINGS

The CHAIRMAN. In today's hearing, we have the opportunity to discuss the important role of Amtrak in our transportation system, and in particular to evaluate the level of Federal financial assistance necessary to ensure its viability. We also will review the role of the Local Rail Freight Assistance Program in promoting rail service on light density lines.

Amtrak is currently at a financial crossroads. Evidence indicates that past investments in Amtrak have not been adequate to ensure the future viability of its capital infrastructure. We thus must review the investment that now needs to be made in our Nation's passenger rail service to ensure that it is commensurate to our expectations of its performance. In particular, there is a need to provide sufficient capital funding for Amtrak to replace old locomotives and rail passenger cars, to enhance the quality of customer service, and to ensure that an appropriate level of passenger rail service is maintained. Given the limited Federal dollars available, however, these needs will be difficult to meet. I know that the Administration and others are committed to maintaining Amtrak as an integral part of our national transportation network, and I am interested in discussing options to fulfill this commitment.

Today's hearing also will address the future of the LRFA Program. This program has provided assistance to States and local communities in the rehabilitation and purchase of light-density rail lines which provide important service to these communities. Although Federal support for this program has gradually decreased, many believe that Federal assistance is essential to provide needed rail service for shippers and to promote local economic development. I look forward to the testimony on this program.

Thank you, Mr. Chairman.

Senator EXON. Thank you, Mr. Chairman. We have a full agenda this morning, and I look forward to hearing from our witnesses. Without objection, all of the statements that have been submitted by all of the witnesses will be accepted, and without objection it is so ordered. We certainly would like to have the witnesses summarize their opening statements so that there will be plenty of time for the question-and-answer session that will follow.

And I would ask if there are any other members of the subcommittee who have any opening statements? The Senator from North Dakota.

OPENING STATEMENT OF SENATOR DORGAN

Senator DORGAN. Mr. Chairman, I very much wanted to be present for this entire hearing, but I have another committee meeting upstairs and there is an issue I have before it that requires me to leave. I did want to say at the outset of this hearing, however, that I have been a supporter of Amtrak and remain a supporter of Amtrak, and part of that is because I think we need passenger rail service in this country. And not just in the eastern corridor, but that includes the skeleton service that exists around the rest of the country.

We have the empire builder route that runs through North Dakota and through Senator Burns' State of Montana. And I want to submit a series of questions to the administration about funding, about expenditures and investment. I want to be supportive and I appreciate this President's budget really saying we want to maintain and continue a strong Amtrak system, but I want to make sure that we are not just talking about east coast corridor service.

I think the market system can largely drive much of that service. You have got plenty of people that want to ride a good train from Washington to Boston and back. But in our part of the country, moving from Minneapolis through North Dakota, Montana, and so on, that rail service is just as critical to us. It becomes a bridge, a transportation bridge for us, and is very important.

And I want to submit a series of questions to the witnesses today, Mr. Chairman. Even though I am not able to be present for the hearing, I want to submit some questions and I expect Senator

Burns will acquit himself with respect to some of the same questions about Amtrak service in our part of the country.

But let me say again, I applaud the administration's desire to invest in and maintain the Amtrak service. And I thank you very much, Mr. Chairman, for giving me the opportunity to say that.

Senator EXON. Senator Dorgan, thank you very much for those very appropriate remarks, and we will see that your questions are submitted.

I inform the present panel and the one to follow, regarding any questions that are submitted for the record, that we would appreciate your earliest possible response to those so we can include them in the official record.

Thank you, Senator Dorgan. We appreciate your staying as long as you can. We recognize that there are all kinds of busy schedules around here.

Let me turn at this time to the ranking member, Senator Hutchison from the great State of Texas. Do you have an opening statement or any comments?

OPENING STATEMENT OF SENATOR HUTCHISON

Senator HUTCHISON. Thank you, Mr. Chairman. I, too, am not going to be able to stay as long as I would like to, because I think this is a very important issue.

Seriously, thank you for being here. It is a very important issue. I am going to have to leave pretty quickly, but I will look forward to hearing what you have to say and reading your testimony later. I think we need to look very carefully at just what the commitment is to Amtrak and how we make sure that we are delivering the right service for the right price for the people.

Thank you.

Senator EXON. Thank you, Senator.

We are very pleased to start this morning with a key player in this whole matter of Amtrak and railroads, and, of course, this is the Administrator of the Federal Railroad Administration, the Honorable Jolene Molitoris.

Jolene, thank you. We are very happy to have you here for the beginning of the testimony this morning. I ask that you proceed in any way you see fit. We have already accepted your full statement. Excuse me.

I thought I had asked you. Did you wish to make a statement? Go ahead, Senator Burns.

OPENING STATEMENT OF SENATOR BURNS

Senator BURNS. Yes, I would like to submit a statement if I possibly could, Mr. Chairman.

Senator EXON. Certainly. Go ahead.

Senator BURNS. I have some questions, like Senator Dorgan from North Dakota, and I thank you for coming this morning on this reauthorization. We are on the Empire Builder, also, and, of course, that connects Chicago and Milwaukee and Minneapolis and Seattle. But it also travels in northern—the high line of Montana, which links together some of my smaller communities that have no bus service and no air service.

So, we feel that it is very very important. However, we run into some problems up there of not being able to notify or to post whenever the schedule changes and this type of thing. It has been inconvenient because, not only is that the high line of Montana, but this is a place where weather has quite a lot of effect, and sometimes it is quite a drive even to get to the train station if you are talking about the Maltas and the Whitefishes and the Wolf Points and those kind of places.

Also, the increase in appropriations that has been requested, I congratulate you. I, too, have some concerns about how we deal with funding—this is not just an investment within the eastern seaboard corridor. I would also like to see some other Western States served, and also service on the southern route of Montana that would come through and give us an outlet to Omaha, the areas down across Nebraska, and maybe even Denver. Those two are shrinking markets as far as air transportation is concerned, we have highways—and there is bus service there, but nonetheless Amtrak is needed.

I think what we have to look at is spaces. What we are talking about is if you look at the map of Montana from Eureka which is in the northwest corner to Alzado which is in the southeast corner, it is further than it is from Chicago to Washington, DC. So, we are talking about the ability to move people, and also mail and cargo, large distances at a very very economical rate.

So, with that, I would hope that in this authorization there would be some technologies or other services that would be available so that we would be aware of delays or this type of thing, so that we can keep our people better informed whenever they start riding the train across the high line of Montana. And let's also explore the southern route. That is where our big cities are, in Montana, on the southern route. Our smaller cities and towns, of course, are on the northern route.

I thank the chairman for this opportunity, and I would like to submit my full statement.

[The prepared statement of Senator Burns follows:]

PREPARED STATEMENT OF SENATOR BURNS

Thank you for holding this important hearing. Since 1970, AMTRAK had provided an important service to travelers across the United States by maintaining reliable passenger rail service, and I hope to see this quality of service continue.

Through my state of Montana, AMTRAK's "Empire Builder" follows AMTRAK's Northern most route and connects the Midwest's largest cities: Chicago, Minneapolis, Milwaukee and Seattle. The Empire Builder stops in many of the small rural towns along the Hi-Line area of Montana and provides an essential service to the residents of these communities. AMTRAK's service is uniquely important to these remote areas because it is often the only mode of public transportation available.

The absolute necessity of reliable passenger rail service to these areas is unquestionable given the extreme living conditions in this area. Severe winter weather conditions often make highway travel extremely dangerous and air service is virtually unavailable. During these periods, the Empire Builder allows access to many of the most basic life services. The most important of these services is access to medical facilities, which is particularly important to the elderly populations of this area. Residents of these rural communities are often separated by considerable distances from basic medical services taken for granted in more populated areas.

The Empire Builder also plays an important role in sustaining the economic viability of these smaller communities. AMTRAK's service to these areas provides reliable transportation for commercial products—a vital link in ensuring the livelihood of many of this area's small businesses.

However, while the Empire Builder once provided the quality of service essential to this area, delays and unannounced schedule changes have become more and more frequent to this line. I would like to know if fundamental changes are being proposed to address this situation and if these problems can be resolved to reinstate the "reliability" required for AMTRAK's service in Montana. S. 2002, recommends an 8 percent increase in operating grants over FY 94 appropriation levels. Is any of the $352 million requested set aside to address the problems with the Empire Builder's service.

In addition, S. 2002 would authorize an 29 percent increase over FY 94 appropriations for capital grants. AMTRAK has studied several different options for a southern route through Montana. These lines would establish service between Seattle-Denver, via Missoula, Laurel (Billings), Thompson Falls, Paradise, Helena, Bozeman and Livingston, or service between Seattle-Fargo-Minneapolis-Chicago, via Glendive, Billings, Helena, Missoula, Miles City, Forsyth, Livingston, Bozeman, Paradise, and Thompson Falls. These lines would improve AMTRAK's transcontinental service, and provide the competing connection between Seattle and Florida. I would like to know the status of the proposals for route expansion in Montana and if the $252 million requested for capital grants would provide the funding to get these proposals off the drawing board.

Thank you, Mr. Chairman.

Senator EXON. Without objection, your full statement is incorporated in the record, Senator, and thank you for your most appropriate remarks. I wish to associate myself with the remarks by my colleague from Montana. I suspect that the Administrator may have something to say on all of these requests which are being made.

The problem we have is we do not have sufficient capital investment at the present time in the Amtrak system to maintain the service we now have and hope to continue in the future. Therein lies a dilemma which the Amtrak system is going to face. I have talked to them about a movement to have a route from Omaha down to Kansas City, MO, and then on down to St. Louis and elsewhere in the South. We have very few north-south passenger trains and we should have more.

So, I stand in support of that, but I also want to recognize that Amtrak has some major problems in these areas. If we are going to ask them to do more, then we are going to have to do more with regard to the authorization process, which we are working on here, and the appropriation process which follows.

If there are no further statements by members of the committee, I would now turn to the Administrator and say once again, Jolene, we are delighted to have you before the committee once again. Speaking for one member of the Commerce Committee, and I think for all, we think you are doing an excellent job and look forward to your further appearances, comments, suggestions, even criticisms which you might care to make of our actions or lack thereof from time to time.

STATEMENT OF HON. JOLENE M. MOLITORIS, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION, DEPARTMENT OF TRANSPORTATION; ACCOMPANIED BY DEPUTY ADMINISTRATOR DONALD M. ITZKOFF AND ASSOCIATE ADMINISTRATOR FOR RAILROAD DEVELOPMENT, JAMES T. McQUEEN

Ms. MOLITORIS. Thank you so much, Senator and members of the committee. It is really a pleasure for me to be here, and I must say I am extremely heartened by the presence of so many committee members, because that gives me encouragement in the level of interest that this committee has. I have to salute you, Mr. Chairman, and your members. It is because of the support of this committee and the championing of Amtrak and passenger service, that we have the system that we have today.

This is a historic moment. This is a time when the administration has asked you and you have graciously responded to introduce S. 2002, the Amtrak Investment Act of 1994. We are so pleased that this partnership between the administration and the Congress portends a future where we are looking toward building a world-class Amtrak service for the citizens of America. In fact, Mr. Chairman, our U.S. Department of Transportation Strategic Plan has as a No. 1 goal the rebuilding and revitalization of passenger rail service in this country.

We are here today to primarily focus on the Amtrak Investment Act, but first of all I would like to recognize the Local Rail Freight Assistance Program. We know that you and your members strongly support the Local Rail Freight Assistance Program, and, as you know, during the flood this fund was very very helpful. We have to date, Mr. Chairman, invested $20.8 million in 27 railroads to help revitalize and repair the effects of that devastating flood. We also recognize that the interest in LRFA continues to grow, and for 1994 FRA received 50 requests totaling $41.7 million. We have approved 36 grants worth $15.3 million, and that was as of April 1 of this year.

As you recognized, Mr. Chairman, this was an inordinately difficult budget and this very good program was not funded. It was a very difficult budget decision for me and for Secretary Peña.

Now, if I might turn to the Amtrak Investment Act of 1994.

Senator EXON. May I interrupt you for just a moment, then, for a question in that regard.

Ms. MOLITORIS. Certainly, Mr. Chairman.

Senator EXON. I take it from the statements you have made that as the Administrator or as an individual, phrase it the way you will, you support the efforts of the committee to continue the LRFA Program even though it was not funded by your administration.

Ms. MOLITORIS. Mr. Chairman, the Local Rail Freight Assistance Program has a very good record of being responsive to rail infrastructure needs of rural America. It is a recognized fact and the data is quite clear.

Senator EXON. I think you said that about as diplomatically as it could be said. [Laughter.]

Senator EXON. I apologize for interrupting you, and please continue.

Ms. MOLITORIS. Thank you, Mr. Chairman.

This administration bill is the first authorization for Amtrak to be presented since 1984. It provides the largest capital investment in a decade. It defines a cooperative and close working relationship between Amtrak, FRA, and the States. We truly are doing business differently in the Clinton administration, Mr. Chairman. We are working proactively and our focus is on customers and services in a way as never before.

Most importantly, the legislation puts customers first. We will determine our success not on the basis of cost recovery alone. In fact, the bill identifies success against a wide range of performance measures. It requires Amtrak to report annually to you and to us about cost recovery, service to customers, and performance standards. It will really give you a good picture of how Amtrak is performing, how it is growing, and how it is becoming a world-class service. That is the commitment of this administration.

This bill provides a blueprint for putting Amtrak on the road to recovery, and an opportunity to start turning this corporation toward world-class service. As a first step, we will begin to reverse the long-term trend of insufficient investment. This disinvestment has led to delayed trains, broken equipment, and old facilities. In the end it is not just the railroad that loses; it is the American traveling public that loses.

This chart shows that Federal capital assistance has fallen since 1982 and, in fact, over the last decade depreciation exceeded capital investment by $600 million. No business can be successful under those circumstances. Thanks to you and your committee's support, capital investment has grown markedly since 1991. It is because of you and this investment Amtrak has survived. To continue this upward trend, even in a difficult budget year, the administration has recommended $252 million for capital for fiscal year 1995, which is a 29-percent increase over the 1994 enacted level, and $355 million in 1996, which will be a 41-percent increase over the 1994 enacted level.

So, I think it is clear, these kinds of increases are a statement about the President's commitment to Amtrak and to rail passenger service. These kinds of investments would enable Amtrak to purchase new equipment, overhaul superliners and locomotives, and also provide for the Americans With Disabilities Act and restroom improvements that are mandated by law. In addition, Amtrak is expected to receive 140 new cars and 56 locomotives by 1996, which will begin to fill their great needs for efficient and effective equipment.

Also, there are two very important infrastructure projects, Mr. Chairman. One is the Northeast Corridor Improvement Project. That investment of $199 million, along with our Northeast Corridor Transportation Plan, will help move us closer to 3-hour service from Boston to New York. This investment will begin with the electrification, help with the purchase of 26 high-speed train sets, and two nonelectric locomotives, and support the infrastructure rehabilitation north and south of New York City.

The second infrastructure project is the Penn Station/Farley Project. This project is a keystone of the Northeast Corridor Project. In fact, Mr. Chairman, it is the busiest station in the United States, and if you interviewed any travelers in that station I think they would tell you that it is overcrowded. Over 450,000 people use that station everyday, and 38 percent of all Amtrak trips either begin or end there. Clearly, it is critical to the future, which sees a lot of growth in that area, to be able to have a station that works safely and well for the customer.

In order to provide this kind of response, we are recommending that the James O. Farley building in Manhattan be transformed into a first-class intermodal passenger train station. Not only will Amtrak's customers receive benefit, but also the thousands of commuter customers who use it each day.

If you look at this graph, you will get a sense of the public/private partnership that has been put together for this infrastructure development. What you see is a $90 million request in our authorization bill. This, along with the $10 million that has already been authorized and appropriated, would be the Federal share of a funding partnership of about one-third, one-third, and one-third. The State and the city have committed $100 million, and Amtrak will arrange about $115 million in private financing primarily based on revenues coming out of the retail establishments in that facility.

We think that this is an opportunity to invest in capital that will really make a difference for Amtrak. All of this funding, by itself, will not provide quality customer service. It is Amtrak and its employees, together with those investments, which will really make the difference. We are partnering, working closely with President Downs and his team, and working toward world-class service for our country.

Also, I would like to mention, Mr. Chairman, 403(b) service. We are not satisfied with the status quo, and we have heard from your members today and often, by letter, by phone, and by meeting, that there are States throughout the country who are interested in beginning or enhancing existing service. Amtrak has not been able to do that to date because of its limited resources.

We believe that our proposed reform of the 403(b) formula will help Amtrak and increase the opportunity for new State 403(b) service without increasing the Federal investment needed. We have set aside a separate line item for 403(b); we have identified $17 million for this budget investment; we have identified a change from short- to long-term avoidable loss; and we are recommending in this bill that the Secretary bring a report to you which identifies a comprehensive look at 403(b) in a way that we can look to design it for the future.

We are very pleased to be here, Mr. Chairman. We look forward to your questions both today and for the record. We will turn them around quickly. We appreciate your hospitality and look forward to discussing these important issues with you.

[The prepared statement of Ms. Molitoris follows:]

PREPARED STATEMENT OF JOLENE M. MOLITORIS

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 to present the Administration's plan to build Amtrak into a world-class national passenger railroad. Let me express my appreciation to you for introducing the Department's proposed legislation, S. 2002, the Amtrak Investment Act of 1994, which would reauthorize the National Passenger Railtoad Corporation for fiscal years 1995 and 1996. I would also like to discuss the local Rail Freight Assistance Program (LRFA), which I will address first this morning.

Mr. Chairman, I recognize that you and the other members of this Committee strongly support LRFA. As you know, this program provided welcome relief to the freight railroads flooded by the rising rivers this past summer. To date, the FRA has awarded 27 railroads grants totalling $20.8 million to repair flood damage.

We further recognize that the interest in LRFA continues to grow. This year, the FRA received 50 requests totalling $41.7 million for the FY 1994 LRFA program. bast week, we approved the award of 36 grants worth $15.6 million to be obligated this fiscal year.

BUILDING A WORLD-CLASS PASSENGER RAILROAD

Mr. Chairman, the Administration's commitment to passenger rail service begins with Amtrak's customers. 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 people 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, upkeep and maintenance have been deferred and 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 long-term trend of insufficient investment. The Amtrak Investment Act of 1994 makes Amtrak and its customers a priority. This two-year authorizing legislation supports our FY 1995 budget request for Amtrak and provides a foundation for our FY 1996 appropriations proposal. We intend to begin to turn around Amtrak's decline through a coordinated three-part program that:

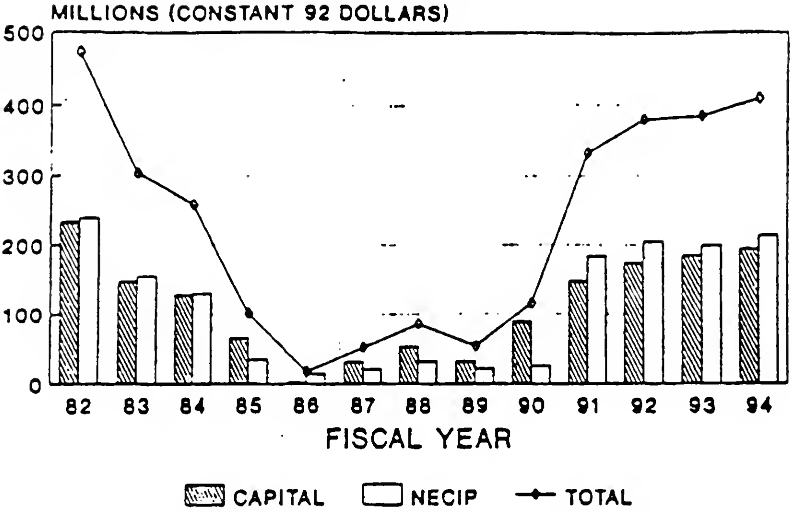
- invests significantly in Amtrak's capital plant;
- ensures a close working relationship between Amtrak and this Department to guarantee that capital is prudently and wisely invested; and
- emphasizes quality customer service through new employee and management initiatives.

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 below 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 a 41 percent increase to $355 million, which 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 levels for FY 1995, our proposed $252 million will enable the railroad to take a substantial step toward replacing and updating old equipment and improving customer facilities.

The Administration's Amtrak authorizing legislation also includes funding for two specific infrastructure projects, the Pennsylvania Station Redevelopment Project and the Northeast Corridor Improvement Program (NECIP). The new Penn Station Redevelopment Project will produce a first-class model intermodal passenger train station that will accommodate expected increases in Amtrak and commuter ridership. By transforming the former James O. Farley Post Office Building in Manhattan into a train station, this project will benefit Amtrak's customers, as well as the commuter railroad customers, who will then have additional space in the former Penn Station. This public/private partnership will further 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 the

Penn Station project, which will leverage additional state, local and private contributions of $215 million for this redevelopment project.

For NECIP, the Administration proposes authorizations sufficient to support our FY 1995 budget request of $199.6 million and such sums as may be necessary in FY 1996. Pending successful completion of FRA's environmental impact study, this request will allow us diligently to pursue the startup 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 improvement and 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 Northeast Corridor Transportation Plan for high-speed rail service between Boston and New York, which we will deliver to you soon, 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 an authorization for operating assistance of $370 million (including $17 million for State-requested service), a decrease of $10 million from the proposed FY 1995 level. These sums will cover Amtrak's basic operating needs, but they will not address the restoration of previous cuts which Amtrak is requesting as part of its FY 1995 recommendation.

ENSURE CLOSE WORKING RELATIONSHIPS BETWEEN AMTRAK AND THE DEPARTMENT

To be sure we receive a solid return from these investments, S. 2002 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 ether issues, quality of service improvements, facility improvements t.hat 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 benef its 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 for Amtrak 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, some states are taking the lead in appropriating funds to create new or improved services.

S. 2002 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 summary, Mr. Chairman, the title of this bill really says it all. The Amtrak Investment Act of 1994 is an investment in building a world-class passenger railroad. It is an investment in the future stability of Amtrak. It is an investment in future state services. But most importantly, it is an investment in the 50 million customers who Amtrak serves each year and the millions more who would be attracted by quality service.

Thank you for the opportunity to testify. I would be pleased to answer any questions that you may have.

Senator EXON. Madam Chairman, thank you very much. Let me ask one question. I may have some others, and I may have some for the record. I believe that you probably saw a recent news article in which Amtrak officials were talking about the lack of capital and brought up the critical needs they have in that area. Just so we can clarify this, do you believe that the recommendations which the administration and you have made with the chart which you showed us regarding improvement in capital structures—would satisfy the critical need for capital improvemements the Amtrak officials are now saying they have, or do you think we are going to have to do even more than what you have outlined for the future years?

Ms. MOLITORIS. Mr. Chairman, we believe that this 29-percent increase is a very important first step in rebuilding the railroad. Clearly, I do not think that this administration, within the constraints of budget deficit reduction to which we are totally committed, can redress 10 years of disinvestment. We believe, and the chart shows, that there is a great deal of forward movement that can occur with this 29-percent increase, and fiscal year 1996's 41-percent increase. We are very pleased to be able to make this recommendation to you because it came through difficult decisions in other areas that had to suffer a loss in order to do this.

Senator EXON. We understand that there is an ongoing study regarding the Northeast Corridor master plan. How far along is that study and when are we likely to see it?

Ms. MOLITORIS. Mr. Chairman, the Northeast Corridor Transportation Plan is in the final stages. We are, in fact, leaving this hearing to go to the Northeast Corridor and visit with each of the States to talk with them about that plan, and we expect that it will be presented very soon to the Congress.

Senator EXON. You are aware, I think, of the previous testimony before the committee by Mr. Claytor and others with regard to what they have recommended as a long-term dedicated source of funding for Amtrak. What is your view of that?

Ms. MOLITORIS. Mr. Chairman, I am excited about the opportunity that the Secretary has provided to really prepare a national transportation system, and I think when you look at the other modes of transportation, a continuing stream of revenue and opportunity for capital investment is very important in planning a world-class system. I think one of the recommendations that will come out of the national transportation system is how each of our modes can function and grow to respond to the needs of customers.

We believe that all the modes need to work together in a very intermodal way, and that is the kind of 21st century system that this country needs. And we believe that the national transportation study which is now underway in the Department will help us bring to you a proposal on how to do that.

Senator EXON. We will look forward to that, because I think it is very important and I do think we have to look at all options. But I certainly agree with the statement that you made during your prepared remarks with regard to the budget crunch that is going on now. There simply is not going to be enough money available to do what all of us would like to do in a whole series of areas, a few of them outside the jurisdiction of this subcommittee and the Commerce Committee as a whole.

What benefits will be realized with a $90 million grant in fiscal year 1995 for the Farley Building project and the Pennsylvania redevelopment project? Why is this grant amount necessary to realize the benefits? I am talking about cost-benefit ratios, and I would like to have you explore that with us as you see it.

Ms. MOLITORIS. As we mentioned in our prepared remarks, Mr. Chairman, this is the busiest railroad station in the United States—450,000 customers use it every day. It is expected that we will see about 25-percent growth in Amtrak service over the next 10 years there, and also about a 40-percent increase in commuter service. Consequently, we have to provide a station that effectively handles this enormous number of individuals.

The $90 million plus the $10 million is one-third of a public-private partnership. We think it is a very healthy combination of commitments to enable this keystone of the Amtrak Northeast Corridor Project to move forward. And this project will move forward quickly and effectively. The $90 million is necessary for the design, for the historical and environmental work to go forward, and the opportunity to bring into the mix the private dollars and the State and city dollars that will make the total of $315 million.

Mr. ITZKOFF. If I could add to that, Mr. Chairman.

Senator EXON. Yes.

Mr. ITZKOFF. Specifically on the $90 million, it is very important that the other parties to the project understand the nature of the Federal commitment so that the Government is able to leverage both the city and the State contributions, as well as the private sector.

For the $90 million in 1995, that corresponds with our cashflow projection of the plan so that it would provide, as the Administrator indicated, for the beginning of the engineering and design work, for asbestos removal, for some part of the demolition, but only $20 million would be spent during fiscal year 1995 and the rest would continue to be spent as contracts come forward. But if we were able to do this up front to indicate the commitment, then we would be able to move forward with the entire proposal.

Senator EXON. Well, Ms. Molitoris and Mr. Itzkoff, you have partially answered the next question I have. It goes right to the point of how we are going to accomplish this. How do you intend to secure—and the underlying word here is "secure"—financial commitments for Amtrak from local, State, and private sources for the Pennsylvania Station/Farley Building project and others? I mean how is that working out? What was the ratio you said would be between the Federal money and other money?

Ms. MOLITORIS. If we could put up the chart please, it is about the three parts: city/State, Federal, and private. Federal would be about one-third, city and State would be about one-third, and private financial stream of about one-third.

Senator EXON. One-third, one-third, and one-third.

Ms. MOLITORIS. That is right. And in addition, Mr. Chairman, I think it is important to note that the environmental impact and the demolition, all the things Mr. Itzkoff mentioned, must be contracted now to keep the project moving so that there will be a station ready to handle the kind of growth that is going to occur from the high-speed service that will be starting at the end of this decade.

Senator EXON. We are talking about basically some demolition and substantial remodeling of the Penn Station facility; is that correct? Did I understand you to say something about an impact statement?

Ms. MOLITORIS. Environmental impact statement, environmental work. Let me see, I have a list actually——

Senator EXON. This gets me into the question that I keep pressing. I understand and am a strong supporter of environmental protection, but here we have a project where we have a building in a certain area. I cannot quite understand why is it going to be necessary to spend a lot of time and money, other than the law, to—I cannot imagine how remodeling a building is going to significantly affect the environment.

Ms. MOLITORIS. The environmental work would revolve around the asbestos removal.

Senator EXON. Asbestos removal.

Ms. MOLITORIS. Yes.

Senator EXON. Then there is a considerable amount of that there; is that right?

Ms. MOLITORIS. Yes.

Senator EXON. Well, keep up the——

Ms. MOLITORIS. And I would, if I may, Mr. Chairman, submit for the record a detailed analysis of this investment and the way it will be used.

[The information referred to follows:]

The $10 million appropriated in fiscal year 1994 will be used as follows: FRA will retain $1 million to complete the environmental analyses and to identify historical preservation requirements. The remaining $9 million will be used by Amtrak to initiate design and engineering leading to the development of schematics to establish firm project cost estimates and other documents necessary for project construction. The $90 million requested for fiscal year 1995 will be used to complete final design development and design drawings, prepare construction schedules and the project funding plan and complete the environmental and historic preservation requirements including asbestos abatement and other construction work.

Senator EXON. And is it true, then, that the one-third, one-third, and one-third proposal which you are using on the Penn Station will be the formula used in other instances?

Ms. MOLITORIS. The public-private partnership has been very successful in Washington's Union Station, for example. I think it is a good model, but each station is a unique proposal. So, we would approach each differently and perhaps we can do better than that, depending on what the return might be and the opportunity for investment for private companies. So, we would not want to limit ourselves to that.

Senator EXON. Thank you. I will have some additional questions for the record. I am pleased to recognize my colleague from Missouri, Senator Danforth.

OPENING STATEMENT OF SENATOR DANFORTH

Senator DANFORTH. Mr. Chairman, thank you very much. And, Ms. Molitoris, thank you for being here. I want to address your attention and the attention of the Commerce Committee, and in particular our subcommittee chairman, to the Union Station situation at Kansas City, MO. Union Station, and the picture is there on the board, is the second largest train station in the United States, and it really is a fabulous building. It was dedicated in 1914 by Woodrow Wilson, and he referred to it at the time as the gateway to the West.

Now, of course, with the arch in St. Louis, St. Louis claims that it is the gateway to the West, but Kansas City claims it is the gateway to the West, particularly with this building, and that St. Louis is the gateway to Kansas City. [Laughter.]

So, this really magnificent and very, very large train station was constructed in Kansas City in the second decade of this century. With the decline in rail transportation this building was closed in 1983, and Amtrak moved into a new structure which we have a picture of, which is right next to the train station. The new structure is the little white thing in the middle of the picture right above the trash. It does not look much like a train station. It looks more like a bus station than a train station.

Now, what to do about this beautiful building that is right in the middle of Kansas City has been a big question ever since it was vacated. I can remember when Senator Eagleton was in the Senate he was wrestling with what to do about the train station, and there have been a variety of ideas about it. It has never really come together. But now it has, because the political leadership in Kansas City is very, very interested in doing something, the mayor of Kansas City and the congressional delegation, and our Governor.

Also, the civic leadership of Kansas City has become very interested in what to do with the station. It is anticipated that for about $100 or $110 million something wonderful could be done with this train station. What is anticipated is the possibility of creating a science center, and in addition moving the Amtrak station back into the original train station.

The private sector has committed to come up with at least one-half of the cost of doing this, which is a tremendous thing to do. I mean, this is not New York, which is a major financial center, this is the private sector in Kansas City, and it is committed to coming up with more than one-half of the cost of doing this.

There has been a lot of energy, a lot of ferment, that has occurred. In fact, I think it was last weekend there was an open house at the train station. Now, bear in mind that the train station for the last more than a decade has had nothing in it. So, it is more or less a pigeon place right now. But the people feel so strongly about it that 27,000 people went to the train station last week, which was just amazing, just to see this grand building, once the pride of Kansas City, which has now become a derelict building.

What to do with a derelict building of this proportion and this size is just a huge, huge problem, and I would like to see some forward motion, especially with the private sector so involved and with the community leadership and the mayor of Kansas City and the local government and all the local support in Kansas City. I would very much like to see some forward motion.

There is one thing that I would like to see as part of it. I have talked to the president of Amtrak who will be here later about this possibility, and he feels that to have Amtrak actually located in the big train stations is the thing to do, that it is good for Amtrak, that it increases train transportation as well as being good for the community.

I am not really asking you a question, unless you care to comment on it, other than to say this is something that I would like to see us do. It is not as big a project by a long shot as Penn Station in New York. It is not nearly of that amount. But I would like to see Amtrak move back to this train station as part of a total program of making something modern and very good and very exciting out of this magnificent structure. You may want to comment on it or you may not want to comment on it.

Ms. MOLITORIS. I would like to, Senator, if I may. Let me just comment on a tradition that the FRA has had for the past several years, and that is a real commitment to cities around the country who have the opportunity to develop intermodal stations. And one of the exciting things that we know about the work that is going on in Kansas City is that in fact your leadership is looking at the intermodal possibility. There is a commuter study going on: they are looking at the freight possibility, and of course Amtrak trains run through Kansas City.

So, we certainly understand the value of an intermodal station, certainly one with this history, size, and grandeur, and we would be most happy to work with you. We do not have money in the budget at this time to contribute to the project. We would like to help with the forward motion and come up with a plan with you on how your dream for Kansas City could move forward.

Senator DANFORTH. Well, I would very much appreciate it and, as far as I am concerned, time is of the essence because I am packing my bags now. So, if we could do that I would very much appreciate it.

Ms. MOLITORIS. Certainly, Senator.

Senator DANFORTH. Thank you.

Senator EXON. Senator, thank you very much. I have been listening with great interest. I know that building, and I know what a great building it is. I certainly feel that we should take a look at this.

I simply would say that both in Omaha and Lincoln, NE, we had, past tense, buildings of grandeur, not as large as that one. In fact, in Omaha, NE, we had two. We have a Burlington Station that is standing vacant now and is for sale. We have also a former Union Pacific Station that has been converted, essentially with local money, to a museum, and it serves very well. They are always struggling for money to keep it going. The situation in Lincoln is that the depot has been closed to all passenger traffic, although Amtrak runs through there. We have a building not unlike the one you have in Kansas City, Senator Danforth, that indeed does look more like a bus station than a railroad station. A similar situation exists with regard to Omaha, a smaller facility.

Although, of course, the reason for that basically was that Amtrak, I suspect, would like the grandeur of larger buildings, probably enhancing attention on Amtrak, but the operating costs of keeping those buildings up, the heating and the air conditioning and so forth and so on is prohibitive. So, I do think it is very appropriate that we take a look at this. However, I think that we also would have to take into consideration how this might affect other cities similarly situated. I can imagine that we could have a rash of locals feeling it would be a great idea to refurbish their old railroad stations which might have no historic significance.

So, while I think it is worthy to look at it, I would caution that we must not be setting precedents here. I do not believe that the situation in Omaha and Lincoln and Kansas City and elsewhere is similar to the situation in Penn Station because obviously Penn Station is an extremely busy passenger service center.

Following up on what Senator Danforth said, though, and your comments about intermodal transportation, it seems to me that we should be looking to the future, maybe doing more combining of facilities like this one for true intermodal operation. Bus service is still a very, very important part of the ever-deteriorating passenger traffic system in Nebraska, and I assume in Missouri and elsewhere. Maybe we could work toward tying in some of these things to help pay the upkeep and operating costs of these refurbished structures. That might have an awful lot of merit as we look forward, not today but on down the road.

Senator DANFORTH. Mr. Chairman, the program here is to create an intermodal transportation center.

Senator EXON. Does that include buses?

Senator DANFORTH. Yes. So, it is would not only be Amtrak moving back into the main building as opposed to the little thing in the back that it is now in, but it also is creating right in the front of the station building, as a matter of fact, a true intermodal system. And then the science center would be included along with it to use a lot of the space. So, it would be a combination, really, of three different things that would come together to do it.

I think what has happened with Penn Station is that there really is a recognition that what goes on in Amtrak and the future of Amtrak is related not only to the tracks and to the trains but to the buildings, as well, and there is a responsibility and it is part of a general plan with respect to Amtrak. I really do believe that all of the arguments that pertain to Penn Station also pertain to this particular facility. Clearly, Penn Station has much more traffic than Kansas City will ever have. But it is also true that the cost of the Penn Station project is much greater than the Kansas City cost.

Senator EXON. Thank you, Senator Danforth. Thank you, Madam Administrator. We appreciate your coming, and again I would ask that you answer the questions that will be submitted to you for the record as soon as you can. You are excused.

Ms. MOLITORIS. Thank you, Mr. Chairman.

Senator EXON. I will call panel No. 1 now: Kenneth Mead, Director of the Transportation Issues, Resources, Community, and Economic Development Division of the General Accounting Office; Thomas Downs, president and chairman of Amtrak; and Scott Leonard, assistant director of the National Association of Railroad Passengers. Gentlemen, we certainly welcome you here once again in your appearance before our committee.

Gentlemen, thank you for being here today, and though I have no particular order of recognition, unless there are objections, we will lead off with Mr. Mead.

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

Mr. MEAD. Thank you, Mr. Chairman. It is good to be before the subcommittee again. I think the last time we spoke here, it was on the financial health of the airline industry. Today, the brief remarks I would like to make focus on the health of Amtrak.

I might add that in a couple of months there will be presented to the Senate from the House-proposed legislation for the National Highway System that could have a bearing on Amtrak. The law requires there to be established and designated intermodal links from the National Highway System to the key railroad stations. DOT has not done that part yet, but I think it could be very germane to the points you were raising.

An overall perspective I would like to leave with the committee is that Amtrak is at a crossroads. There are decisions that need to be made that will affect this railroad's viability. The financial condition of Amtrak has always been poor. In the last 3 years it has deteriorated significantly.

I do not think this should come as a surprise, given the size of the task Amtrak faces, the resources available and the difficult economic and competitive environment in which it operates. What may come as a surprise though is how much the railroad's capital assets have deteriorated. It is true that Amtrak's revenues have covered a greater portion of its operating expenses, but that really needs to be put in perspective.

Amtrak has been reporting that its revenue-to-expense ratio has been getting better in recent years, and is up to 80 percent now. It is not really at 80 percent. It is really at about 66 percent. The most notable reason why is that they exclude the cost of capital or depreciation. We are concerned about that, because it masks a very woeful capital condition.

To point out several indicators, the subsidy level over the last 8 years has moved from $660 million in 1987 to about $900 million in 1994. This year, the President is proposing about $1 billion. That is exclusive of the $90 million for Penn Station.

Notwithstanding the recent years, the subsidies have not been sufficient to cover the gap between expenses and revenues.

Why is this?

We attribute it to three factors: the economic recession; competition by the airlines; and a the old, unattractive, and poorly maintained facilities and equipment that Amtrak has.

It is important to recognize all this has occurred in a climate where Amtrak has been under great pressure to show progress. Amtrak, for its part, requested less funding than it needed. And in some years, as you were pointing out earlier, Mr. Chairman, the administration requested several years of zero funding.

Another indicator—you have a chart in front of you—is that Amtrak has drawn down its working capital to a negative $105 million.

If that condition does not improve, they will have difficulty meeting their expenses, and they certainly will not be able to provide quality rail service.

I do not want to leave an impression that Amtrak has been sitting by, waiting for more money. They have engaged in what I would characterize as a series of self-help initiatives. Their revenues from activities other than intercity service are now at roughly one-third of the revenues they take in. The big item there is contract commuter rail service.

Commuter rail now accounts for roughly 17 percent of Amtrak's revenues. And in fact, more people are riding commuter rail under these contracts than are riding on the intercity component of their service.

On the expense side I would like to make a couple of points. Amtrak has lowered its expenses. They have done that by reducing staff and deferring maintenance, and a series of other things. But these will only go so far. Certain actions, like deferring maintenance, will aggravate an already serious problem.

I would like to transition now to highlight a series of challenges that GAO sees facing Amtrak. One is the modernization of its fleet and the acquisition of high-speed trains for the Northeast Corridor. A second is the higher maintenance costs for its 1,900 passenger cars.

The Heritage cars, which are represented by a shaded portion in the chart that you have in front of you, comprise about 43 percent of Amtrak's fleet. And the passenger cars are, on average, about 40 years old. That older equipment costs more to maintain than newer equipment, and about 40 percent of this fleet was overdue for overhaul at the end of 1993. An overhaul costs about $300,000. A new car costs about $2 million.

A third challenge is that Amtrak needs to fix its Beech Grove, IN, repair facility where they repair all their trains outside the Northeast Corridor. I have a picture I wanted to show you and Senator Danforth that we took at this facility. One reason it needs to be fixed is because trains are derailing as they enter this facility, and the workers there spend a fair amount of their time trying to put the trains back on the track before they can repair the trains. We think it would be a good investment to fix this facility.

A fourth challenge Amtrak is going to face is negotiating new operating agreements with the freight railroads. The freight railroads own about 97 percent of the track over which Amtrak operates, and Amtrak currently pays them about $80 million a year. A key negotiation issue is going to be the compensation that goes to those railroads.

Those pictures show, Mr. Chairman, the track leading into the facility. The wavy track is supposed to be straight. When the trains get on that wavy track, they derail. And we just think that it is penny-wise, pound-foolish not to make an investment to fix that.

Senator EXON. Well, Mr. Mead, let me interrupt you here for a question, although your time is about up and we have got to move along.

Mr. MEAD. Sure.

Senator EXON. The tracks are not owned by Amtrak, though; they contract with the other railroads for that. Are you suggesting that the other railroads, in some instances, are not keeping their tracks in shape so that Amtrak can move over them safely?

Mr. MEAD. Well, the track we are referring to in those pictures, sir, deals with the track leading into the maintenance facility that Amtrak owns.

Senator EXON. Oh, inside. I see. This is switching inside.

Mr. MEAD. Right. The track leads up to the maintenance building.

Senator EXON. Well, looking at these pictures—and I do not know whether these are operating tracks—I mean, here is a track at which I am looking that looks like it has a gap of maybe a foot or two of the rail. It just is not even there. That would almost automatically lead to a derailment, would it not?

I mean, why has Amtrak not fixed that?

Mr. MEAD. Because they do not have the money to fix it, or the money has been tied up in other things. We thought that the picture would tell the story best here, and apparently it does.

Senator EXON. It sure tells a story that is pretty scary.

Mr. MEAD. And there are other features of this facility that are incredible. For example, the paint shop has holes in the roof. So, when it rains, they have to stop painting.

Inventory is stored outside in this facility. So, sometimes when they get ready to install the inventory, it is already rusted.

I think Mr. Downs will verify this, but it will cost roughly $35 million to turn this into a fairly first-rate maintenance facility. It is well worth it.

A final message I just would like to leave you with is that we are doing a fairly comprehensive review of Amtrak. Congress has very large expectations for Amtrak. Given the size of those expectations, it is important that Amtrak have at least the capital to carry through with that expectation. And they have not had that type of support in the past. Now, if you want a smaller system, that would cost less money. But we probably cannot have it both ways.

[The prepared statement of Mr. Mead follows:]

PREPARED STATEMENT OF KENNETH M. MEAD

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 rail equipment that Amtrak inherited from other railroads 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 Senate Committee on Commerce, Science, and Transportation and four other Committees asked us to comprehensively review Amtrak's operations. As agreed with the Subcoinrnittee, n 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 deteriorated over the past 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 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 imbalance has occurred because Amtrak's revenues have been lower 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 of 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 it must meet if it is to operate a viable nationwide network. These challenges include (1) maintaining its aging passenger cars; (2) modernizing the Beech Grove, Indiana, repair facility, which services all equipment used outside the Northeast Corridor; (3) modernizing its locomotive and passenger car fleet, acquiring high-speed trains, and continuing rail improvements in the Northeast Corridor; (4) negotiating, by 1996, new operating agreements with the freight railroads, which own about 97 percent of the track over which Amtrak operates; and (5) negotiating labor issues and work rules with Amtrak's union employees.

The proposed fiscal year 1995 authorization should help Amtrak address its growing operating deficit. However, it will not resolve the costly challenges facing Amtrak in both the near and the longer term. If Amtrak is to continue nationwide operations at the present level, enhance service quality and reliability, and improve its overall financial condition, it 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-traveled 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 fund retirement and unemployment benefits (see fig. 11.2). In fiscal year 1994, Amtrak will receive over $900 million in federal subsidies[1] (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 and for railroad unemployment insurance.

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 actual revenues for the same period last year and total revenues are 3 percent below projections for fiscal year 1994.

According to Amtrak officials, the corporation's optimistic revenue projections resulted from underestimating the length and severity of the recent recession. Also,

[1] It is important to recognize that other transportation modes also receive federal subsidies. In some cases, the subsidies are larger than those to Amtrak—such as subsidies provided through the Essential Air Services Program, which is larger per passenger mile, and to general aviation users, which is larger per trip. Intercity bus service, on the other hand, receives much less federal assistance than Amtrak.

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 the gap between its operating deficit and federal operating subsidies, 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 app.IV).[2] In 1994 dollars, this represents a draw-down of $252 million.

If its financial condition continues to deteriorate, Amtrak will have more difficulty covering 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 CAN BE MISLEADING

Over time, Amtrak has covered a greater portion of its operating expenses with revenues. Amtrak reported that its revenues for fiscal year 1993 covered about 80 percent of its expenses (see fig. V.1). 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 tees assessed by the Federal Railroad Administration; (5) expenses relating to accident claims; (6) losses incurred in providing 403(b) service to the states[3]; and (7) 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. Becaus&Amtrak's ratio excludes certain relevant expenses, it does not reflect the ability of the corporation's revenues to cover all costs of operating Amtrak.[4]

RECENT ACTIVITIES BY AMTRAK HAVE HELPED IN THE SHORT TERM

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 cut 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 VI 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

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[2] 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.

[3] 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.

[4] 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 V, 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 the long term.

under contracts with regional transit agencies operating in the 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, as 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 it must meet 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.

As Amtrak's Fleet Ages, It Will Be More Costly to Operate and Maintain

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. VII). 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 ondition, 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, all 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.[5] However, Beech Grove officials stated that the facility has the capac-

[5] 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.

ity to handle only 241 cars per year (or 1 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.[6] Amtrak officials said that Bear must increase its workforce by about 90 people and operate three 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, resulting in frequent derailments. In fiscal year 1993, 37 derailments resulted in the loss of an estimated 76 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 five-phase modernization plan to increase efficiency as well as upgrade plant conditions. Improvements costing about $12 billion 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 three production tracks at a time, and it 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 work flow 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 years 1991 to 1993, Amtrak made commitments to purchase 245 Superliner and Viewliner cars and 72 new locomotives. This equipment will enhance Amtrak's 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

[6] 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.

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 (in 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.[7]

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.[8]

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 the 15-percent share of the air/rail market that Amtrak currently holds 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 ensured, 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 points out in its draft that if 3-hour service is to be reliably maintained, increased capacity will be required to avoid adversely affecting future freight and commuter operations. FRA also states that increasing the 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 plan for increased ridership between New York and Boston assumes 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-toBoston route.

To encourage the development of high-speed rail outside the Northeast Corridor, the Congress is considering a proposed HighSpeed 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 highspeed rail systems. States would be required, at a minimum, to match federal funds.

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[7] 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.

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

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.[9] 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.

Contracts With Freight Railroads and Labor Unions Will 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 5 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 percentof Amtrak's operating costs, these negotiations could lead to substantial changes in future operating costs.

CONCLUSIONS

The proposed fiscal year 1995 authorization should help Amtrak address its growing operating deficit. However, it will not resolve the costly challenges facing Amtrak in both the near and the longer term. For Amtrak to continue nationwide operations at the present level, enhance service quality and reliability, and improve its overall financial condition, it 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-traveled 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.

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

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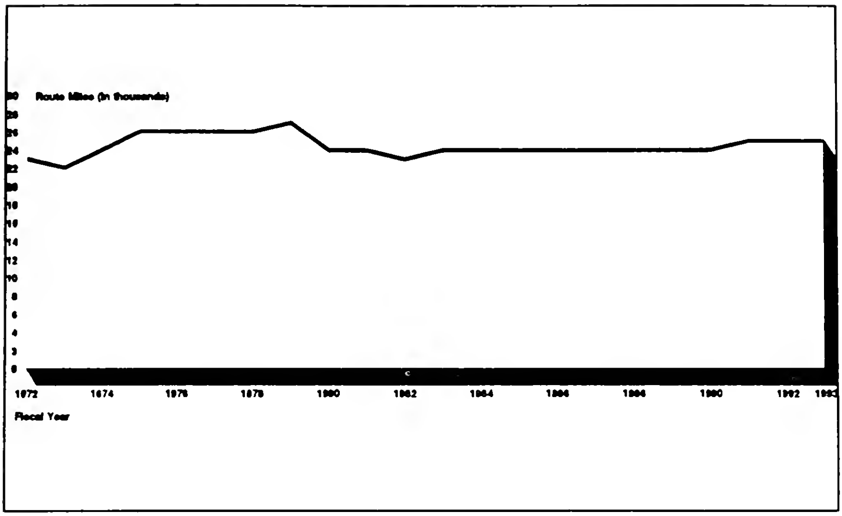
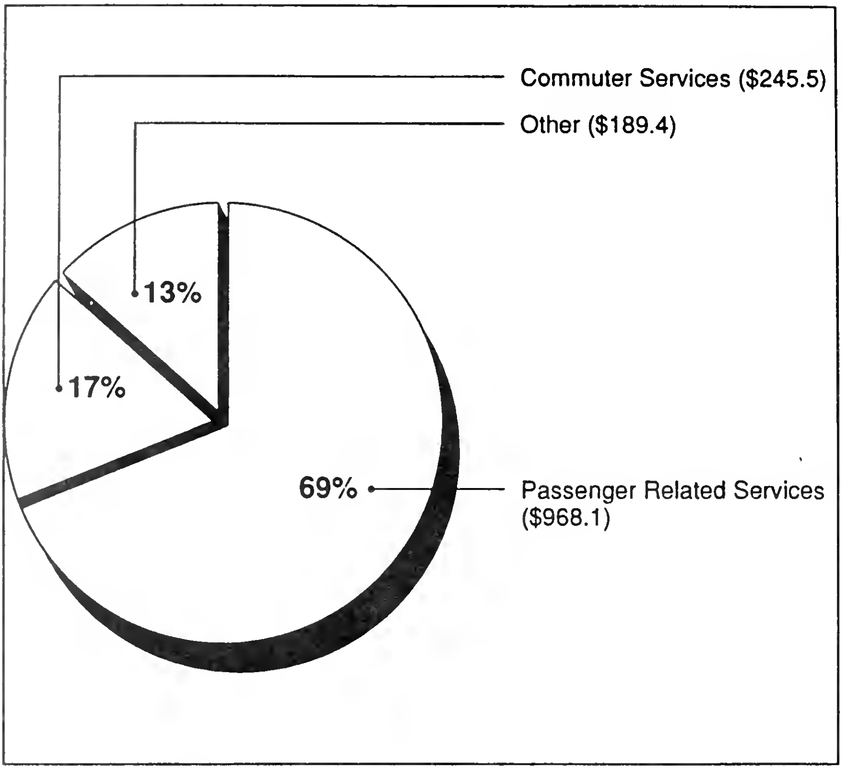
[9] Hih-Speed Ground Transportation: Issues Affecting Development in the United States (GAO/RCED-94-29, Nov. 17, 1993).

APPENDIX 1—AMTRAK'S SYSTEM ROUTE MILES, FISCAL YEARS 1972–73



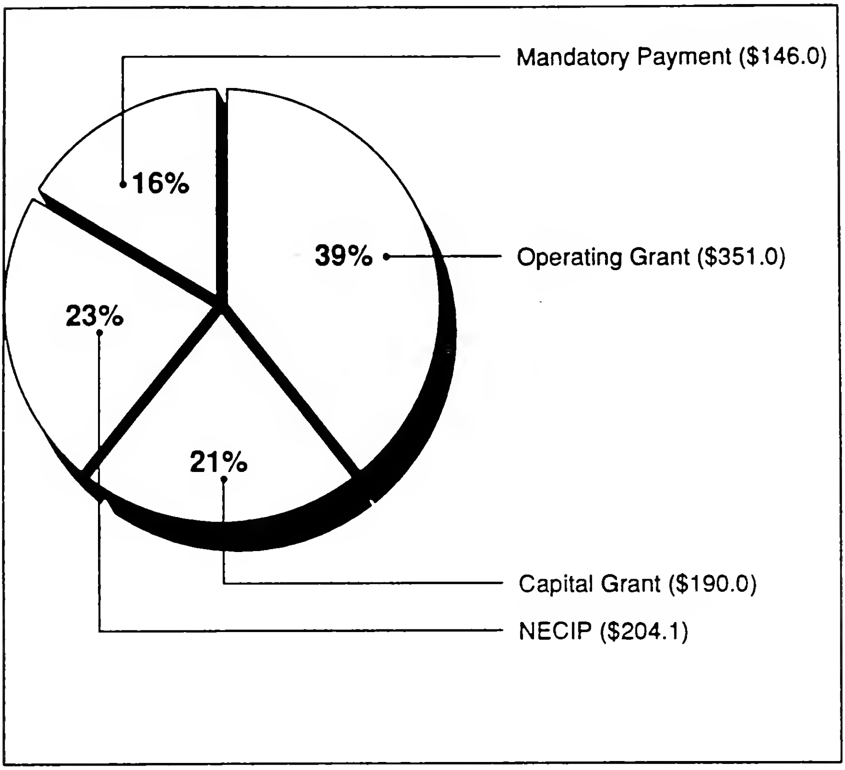
APPENDIX II—AMTRAK'S OPERATING REVENUES, FEDERAL FUNDING, AND OPERATING EXPENSES FOR FISCAL YEAR 1993

FIGURE II.1: AMTRAK'S OPERATING REVENUES FOR FISCAL YEAR 1993—DOLLARS IN MILLIONS



SOURCE: GAO analysis of Amtrak data.

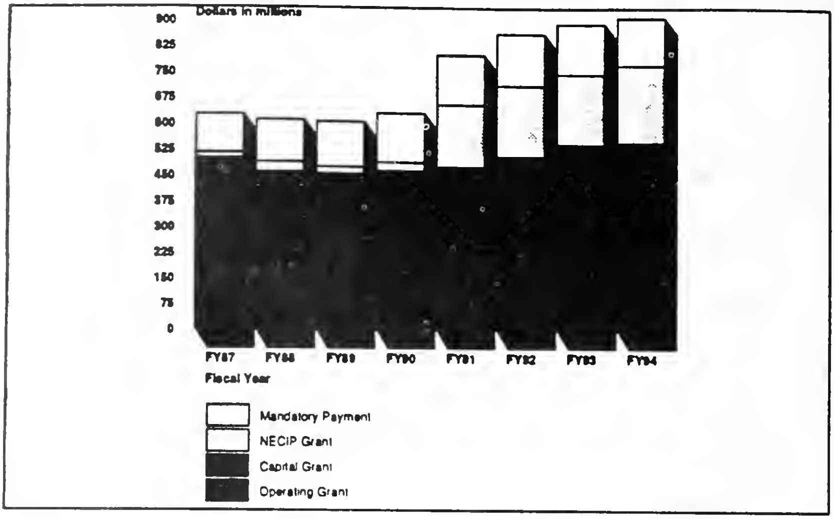
FIGURE II.2: AMTRAK'S FEDERAL FUNDING FOR FISCAL YEAR 1993—DOLLARS IN MILLIONS



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.

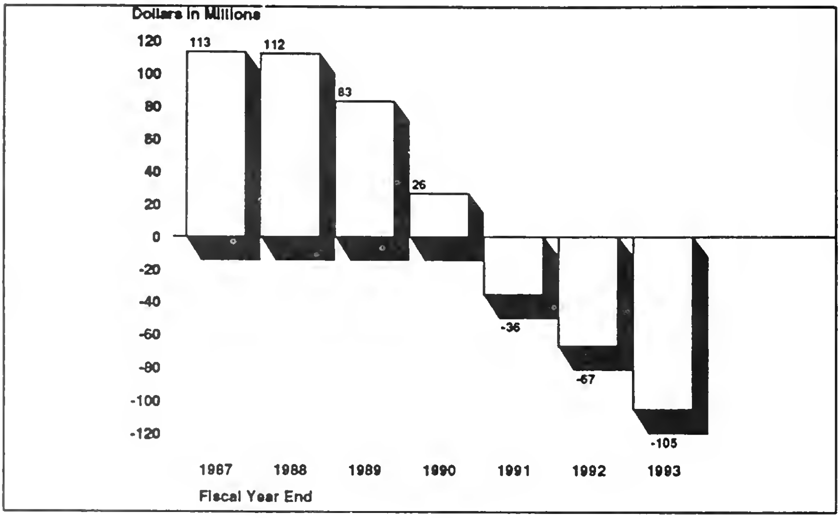
APPENDIX III—AMTRAK'S FEDERAL FUNDING, FISCAL YEARS 1987–94



NOTES:

1. Capital grants for fiscal years 1987 through 1989 are estimated.
2. Mandatory payments made to the Railroad Retirement Trust Account and for railroad unemployment benefits for fiscal years 1987 through 1990 are estimated.
3. All amounts are in current year dollars.

APPENDIX IV—AMTRAK'S WORKING CAPITAL SURPLUS/DEFICIT FOR FISCAL YEARS 1987–93



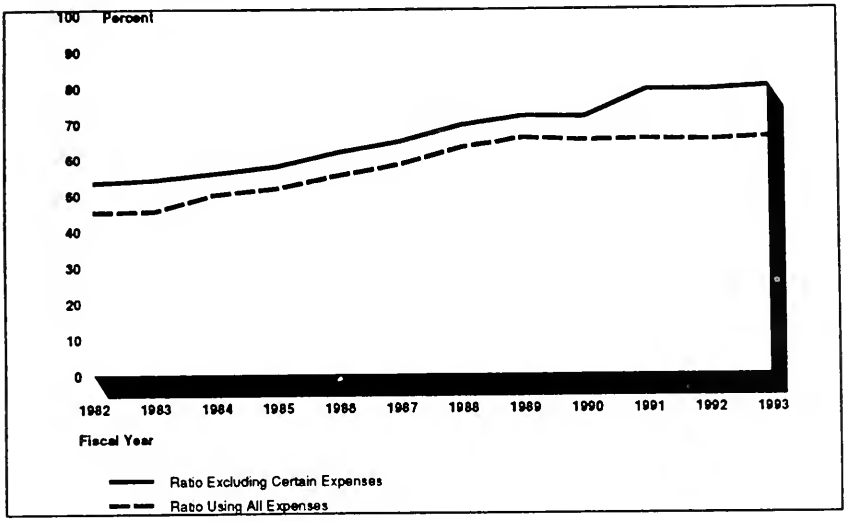
NOTES:

1. Working capital is the difference between current assets and current liabiliteies. 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.

APPENDIX V—AMTRAK'S REVENUE-TO-EXPENSE RATIO

FIGURE V.1: AMTRAK'S REVENUE-TO-EXPENSE RATIO, FISCAL YEARS 1982–93

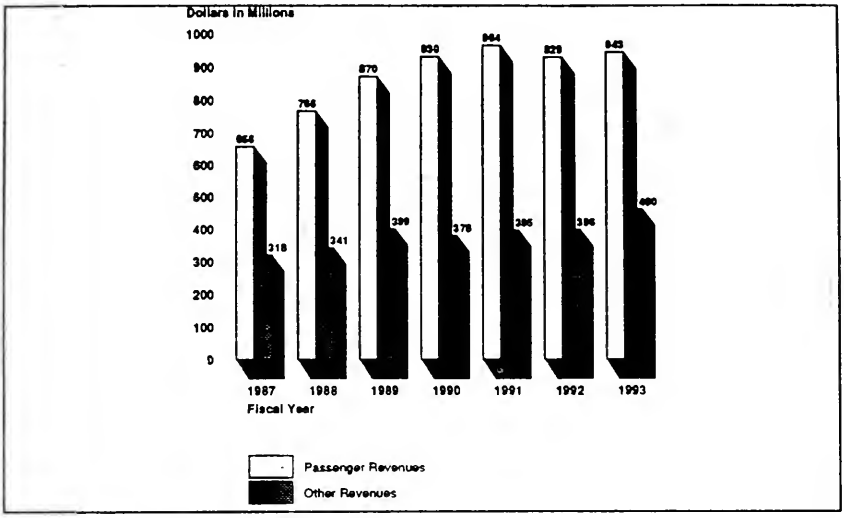


NOTES:

1. The revenue-to-expense ratio as calculated by Amtrak excludes expenses for depreciation, labor protection payments, federal and state taxes, use 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.

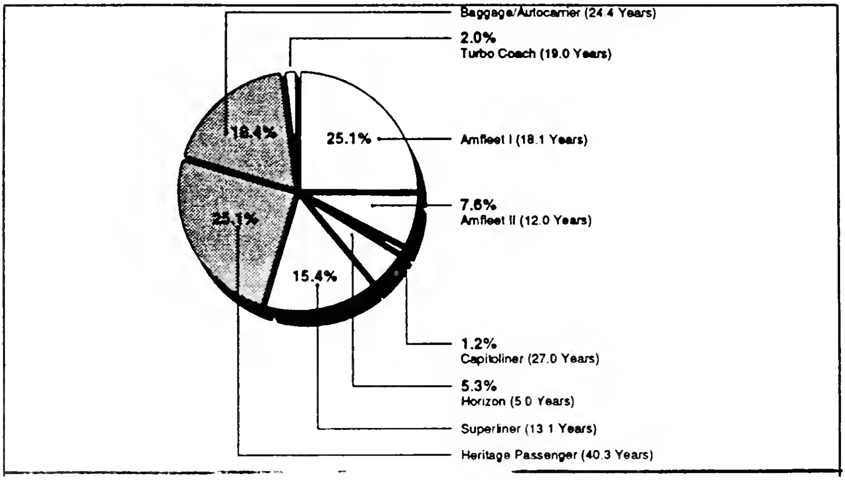
SOURCE: GAO analysis of Amtrak data.

APPENDIX VI—AMTRAK'S PASSENGER AND OTHER REVENUES, FISCAL YEARS 1987–93



NOTE: Amounts are in current year dollars.
SOURCE: GAO analysis of Amtrak data.

APPENDIX VII—PROFILE OF AMTRAK'S CAR FLEET



NOTES:
1. Heritage cars are shaded.
2. Average age is noted in parentheses.
3. Capitoliners are no longer actively used by Amtrak.
4. This chart excludes 2 Viewliner cars.

SOURCE: GAO analysis of Amtrak data.

Senator EXON. Thank you, Mr. Mead. Mr. Downs.

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

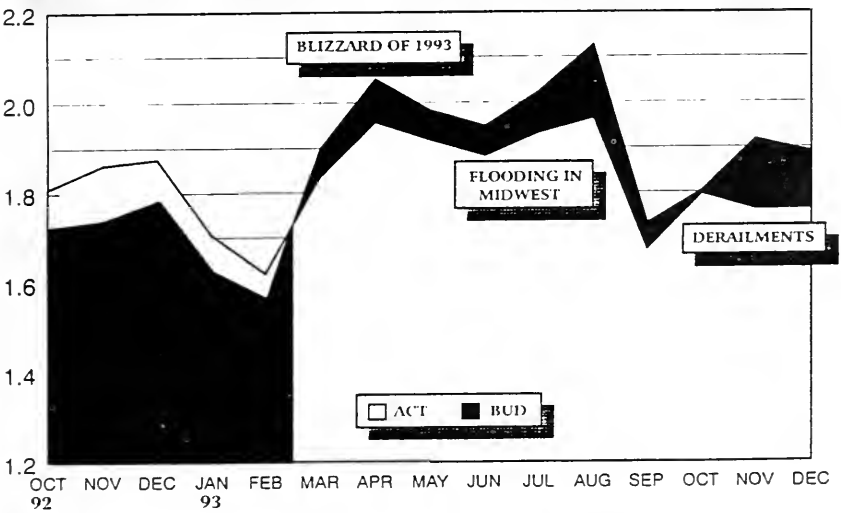
Mr. DOWNS. Mr. Chairman, Senator Danforth, it is a pleasure to be here this morning on my first appearance before this committee.

And before I begin, I want to thank you for your stalwart defense of Amtrak over the years. There are a handful of people who have been responsible for seeing that Amtrak was still alive, even though at times it seemed like it was on life support. The opportunity to fix this situation and make this a national passenger railroad that Americans can be proud is due in part to your ability to keep it alive through some very tough years.

While there are a number of difficulties at Amtrak, I am committed to refocus the railroad down to passenger service: I am committed to three things: the customer, the customer, the customer. My staff will tell you that I am fixated on doing what the customer needs, going where the customer wants to go, when they want to go, how they want to go. But we frankly had a bad year.

This may be the worst year that Amtrak has had in decades, or maybe in its existence. Maybe it is appropriate that I started on December 7. [Laughter.]

AMTRAK RIDERSHIP—(MILLIONS)



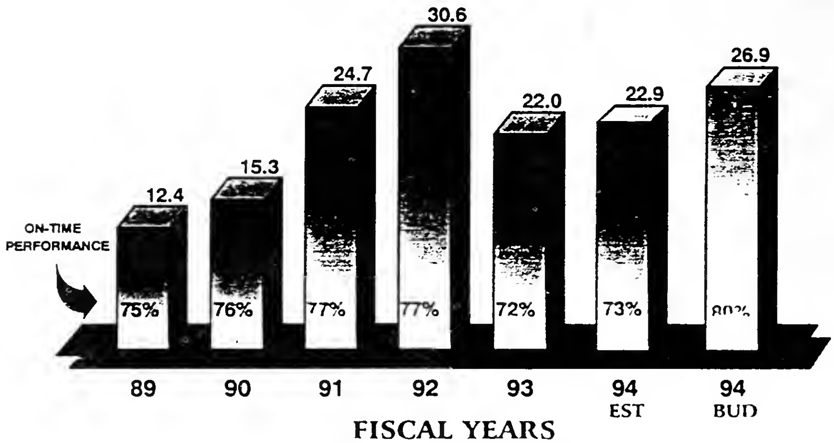
Mr. DOWNS. This chart shows not just the blizzard and not just flooding and derailments, but it shows a cumulative impact. On the lefthand side of the chart are the budget projections for ridership and revenue. The red is the fact that we were always above that in terms of ridership and revenue. We were above budget. We were doing better than anticipated.

Then the problems started—the blizzard, the flooding, the derailments, the winter from hell. Since the start of this, we have been consistently under our ridership and revenue projections.

It was a bad, tough year. And add to that, we are fighting with bad equipment and airfares that are—in many cases—unbelievable. I just saw an ad that shows that on a special you can fly from BWI to Chicago for $42. We cannot sell a railroad car seat for that and come close to breaking even. But that is the new air market.

I do not know what the airfare is, Senator, from, say, Chicago to St. Louis or Chicago to Kansas City, but I would guess that the airfares are probably similar. This is the deregulated aviation environment in which we are right now pricing our product.

INCENTIVE PAYMENTS—(DOLLARS IN MILLIONS)



Mr. DOWNS. We have had other problems in addition to the problems with our own equipment and the winter from hell. We have had on-time performance problems from our commercial railroads. We operate over 26,000 miles of track in the United States. We own about 300 miles of it between Washington and Boston. On the remainder of track we depend on railroads like the Burlington Northern, the Union Pacific, and the Santa Fe to deliver our trains.

Incentive payments are what we pay contract railroads for on-time delivery. For fiscal year 1992 you can see that we were paying about $30 million to the railroads for incentive payments. This year our estimate is $22 million. That is the lowest since 1990. Performance on some of the railroads is frankly, abominable.

I was listening to the Senators from North Dakota and from Texas and from Montana talk about the value that this train service provides to their rural constituencies. We depend on those freight railroads to deliver us there. And in some cases I have told the presidents of those railroads publicly that they are destroying our service by not being able to deliver our trains on time.

Our on-time performance, for instance, on the Burlington Northern is atrocious. It is 52 percent at times. On the Empire Builder, we run 4 or 5 hours late sometimes, annulling train after train because we cannot get the trains through on their trackage. This is killing off our customer base.

We have on our board, by statute, a representative of the Governors of the United States. Currently the Governor on the Amtrak board is Governor Thompson of Wisconsin. He has been talking to me about the problems and the complaints that he is getting from his constituents in Wisconsin about the on-time performance of our trains.

We cannot dispatch through freight trains. In a number of cases, railroads have let their track conditions deteriorate. They have more business that uses their tracks than we do. They cut too far back about single tracking and now are trying to build some of their capacity back; they think we just get in the way of some of their business. This issue is particularly tough because it is coming to a head for us in 2 years with expiration of all of the 25-year agreements that we have with the railroads. Our ability to run on time is going to be an issue.

I want to be a partner with those railroads. We are willing to pay for the kind of service that we want. Unfortunately, we are not even able to pay them the money that we have in our budget for on-time performance.

In addition to being undercapitalized, we have had a series of wrecks. It turns out that we self-insure a lot of our equipment because the cost of insurance for all of our equipment is prohibitive. Now, in cases like the barge accident in Alabama, the locomotive was 3 weeks old. It cost about $3 million. We lost a pair of locomotives. We lost passenger cars and baggage cars there.

In a number of cases, our equipment is so old it is fully depreciated—it has no book value. So, the insurance companies pay us nothing back and we are out those cars.

These wrecks are wrecking our system's equipment availability. We need about $37 million this year to just replace wrecked and damaged equipment. We have not got that; we are asking for it. That item was not in the administration's bill, and it is one of the reasons for the difference in the capital costs.

In addition, as Ken pointed out, we have some facilities that are brutal in terms of the ability to maintain. If you remember, one-half of our fleet is over 45 years old. That means it is older than dirt, in terms of railcars standards. The average life expectancy of a decent rail passenger car should be about 20 years. We are running 45 to 50 in some cases.

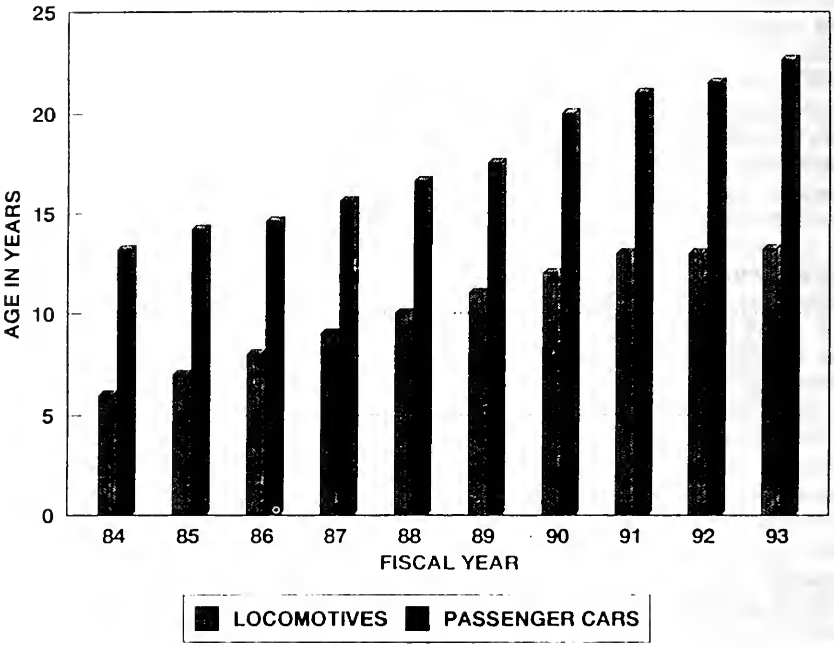
This photograph shows where we maintain some of that equipment. This is called the Sunnyside Yard on Long Island. It is called a "yard" because there are not very many facilities there.

The crews in the wintertime maintain this stuff this way out in the cold. This is how running maintenance is done on Amtrak passenger service equipment in Sunnyside.

Chicago is the same way. When it was minus 68 degrees wind chill at the Chicago yards this winter and we were trying to push the Empire Builder back out to get the service on the road, those guys could only work an hour out, and then had to come back in to thaw out. They were doing locomotive work outside.

Old locomotives, old equipment, and inadequate maintenance facilities are what is destroying the railroad in the face of intense airline competition.

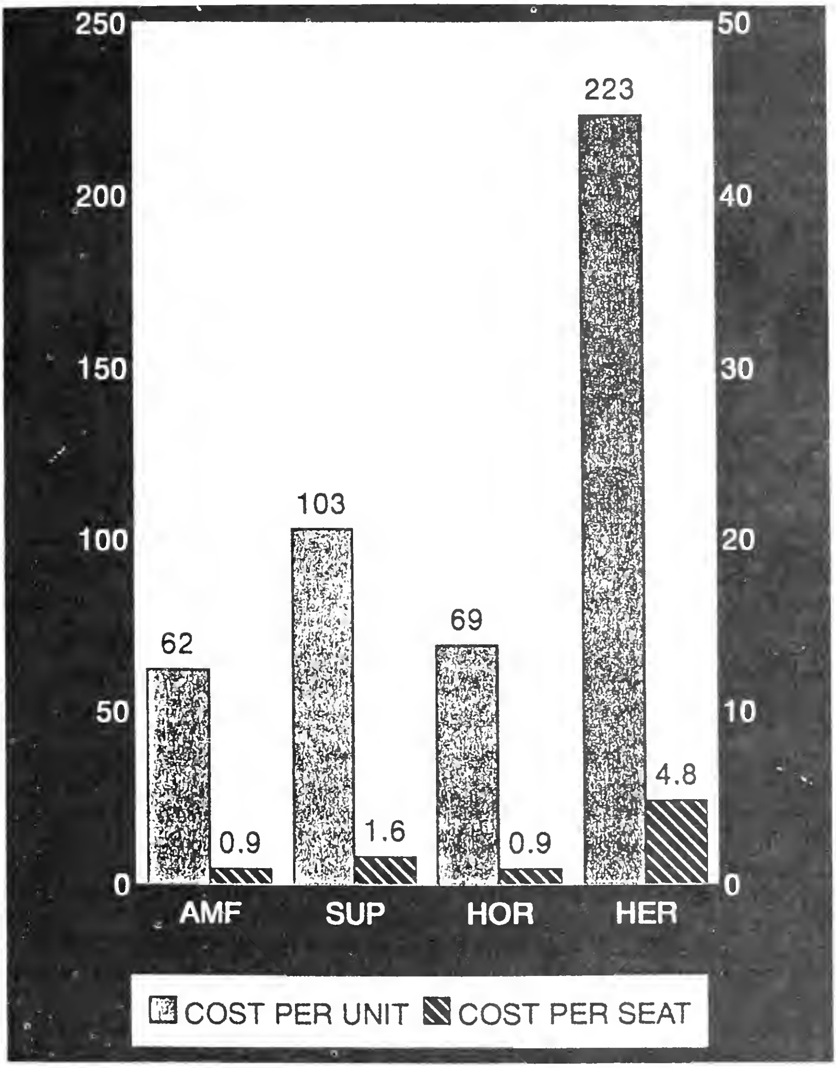
AMTRAK'S FLEET AGED RAPIDLY IN THE LAST DECADE



Mr. DOWNS. This chart shows the aging of our fleet. The blue is passenger cars and the black is locomotives. The chart shows you what has happened. That is 1984, 1985, 1986, 1987, 1988, 1989, 1990. We are just getting older. And the older we get, the higher the operating cost.

On some of our Heritage car equipment, we probably have to pay three times what an average maintenance cost should be, because parts have to be handmade, or equipment that fails en route to the maintenance facility.

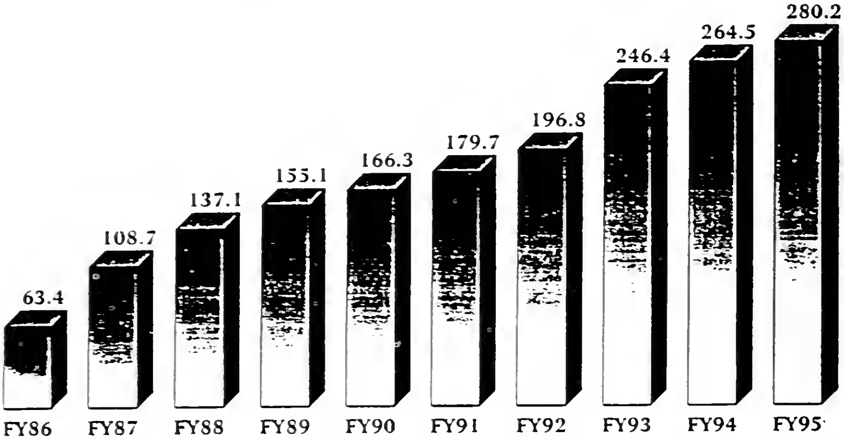
OVERHAL COSTS PER UNIT—FY 1994 BUDGET—(IN THOUSANDS)



Mr. DOWNS. This chart shows comparative cost per seat for overhaul and repair. The bar on the right is the Heritage car, our largest car fleet. The chart shows you how much it costs to maintain cars, both per seat and per unit, comparing the different kinds of equipment. We have maybe 200 million a year dollars' worth of economic drag created in the Corporation by ancient equipment and ancient maintenance facilities.

Most of our maintenance facilities, by the way, were built in 1903, 1906. They were for steam, coal-fired locomotives.

AMTRAK COMMUTER REVENUE—FY 1986–FY 1995



Mr. DOWNS. There is good news. The Northeast Corridor Project, for example. As the Administrator has mentioned, this is underway. I have a tremendous amount of optimism about that, and what completion of that project can do for our bottom line.

High-speed train set acquisition is underway. As the Administrator mentioned, other new equipment is coming on line—Superliners, Viewliners, and new locomotives. These will be helpful in selling service, as Ken mentioned.

Commuter services are our fastest growing part of our revenues. This chart shows you where commuter revenues are going over time.

There is one more issue that I want to hit on, because it is also something that Senator Danforth and I have talked about. We have a number of facilities that I call "Amshacks." I would consider Kansas City to be an "Amshack" facility. We also have two trailers in St. Louis, where one of the prettier, gorgeous, turn-of-the-century rail stations is now a kind of shopping office complex. Train passengers get off and walk into a trailer.

And I understand why that happens in a lot of places.

In other places, Mr. Chairman, like Omaha and Lincoln, where they simply walk away from the facilities.

If there is a magic about rail travel—rail passenger service—it is that people expect a different kind of service. Even if a train has got first-class new equipment on it, if you kick passengers off of a train in the middle of the night in a broken-down abandoned station or at a trailer, that is not magic.

The United States and the railroads built some of the finest rail stations in the world. Union Station in Washington, DC, is probably among the best examples of what first-class rail stations can look like. As part of our business, we have to strike partnerships with States like Missouri about investing in those stations.

The year we opened Union Station in Washington, DC, our rail passenger ridership went up 20 percent. Ridership at that station has stayed up and has even grown. So, an investment in that station was an investment in Amtrak's future ridership.

People do not like looking for a train station. I know how hard it is to get to our Kansas City "Amshack." It is not what customers expect. It does not add any value to the community.

One of our futures, I think, is striking better partnerships with States and communities about the value added to those communities by the availability of American passenger rail transportation.

I have been struck by getting letters—aggressive letters—from members of this committee about stations. Rugby and Devil's Lake, in North Dakota, and stations in Montana—I hear about what those rural communities get from Amtrak. Often, what they get from Amtrak is the only public transportation service available to them. Because, in a lot of cases, they are not served by the intercity buslines any more, and they are not served by commercial airlines. I think we have to kind of keep reemphasizing the fact that a lot of rural America depends on Amtrak.

We have to recognize that Amtrak brings value to other places around the country besides New York, Washington, and Boston. We are out there every day providing a service that people need and value.

I want to provide the equipment. I want to provide the capital. I want to be a partner.

But we are at the edge, as Ken said. We are at the ragged edge of the future of the Corporation. We are the point where we are paying the price for decapitalizing the Corporation.

We are selling a service—my marketing staff hates to hear me to say this—we are selling a service we cannot deliver. We are selling magic, quality performance, on-time performance, and it is not there. We need to get back the magic. That is why I want to be partners in places like Kansas City, with the rail station. I want to be partners with better equipment, as well.

The Senator knows that I have a certain nostalgia for the Kansas City station. It is where I took my first train trip. It is where I worked throwing bags, at the REA facility behind it when I was much younger.

I know what that station meant to the life of Kansas City. I would love for Amtrak to be back in there.

But new counters, handicapped accessibility, and so on costs some money. The request that I want to make is this: Do not force us to make the choice between our rolling stock versus stations. It is like asking, "Do you want your mother, or do you want your wife?"

We have to have the rolling stock. And I want to be a partner in the capital reinvestment part of stations.

So, Senator, you know I am with you on the Kansas City station.

[The prepared statement of Mr. Downs follows:]

PREPARED STATEMENT OF THOMAS M. DOWNS

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 costeffective 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 Boston and Portland, Maine 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. In some rural areas of the country Amtrak is the only form of public transportation. In many areas—between Washington and Boston, in the Chicago hub and in southern and northern California—Amtrak 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 travelers.

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 onboard 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:

- $5.3 billion in mainline infrastructure investments on TGV lines
- $1.1 billion in other infrastructure investments
- $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:

- $28.8 billion in mainline infrastructure upgrades
- $18.5 billion in other mainline upgrades
- $8.2 billion in equipment
- $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 highspeed 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.

According to the results of a recent 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, Amtrak has this year 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 not 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 the 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 twoat-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 has been 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 actively 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 last month 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)1 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.

Capital Grant: 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 playes 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 costef ficiently 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:

- far better on-time performance for Amtrak's trains than would have been possible without incentives;
- 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.

Senator DANFORTH [presiding]. We appreciate that. Mr. Leonard.

STATEMENT OF SCOTT LEONARD, ASSISTANT DIRECTOR, NATIONAL ASSOCIATION OF RAILROAD PASSENGERS

Mr. LEONARD. Thank you, Mr. Danforth. I want to thank you and the chairman for the opportunity to come here to testify today. As the users of Amtrak services, we appreciate everything this committee has done, which is a considerable amount, to make sure that we still have an intercity passenger rail system today.

Just a few points from our written statement. For several years, NARP has been talking about the dangers of capital starvation and the pitfalls of cost cutting, which was primarily meant to improve the operating cost recovery ratio.

Therefore, we welcome the open discussion that we have had from Mr. Mead and Mr. Downs on this topic in the past few hearings that we have attended this year. But we are alarmed at some talk that we have heard suggesting that Amtrak, if it cannot live within its means today, it ought to be smaller tomorrow.

The rail passengers feel that Amtrak is already too small. We have already been through several rounds of service cuts in Amtrak's history. Amtrak is already unable to serve many potential customers on existing routes, and in some places where there is no service at all.

To single out Amtrak for reduction because of the budget deficit while not looking at transportation as a whole would be a bad way to make transportation policy, in our opinion. That is why we applaud the administration's efforts to include passenger rail in its intermodal National Transportation System efforts.

Having said that, regarding S. 2002 and its Amtrak funding authorization levels, the administration has stated its support for world-class passenger service, and we applaud that, too. But we believe that the levels of funding proposed by Amtrak will be necessary to begin to achieve that goal.

One point on the 403(b) section in S. 2002—we applaud the creation of a separate line for operation of 403(b) services just as was done 2 years ago. We understand the administration's reason for converting the State share from short-term avoidable costs to long-term avoidable costs. However, we are afraid that it could greatly increase the payments that some States make, and it could have the effect of killing some current services or inhibiting the creation of some new ones.

There should also be a separate section for capital for State-supported services. For example, Wisconsin has approved funding of 66 percent of the capital costs for new service to Madison and Green Bay, but is unprepared to pay 100 percent of the capital costs if Amtrak cannot contribute the other one-third. Since so many highway projects require only a 20-percent State match, we think Wisconsin has done a pretty good job at 66 percent and there should be some way to accommodate them.

On Mr. Downs' proposal for a passenger trust fund, we wholeheartedly endorse this as we did the gas tax penny idea a couple of years ago. We endorse their idea to have Federal fuel taxes go into a passenger rail capital trust fund.

One common criticism that we heard 2 years ago with the Swift proposal was that Amtrak users would not be paying into that trust fund. But in this case, this tax is paid by Amtrak users and so it should benefit Amtrak users in some way.

One other area of concern to us not addressed in this bill is an item from the Senate passed reauthorization bill 2 years ago, a position on the Amtrak board of directors specifically to represent the interests of the consumer. We hope that this can be revisited and included again.

It is true that Amtrak, as it has been funded today, is not providing a quality service in a consistent way. I travel quite a bit and I almost always have a pleasant trip. Some people say I have a charmed existence. But I hear a lot about other people's trips by letter and by personal conversation. They range from the truly wonderful to being so bad I wonder how I would ever stand such an experience if it happened to me.

I have heard Mr. Downs' message over the past few months of concern over service quality, and I am very optimistic that he is going to do a lot of good in this area.

The complaints that I hear fall into three categories. The first is that too many Amtrak personnel are still surly and unprofessional, and this I know is a concern to Mr. Downs. Second is equipment that breaks down and equipment in stations that are in bad condition which Mr. Downs also touched on, and which capital funding should help address.

A third problem is delays, many of which are caused on host railroads and which seems to be a growing problem. There is very little information available to quantify these problems and follow trends. Most of the information that I get is anecdotal and therefore somewhat haphazard.

NARP, the National Association of Railroad Passengers, is the process of designing a trip report form for distribution to our members. We would collect these forms and have a volunteer tabulate them. This process would not be completely scientific or random, but it would allow us to follow service quality trends better than we are able to do now. We would then share that information with whoever has an interest in it and make whatever recommendations seem appropriate.

And since we talked so much about stations this morning, I want to let everybody know that we have had a related project all winter long. We identified communities in different parts of the country that have historic train stations that either have Amtrak service now or could have them with some investment. We informed them that there is a section of ISTEA that allows transportation enhancement funds to be used on historic train stations, and tried to encourage them to take advantage of that avenue of funding to improve the train service in their own home towns.

With that I will close, and I thank you for all your attention and will try to answer any questions you may have for me.

[The prepared statement of Mr. Leonard follows:]

Prepared Statement of Scott Leonard

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.

CHANGES IN THE LAW WE FAVOR

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 passengermile; airlines: 4,811). In addition, from 1982 to 1990, Amtrak energy consumption per passenger-mile fell 2.4 percent while that for domestic airlines fell only 0.8 percent. 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.

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.

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."

State Supported Amtrak Services: 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 are concerned, however, at the Administration's proposal to more than double the state share of many existing trains. Statutory minima for state shares would rise from 45 percent of first-year short-term avoidable operating costs (65 percent thereafter) to 50 percent of first-year long-term avoidable costs (70 percent thereafter). The key here is that long-term costs are about double short-term costs. The change may kill many existing services and dim prospects for bringing new states and services into the program. In short, already-scarce federal (Amtrak) matching funds for state intercity passenger rail programs will become scarcer.

What about Amtrak's share of 403(b)-related capital costs? For example, for services from Chicago-Milwaukee to Madison and Green Bay, Wisconsin plans trackwork in 1995 with service to begin in 1996. The state has 66 percent of needed capital dollars in hand (vs. 20 percent required for most highway projects), but nothing will happen if Amtrak has nothing to contribute. Clearly, the solution involves providing Amtrak with more federal resources.

Provide Adequate Resources for Amtrak: We support the funding levels Amtrak has requested.

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

	Billions of dollars	Change from		
		Fiscal year 1994 percent	Fiscal year 1993 percent	Fiscal year 1992 percent
Fiscal year 1995 budget request	$20.162	+0.9	+10.5	+136.3
Fiscal year 1994 enacted	19.965	....	+9.4	+134.0
Fiscal year 1993 actual	18.254	....	....	+113.9
Fiscal year 1984 actual	13.259			
Fiscal year 1982 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 percent in FY '82 to 3.1 percent in FY '94.

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 percent below the FY '94 level of $420 million and 82 percent 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.

GAO's Portrait Is a Bit Too Bleak: 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.

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.

CHANGES IN THE LAW WE OPPOSE

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 journalists apparently unaware of the importance of this section and the fact that it is not set to expire. Certainly, it should not expire.

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 Wyoming and southern Idaho, and one train a day across Iowa, Kansas, Minnesota, Montana, Nebraska, North Dakota, Vermont and a tiny corner of New Hampshire (Claremont Junction). * * * Outside 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: Amtrak service here has been much criticized, so it is important to emphasize Amtrak's much-improved cost-effectiveness here. As recently as 1979, three different routes crossed West Virginia and enjoyed daily service.

However, one of those routes ended in 1979. Service on the Washington-Parkersburg-Cincinnati was discontinued west of Cumberland and the Washington-Cumberland segment (which serves Harpers Ferry and Martinsburg) sensibly became part of a new, direct Washington-Pittsburgh-Chicago service (replacing a circuitous run via Philadelphia).

Finally, on the route through Charleston, service was transformed in 1981 from daily Washington-Chicago to thrice-weekly New York-Washington-Chicago. The frequency reduction 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 this train, the Cardinal, beginning May 1. Overall, Amtrak projects a 4 percent improvement in the train's revenue-to-cost ratio from FY '93 to FY '94.

Also, 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 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 annual 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 has effectively noted 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 air-port 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 "Labor Protection" paragraph below). 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 percent 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.*

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

[In billions of dollars]

	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 (percent)	+134.0	+195.1	+0.8	
Change 1982–91, current dollars (percent)	+76.8	+177.7	—11.0	
Change 1982–91, in 1983 dollars (percent)	+25.3	+96.8	—36.2	

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

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 $196 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 percent from the 1990 level of $18.3 billion and is up 56 percent 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 Michael 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 Burpass $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 laid $3.1 billion 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," June 26, 1961) cited this tax as "one of the factors under Federal control which favors the growth of private transportation 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 is almost twice as energy efficient per passenger-mile than the airlines.)

[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 President 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 percent 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 Statu9 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 billion annually."—Victor S. Rezendes, Associate Director—Transportation 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-)Director of Aviation, Port Authority of New York and New Jersey, in Aviation Week & apace Technology, September 16, 1985.

Senator DANFORTH. Well, thank you all very much. Mr. Mead, let me just say to you that this is not your first appearance before the Commerce Committee. You have been here on several occasions when we have had hearings as to the airline industry and the general situation in the airline industry. And you have done I don't know how many reports for us, more than one on the airlines.

Mr. MEAD. Yes.

Senator DANFORTH. But I was very, very impressed at that time with the quality of your work and the helpfulness of your reports. As you know we have made the basis of various legislative efforts that we have had, so I am always happy to see you and I appreciate your return to the committee.

You really should be very proud, I think, of the work that you do because it has been very helpful to us.

Mr. Downs, thank you for your testimony and for your comments. Your comments were very eloquent. I have this specific interest in this particular place, and where do we go from here? You want to move back into Kansas City Union Station, and Kansas City has mobilized all of these people. Almost 30,000 showed up last weekend. More than one-half the cost has been pledged by the private sector. Various components of a science center we believe are coming together.

But one of the essential ingredients is the relocation of the Amtrak station back into the train station. What do we do next, or what is the hope?

Mr. DOWNS. When the mayor was in to see me, I offered the services of our real estate division that handled the redevelopment of Washington's Union Station. I have also been out twice to work with the city's staff about it. Let me say that one thing that this station has got going for it that a number of others do not, that it has unified support from the business community.

I was struck immediately by the level of the people who were involved in this. Top corporate leadership is committing real dollars to this project—not just a bit of civic boosterism but real business hard-headed investment in revitalization of that part of the city. That is the strongest thing going for this project—the business community's interest—because it will make it easier to make business investment decisions.

We need to get a good agreement on several issues: what the real costs are for the location; where Amtrak would be in the station itself; real costs of things like handicapped accessibility, upgrades on electrical and some computer services for ticketing.

We can be a partner in that process to a certain extent—what we can pay for rent, how much we can commit on a leased basis. But part of it is going to be expensive. Not a lot expensive, but it is going to require some capital commitments, particularly on handicapped accessibility issues.

As you know, a new station has to be accessible, and this will be in effect a new station. So, we have got some commitments that we need to look at very seriously. As you point out, they are not heavy lifting in comparison with the Farley building, and I would love to do that as a partnership with you, the State, and the mayor. I think this is doable, and I am not being Pollyanna-ish.

Senator DANFORTH. Well, the Farley building is specified in this legislation, but the Kansas City Union Station is not. Could it be done even without that specification?

Mr. DOWNS. We could sign up for a lease, but we normally lease space in buildings like this based on comparables. Capitalizing the full ADA through a lease agreement would be very difficult for us. If it can be worked out that there is some kind of way of recognizing those costs as part of, say, transportation enhancement funds for making the station handicapped accessible, then that is completely within the realm of authorized use of the Highway Trust Fund money.

Those costs can be managed. We can strike some partnerships, as I said, with the State about commitment of funds. There are ways of funding various components of this that may become clearer after we decide the details such as where we will be within the station, what that location means in terms of retrofit for handicapped accessibility, and so on. I do not think we will have to retrofit all the tracks because we do not work off of all the tracks any more.

So, the costs are more manageable than it might seem at first glance. I would just like to have the players at the table who can participate in some real discussions about those costs, abaout who pays and when.

Senator DANFORTH. Well, should I be asking people to come to a meeting? I mean, what I want to do is get the ball rolling.

Mr. DOWNS. Well, you did the first round with marrying up the mayor and me to examine the commitments around our moving back in. The first round was to get Amtrak's attention.

And I agree with you. As as you said, Amtrak belongs in train stations, not bus stations. I want to be back in that station because I think it is something our passengers expect. So, I am a full and committed partner to this process. I just cannot do it in a way that would jeopardize the limited capital resources I need for, for instance, equipment,.

I think that it is possible to work out arrangements that mix Amtrak lease costs and State funds for handicapped accessibility. I think we can make a deal out of this.

Senator DANFORTH. OK, thank you. Mr. Leonard, let me ask you a question. You are an advocate of passenger railroads, and you are an enthusiast.

Mr. LEONARD. Yes, sir.

Senator DANFORTH. Do you think that if all of these problems were fixed people would be coming back to rail transportation, or do you think that what has happened is just the natural product of time overtaking rail transportation?

Mr. LEONARD. Do you mean the capital problems, or the service quality problems, or both?

Senator DANFORTH. Well, let me put it this way. If we spent money and did for Amtrak what you would like to do for Amtrak, would passenger rail transportation be something that would be revitalized and people would just love to do it, or is the current state of affairs really the natural result of a change in way people travel, and that that change is not going to be redone?

Mr. LEONARD. Well, I think that there are some changes that could be made that would bring people back, and obviously service quality is one of them. Although I cannot indicate it with any statistics, I think Amtrak is losing a lot of first time riders who do not come back for a second time because they have had an unpleasant experience. So, if that part of it were fixed we would at least retain those people.

I have never been one to advocate drawing lines all over the map, but I know in places where some judicious investment is made on new services that it will increase patronage. I think because of the investments we have made in the Northeast Corridor, that we have a different level of ridership than we did 20 years ago.

And in California, where a lot of money, both operating and capital, has been put into regional Amtrak services, we have again a very successful and much higher ridership pattern than we did years ago.

So, I think that there are places like that where some improvements can be made and help turn this around.

Mr. DOWNS. Senator, I also have been struck by the fact that the States are making relatively large investments in rail passenger systems. They are doing this not out of a sense of nostalgia, but out of a sense of good economic development. I was surprised to find that North Carolina has been one of the more aggressive States, for instance, investing in additional rail passenger lines. Illinois, Missouri, California—all have made investments in State-supported rail service.

It is not because they are after "the whistle in the night." They are after the benefits that rail passenger service brings. In spite of having old equipment our ridership, up until this last round of bad luck, has been growing. We have kept passengers and increased our passenger base despite inadequate service and old equipment.

I think it is clear from that experience that if we had first-class equipment and first-class service, we could have the same kind of experience that Europeans and Asian nations are having with national rail passenger service; an explosion of growth in their ridership.

Mr. MEAD. I think that is true in some corridors but not all of them. In the Northeast Corridor the numbers I think help respond to your question. Before the Northeast Corridor modernization, between New York and Washington I think Amtrak had something like 15 percent of the market. They now hold about 45 percent.

A lot of the work now going on between New York and Boston, where Amtrak controls 15 percent of the market, Amtrak is projecting that when they go to 125 to 150 miles an hour, their market will go to about 45 percent.

But that is not representative of markets everywhere in this country. And second, in Europe where competitive conditions are much more conducive to rail travel, even there the capital infrastructure is financed substantially by the central government.

Senator DANFORTH. Thank you. Thank you, Mr. Chairman.

Senator EXON [presiding]. Thank you very much, Senator Danforth. I really appreciate your help.

Mr. Downs, you must have heard the testimony from Mr. Mead. I do not know whether you have seen the pictures or not. I would be glad to show them to you. What are you going to do about this? This comes under your jurisdiction; does it not?

Mr. DOWNS. Well, that is our shop. It was built in 1906. It has not had much in the way of capital investment in the last 30 years. Part of my capital budget request is for funds to fix a portion of that yard. It needs 35 million dollars' worth of capital.

Our initial budget submission for Amtrak for facilities capital—the Wilmington shop and the Beech Grove—was about $15 million. My budget request includes 30 million dollars' worth of shop capital for fixing those kinds of problems.

If you have got ancient equipment, you spend one-half of your time rerailing locomotives and cars that derail because you have not got enough money to fix the rods and ties in the yard. We also have a table—a mechanism—that moves locomotives around with within the yard—that continually breaks down. When it breaks down, the shops do not get locomotives to work on.

We have to do better than that. That is at the top of my list in terms of capital investment. You have to have the shops to maintain the equipment first. Then you need the equipment to maintain. And then you can sell a quality service. But we cannot do that right now.

Senator EXON. Mr. Mead, this Beech Grove, where is Beech Grove?

Mr. MEAD. Indiana, sir.

Senator EXON. Is this an isolated case, or are you representing that this is typical of what Amtrak is experiencing?

Mr. MEAD. All cars outside the Northeast Corridor, when they go in for heavy maintenance, major overhaul, that is the place they go.

Senator EXON. Right here?

Mr. MEAD. Yes, that is not the place for cars in the Northeast Corridor. There are two facilities there. One is in somewhat better shape than Beech Grove, and the other is in a lot better shape. My prepared statement goes into some detail on what can be done, or what the yield is from a good maintenance facility and what the yield is at a bad maintenance facility.

Senator EXON. Thank you. Mr. Downs, let me return to you for a moment. I was particularly struck with the pictures you displayed regarding the maintenance work being done, I believe, in Chicago, IL. I travel through Chicago all the time and I have always said that it is the climate capital of the world. At least, I travel by airplane, and I was struck by those conditions. I do not see how you can do maintenance work of any kind at all in facilities like that.

Are you saying they are not doing, really, maintenance work? What were they doing in those pictures, making sure that the brake shoes were not full of ice? I mean, what were they doing out there in that kind of weather?

Mr. DOWNS. We do running maintenance at the major facilities. The facility that Ken is talking about in Bear and Wilmington are major overhaul shops. On a regular annual cycle, or every 2-year cycle, all the equipment will go into Beech Grove or Wilmington for major work.

Running maintenance is what happens when the Empire Builder gets into Chicago, for instance. It goes to the yard there. The cars are stripped clean, refurbished to whatever extent we have to, wheels——

Senator EXON. Inside?

Mr. DOWNS. Inside and outside. We do wheel truing there, we do brake work there, we do electrical repair, freeze damage. All of that is done at what we call our running repair facilities. The major overhaul facilities are the two that Ken mentioned.

If you have been in and out of Chicago a lot—well Chicago is our O'Hare for the rail passenger network. Most of the long haul lines—the intercity lines—radiate in and out of Chicago. North, south, east, west, all wind up in Chicago. That is the kind of working environment where we do running maintenance.

Because of a lack of facilities in Chicago to thaw trains out we had to ship the Empire Builder to New Orleans to thaw it out last year. That is: the doors froze shut from ice. We have not got a place to thaw them out in Chicago. We get hydraulic lines freezing, we get a lot of damage that has to be repaired at the end of a run. We do not have the facilities in Chicago to do that.

Senator EXON. Let me ask this question. Back in the days of yesteryear, when the major railroads were in the passenger car business, they were not doing that kind of maintenance of facilities outside. They had a roundhouse or some facility to take it to; right?

Mr. DOWNS. Most of the railroads had major maintenance facilities for their rail passenger service. When we took over from the commercial railroads, there were 26,000 rail passenger cars in the

United States. We are down to 1,900 rail passenger cars. The old railroads had major, major, major maintenance facilities.

Senator EXON. And those facilities are all gone now; is that right?

Mr. DOWNS. We did not get them. I do not know where they went.

Senator EXON. Well, my followup question is, I would expect that the major railroads which are still operating freightwise must have extensive facilities, and I am wondering if they could be leased or rented on some kind of a basis to take an Amtrak car in there for maintenance. I know you have to do more to a passenger car, but is there no way you can cooperate or lease facilities? Just from a safety standpoint it seems to me, without even addressing the effect of these conditions on the employees, to be beyond any reasonable expectation of having things done the way they should be if you have to work in those conditions.

Has Amtrak missed the boat in possibly not working, or can you work, with the existing railroads where they would have facilities to do things right, rather than out in the cold like that?

Mr. DOWNS. Well, Mr. Chairman, first of all I can barely get them to deliver our trains on time, and that is so fundamental to our existence and our survival. Just having our trains arrive on time is a problem.

Senator EXON. That was my followup question. I took it from your testimony that the complaints we keep hearing regarding late Amtrak arrivals—and I experienced them myself last December, when our granddaughter was coming from Chicago and the train was 2 hours late and the weather was not that bad—are not primarily a result of the lack of Amtrak's activities, but primarily those late arrivals are the failure of the railroads to clear freight traffic for passenger traffic and temporarily sideline their freight trains, is that what you are saying?

Mr. DOWNS. I am not going to say that part of our problem is not that our equipment dies en route. We have indeed had that kind of experience. But the difference between some of the railroads is unimaginable.

We have railroads that have an 80-some-odd percent on-time performance. Others are in the low fifties—almost one-half the on-time performance. We have some trains that have an on-time performance of less than 10 percent in some corridors. Some of the railroads are unable to deliver our trains according to schedule. That is destroying our system.

The railroad presidents I talk to are uncomfortable about that. We have not talked about it publicly. I am going to start talking about it more publicly. I am going to start publishing quarterly performance rates on lines and railroads, reporting on how they are doing with our delivery. I do not know any other way to do this. They are losing money by not delivering us on time. They are losing a lot of money by not delivering us on time, and I still do not understand why that is.

Senator EXON. Well, we certainly are interested. I believe you testified that the Burlington Railroad was one that you had the most trouble with.

Mr. DOWNS. Burlington and CSX are one of our worst on-time performers, and I have talked to the president of the Burlington Northern about it. We are trying to work on some solutions. It is not getting any better.

Senator EXON. Well, I do not know what, if any, authority we have in that area, but at least we have some jawboning authority that we likely will use. You know, I am very much concerned about the financial health of Amtrak, but I am a safety nut, and it seems to me that with that kind of an operation it is better for a train to run slower and be late than run fast and jump off the track, and so you have to make some compromises somewhere along the line.

Mr. DOWNS. But the worst problem is we get parked behind a slow freight.

Senator EXON. Well, that is what I said earlier. You get stuck behind a slow freight that they will not pull off on a siding and let you go by.

Mr. DOWNS. That is it.

Senator EXON. Take me back, if you will, then, to the beginning of Amtrak and the contracts you have with, let us say, Burlington, to run on their tracks or railroad. I understood there were some priority considerations supposedly to be given to passengers, in this case Amtrak, just like Burlington used to give priority to their passenger service over their freight. Is that a violation of the contract that you have with Burlington?

Mr. DOWNS. Mr. Chairman, your memory is very good. When the commercial railroads came to Congress and said, "We want you to take over all of this passenger business because it is bankrupting us," Congress said back, "OK, you are going to do two things. One is that you are going to grant Amtrak right-of-trackage on any track that they need to run rail passenger service on at incremental costs."

Our contracts with the railroads define what the incremental costs are. The other thing that Congress required of the railroads is that they grant priority to rail passenger trains. That is in the act itself: it specifies there is a priority for rail passenger service.

How railraods define that priority and how we pay for performance is part of those contract agreements. We have had one-quarter century of contracts that attempted to define those issues in a real way that made their business and our business easier. Those contracts are expiring. The railraods want more payment for less on-time performance. We think that is going to be a disaster for America's rail passenger network.

You are absolutely right: there is a requirement in the law that they give priority to rail passenger service.

Senator EXON. So, we have some authority other than just jawboning?

Mr. DOWNS. Yes.

Mr. MEAD. Mr. Chairman, as you move into reauthorization, one point is relevant. The law does not prescribe the level to which the track had to be maintained, and the agreements that are about to expire are fairly uniform in specifying that they have to be maintained to accommodate 79 miles per hour. Once those agreements lapse, there is no law to fall back on.

Mr. DOWNS. And in large areas, because we run on some territories with the freight railroads that are no longer really major freight corridors, they have an interest in either abandoning the lines or having us incur 100 percent of the cost. That is not what the incremental cost meant.

Some of those corridors need massive amounts of upgrading. That is going to cause us to have serious financial commitments, either to upgrade those lines or absorb 100 percent of the incremental cost. Our only other alternative is to abandon service on those lines. There are big chunks of America's rail passenger networks that are at risk.

Senator EXON. Gentlemen, we must move along. I thank you very much for coming here, and thank you for your testimony. There undoubtedly will be some questions for the record and I remind you once again we would appreciate your answering them as soon as possible so we can get them included in the official record.

Mr. DOWNS. Thank you, Mr. Chairman.

Senator EXON. I will call panel No. 2, now. Peter Gilbertson, president of the Louisville and Indiana Railroad; and Alice Saylor, vice president and general counsel of the American Short Line Railroad Association; and William W. Pickett, vice chairman, Rail Labor Executive Association.

I will start out by thanking each and every one of you for being here today and for the important testimony to which we are looking forward. I would tell you that we are going to have to move very rapidly along. We have a rollcall vote coming up very shortly in the Senate, and I will have to leave for it. So, without further ado, let me first recognize Peter Gilbertson. Your testimony has been accepted, Mr. Gilbertson. Would you be as brief as possible in summary, and then we will go to questions.

STATEMENT OF PETER GILBERTSON, PRESIDENT, LOUISVILLE AND INDIANA RAILROAD, REPRESENTING THE REGIONAL RAILROADS OF AMERICA

Mr. GILBERTSON. Yes, Senator Exon. Thank you very much for the opportunity to testify here today. I am representing the Regional Railroads of America, a trade association of 170 regional and local railroad companies. I am also chairman of the Chicago South Shore and South Bend and Louisville and Indiana Railroads, as well as managing director of Anacostia and Pacific Co., a railroad consulting firm.

We are in the business of forming regional railroads, and have been involved in transactions involving about 5,000 miles since 1985. We have preserved service on many segments of track. An undertaking that is reflective of the entire regional railroad industry.

Since 1980 and the passage of the Staggers act a number of new lines have been formed, and they are currently employing about 9,300 employees. Overall, the short-line industry employs about 27,000. We have preserved service on about 31,000 miles of track that we believe in most cases would either be downgraded or abandoned by the larger railroads. This has been really a success story in many ways resuling from the Staggers act in 1980.

Regional Railroads Association of America was formed to try to get equal treatment for small railroads. That is really our legislative objective. We do not want any favors. We really just want to be treated like other small businesses.

There are a number of laws I am sure you are familiar with, Senator, that adversely affect railroads, and we do not need to go into them in great detail today, but one of the issues that adversely affects small railroads is the huge differential in subsidies to our competitors versus us. This has been a historic phenomenon that has existed for over 50 years, and unfortunately the subsidy differential is getting worse.

The ISTEA act, which talks a great deal about intermodalism, is really funneling billions of dollars more to the highway mode, which is a mode that we compete with. Unlike our competitors, we are also paying "deficit reduction" fuel taxes and safety "user fees." When you combine all these factors together, it puts the railroad industry at a great disadvantage.

From what I have heard today, I do not need to greatly elaborate on the benefits of the Local Rail Freight Assistance Program. You, Senator, have noted today that LRFA has assisted the small railroads in preserving service to rural communities. It also preserves service to larger communities. We are now serving over 30,000 miles of track. In most cases, these lines would have been abandoned or downgraded.

The FRA Administrator also noted today that the cost-benefit track record of the LRFA Program has been documented.

In a perfect world, there would be no subsidies for railroads or highways, and we would love to see that world some day. Until then the LRFA Program provides a small but very real and significant benefit.

It is a tiny program. Yet we see the highway programs continue to be fully funded, and this program with no funding proposed by the administration. We commend you for introducing this legislation, and we fully support it. We view the regional railroad system as part of what we call the "Green Map." It is an alternative to the highway system.

We work with and we are part of the same system that includes Amtrak—the commuter passenger railroads, and mass transit. We think this network is a very cost-effective alternative to the highway system and one that this Nation very desperately needs.

LFRA is a matching program, requiring matching contributions from State and local sources, so it leverages quite a bit more money than the application itself.

Senator, I would like to address one other issue, which is the pending proposals in the House to require "labor protection" for employees adversely affected by railroad line sales. What this is is mandated employee severance payments that can run in the range of $300,000 to $400,000 per employee.

We think that the effect of that law, if passed, would be to essentially end these line sales. For all the reasons that you have discussed, this would be a very negative thing for the industry as well as the communities and shippers that rely on these light-density rail segments.

We are, however, prepared to discuss some sort of consensus approach to line sales with rail labor. We are open to doing that. We have made some overtures in that regard, and we think there is a way to address these issues in a cooperative manner.

Many of our members are unionized. The railroad that I am chairman of, the Chicago South Shore, is unionized. We also incidentally operate 40 passenger trains and 7 freight trains a day on our railroad on what is mostly a single-track, and the trains are usually on time, so these things can be done in the railroad industry.

In summary, Mr. Chairman, we need to maintain the flexibility in the system that permits us as entrepreneurs to make these investments.

I appreciate the opportunity to be here.

[The prepared statement of Mr. Gilbertson follows:]

PREPARED STATEMENT OF PETER A. GILBERTSON

Good morning. I am Peter Gilbertson and I am here representing the Regional Railroads of America (RRA) on the issue of re-authorization of the Local Freight Assistance (LRFA) Program. The RRA is a trade association of 170 regional and local railroad companies. Our members operate over 17,000 miles of track in 44 states, including those of every member of the Subcommittee, save for Senator Inouye.

As personal background, I am Managing Director of the Anacostia & Pacific Company, Inc. (APCI), an investment firm whose primary emphasis since our inception in 1985 has been the development of local and regional railroads. APCI has helped to form and finance a number of new railroads which have preserved rail service on nearly 5,000 miles of track that would probably have otherwise been abandoned by their Class I predecessors.

I am also the Chairman of two regional railroads, the Chicago SouthShore & South Bend Railroad, a 90-mile line which was purchased out of bankruptcy in 1989, and the Louisville & Indiana Railroad, a 107-mile line between Indianapolis and Louisville, which was purchased from Conrail earlier this year.

RRA was formed in 1987 to change those federal laws which discriminate against small railroads. The majority of RRA members, indeed, most small railroads in America today, were yesterday's Class I railroad abandonment candidates. These light-density lines have been purchased by entrepreneurs willing to take the risk that new investment, productive labor arrangements and local marketing can return them to profitability. They are small, start-up companies that often require substantial investment to rehabilitate the deteriorated track they have inherited.

BACKGROUND—THE RRA GREEN MAP

Our nation's railroad network has moved people and freight across America for 125 years. Unfortunately, this transportation backbone began to lose its market share and vitality in the second half of this century, primarily because federal surface freight transportation policy and spending priorities were dramatically tilted in favor of the highway and inland waterway modes.

Since passage of the Staggers Act of 1980, the freight rail industry in general has enjoyed a modest comeback. Passenger rail survives through Amtrak and there is an increasing interest by state and local governments in commuter rail. By contrast, the regional and short line industry boomed. Two hundred seventy new railroads have been created since Staggers, over 50 percent of the total number of existing short lines and regionals. These new lines are preserving small railroad service over 31,000 miles of track. In addition, these lines employ over 9,300 employees, 40 percent of the total regional and short line railroad jobs. However, the web of federal regulation and spending continues to unduly burden the rail mode, particularly small railroads, against the public interest. Unfortunately, the ISTEA has not changed this imbalance.

Mr. Chairman, I want to emphasize that our preferred solution to address existing federal infrastructure inequities is the elimination of all subsidies to all modes. A completely level playing field would allow the free market, rather than public subsidies, to be the primary determining factor in modal competition. Railroads would thrive in this environment. However, over the past 50 years, the Federal government has poured hundreds of billions of dollars worth of concrete into our interstate highway system. In terms of freight modal equity, this program nearly destroyed the rail system. Highway infrastructure investment over the next decade will total additional hundreds of billions of dollars, and could further disadvantage the rail mode without the enactment of off-setting federal policies and programs.

Therefore, Regional Railroads of America (RRA) calls for a dramatic restructuring of federal programs to accelerate the revival of American rail transportation and infrastructure. RRA has proposed the "Green Map Program" to achieve these ends. The "Green Map" is the U.S. system of intercity passenger, commuter, and freight rail lines. Enactment of the "Green Map" program would serve the public interest in a number of ways: more freight and passengers on the rail system will relieve highway congestion, lower highway fatalities, save vast amounts of fossil iel, cut highway repair costs, and reduce carbon dioxide emissions. The Green Map can better meet environmental, energy, and transportation goals of our nation.

In 1992, the RRA first outlined its vision for a Green Map Program. On December 9, 1993 U.S. Secretary of Transportation Federico Peña called for development of a "National Transportation System" (NTS) to meet the challenges of the 21st Century global economy. The Secretary called for an NTS that would:

> include * * * ports, waterways, rail * * * and local transit systems. * * * The NTS would also include systems moving both people and freight as well as facilities owned by both private business and the public sector.

The RRA calls for a new surface transportation program to reach the Secretary's NTS objective.

REAUTHORIZATION OF THE LOCAL FREIGHT ASSISTANCE PROGRAM

The LRFA program is one element of the RRA goal to redress the half-century imbalance in modal policy. In some small way, it partially offsets the huge subsidies to the truck and barge lines with which we compete. It is such a small program it does not even show up on Office of Management and Budget list of major programs on infrastructure investment. It is virtually ignored at the highest levels and always ends up on the OMB chopping block. However, it is very, very effective.

The LRFA was the result of the financial crisis that afflicted American Railroading in the 1970's. Originally, this program was designed to retain service over lines that were dropped out of the Conrail system during the Northeast restructuring. Subsequently, the program became national. Over the years, this program has made a significant impact on the rehabilitation of thousands of miles of track, bridges and other infrastructure.

Today, LRFA continues to make funding available to states for rail freight planning and rehabilitation. LRFA provides the only federal financial assistance program available for rail freight purposes. The program has been extremely effective in helping states to preserve and maintain the rail infrastructure that would otherwise have been lost in the restructuring and downsizing of the major railroads.

RRA believes the program is particularly effective because it is administered through the states, which are required to put up a match, providing a multiplier effect. The program has proven safety benefits as well as economic benefits for shippers and small communities across the country.

In addition, there are direct highway benefits. If track, which is currently operated by regional and short line railroads is abandoned, there will inevitably be significant highway damage as loads move from rail to truck. In 1992, The Transportation Research Board conducted research on development of a multimodal framework for freight transportation investment and noted the following:

> * * * the abandonment of rail lines, or the diversion of truck traffic from rail to truck, can significantly increase highway infrastructure costs. Thus, the investment of public funds in rail branch lines can not only generate shipper benefits but also reduce future highway and bridge costs. (National Cooperative Highway Research Program, Research Problem Statement, Project No. 20-29, FY 1992)

A study by the Texas Research and Development Foundation, "Truck versus Rail Freight System Cost Comparison: Conrail and 1-80 Pennsylvania Corridors," concluded that truck taxes and user fees yield about 45 percent of truck public infrastructure costs. This is consistent with a number of other government cost responsibility studies. The Texas report makes it clear that life cycle highway infrastructure costs are primarily attributable to damages inflicted by trucks. Clearly, for every ton of freight shifted from rail to highway there is a substantial direct cost to the taxpayer. While we do not have the research, LRFA may save more taxpayer money than it costs.

The rail structure operated by regional and short line railroads is the economic backbone for much of rural America. Without these lines, communities lose manufacturing and agricultural transportation options. State transportation officials and agricultural industry representatives are keenly aware of branch line abandonment activity and have supported the preservation and growth of small railroads. Among other ramifications of rail abandonment is the costly increase in the use of, and the resulting wear and tear on, rural roads, from increased truck traffic used to transport farm commodities greater distances.

Small railroads play a vital role in supplying farm communities with raw materials and in the marketing of the products of rural and agricultural areas. Forty-five percent of all grain transported moves by rail. Farm products are among the principle commodities hauled by local railroads. Without rail, the harvest could not be moved efficiently to the American table or to foreign markets. Regional railroads also include lumber and wood products among the top commodities they transport. In addition, rail holds the key to attracting new manufacturing in a world economy where communication makes industrial geographic dispersal increasingly possible.

Rural America has suffered a decline that has been accelerated by government policy, or to be frank, by the lack of a policy. Transportation companies have divested in rural America because business and capital have not been there to support the infrastructure. In other areas involving basic infrastructure, such as electric and highways, Congress has addressed the needs of rural America. Unfortunately, the existing Federal Transportation policy and Federal funding drives traffic off the railroads and onto the highways.

As stated earlier, most of the rail mileage operated by the new entrepreneurs was excess to the needs of the Class I railroads. In most instances, that line suffered years of neglect because it could not make a return based on Class I economics. It was on the slippery slope to abandonment, and was saved only by sale to a new operator. In fact, deteriorated track condition is perhaps the largest obstacle to the long term financial viability of many regional shortline and regional carriers.

Today, there is a serious gap between the infrastructure investment need and the availability of private capital for small railroads. How large is this gap? In 1989, the Federal Railroad Administration (FRA) released a report to Congress entitled "Deferred Maintenance and Delayed Capital Improvements on Class II and Class III Railroads." That report indicates the local and regional railroads' deferred maintenance amounts to $452 million. More recently, the FRA issued a report to Congress, "Small Railroad Investment Goals and Financial Options." This report reflected a similar shortfall of $440 million in investment capital for small railroads' track rehabilitation needs. The RRA believes these figures are much too low. The reason is, the reports estimated the need based on existing track speeds. In many instances, speeds are as low as 10 miles per hour. To be competitive in this intermodal age, track speeds should be increased to 25 or even 40 miles per hour. We believe it should be a national goal to improve the competitiveness of the local and regional rail network.

No one knows for sure the scope of the need for railroad infrastructure financing. Last year, states submitted valid proposals for about $40 million, against an Appropriations ceiling of $17 million. A survey performed several years ago by The American Association of State Highway Transportation Officials (AASHTO) estimated need for funding for acquisition and rehabilitation amounting to $1.3 billion. RRA believes the FRA should conduct a new "needs" survey based on the Principles for Federal Infrastructure Investment—Executive Order issued January 23, 1994.

RRA endorses Chairman Exon's bill, S. 1942, which would reauthorize the program at $30 million per year for 3 years. We believe this would generate a significant state and private match.

Further, we believe this Committee should seriously consider Senator Pressler's Bill, S. 731, which proposes $100 million per year for 4 years for LRFA and would make available Section 511 Loan Guarantees and would reinvigorate the program.

LABOR PROTECTION AND SMALL RAILROADS

There is no question that RRA, the Short Line Association and the AAR—on the one hand and Rail Labor on the other—have had significant differences on the imposition of Labor Protection on Line Sales. We are strongly opposed to Representative Bernard Sanders' (I-VT) bill, H.R. 3866, that would end ICC discretion and mandate six years of severance pay and fringe benefits to railroad employees. According to the AAR, these payments have cost the railroad industry $6 billion since 1985 and often equates to between $300,000-$400,000 per employee. No other industry in America is forced to shoulder this mandated expense.

Chairman Exon, as you suggested at the RRA Annual Meeting on April 23, RRA is prepared to discuss these issues in an attempt to reach a consensus resolution outside the halls of Congress. I am the RRA point person for that effort. I can pledge to you that we will make a good faith effort to reach a resolution on the line sale question that will be fair to both sides. Any solution must preserve our right to risk private capital to preserve and improve rail service.

Possibly because of the Labor Protection disagreements, the RRA has sometimes been accused of being anti-union. This is not true. As a general matter, we are more heavily unionized than other small businesses across America. Twenty-five percent of RRA's 130 members are unionized. Eighty-four percent of our members with more than 50 employees are unionized, including my railroad, the Chicago SouthShore & South Bend. Our membership feels ft is time for rail labor and the entrepreneurs of the RRA to come behind a federal program to create an industry that is adding employees through business growth in today's fiercely competitive freight transport environment.

While we attempt to resolve those issues that separate us, we feel Rail Labor and management should work together for those programs that benefit both, such as LRFA. In fact, as you will recall, last summer during the extensive Midwest flooding, Rail Labor and RRA worked hand and glove together to secure an additional appropriation for LRFA to address the flood emergency. Together, we were successful, and an additional $22 million was appropriated to help meet the overwhelming needs of small Midwest railroads.

Federal policies that led to the decline of railroads include decades of overregulation and an enormous infusion of federal dollars to build infrastructure for the truck and barge competition to the railroad industry. Public ownership and maintenance of highways and waterways, combined with inadequate user charges on those transportation modes, created hidden subsidies that have resulted in a declining role for the railroad industry in the National Transportation System.

This is also a hearing on Amtrak Reauthorization. Huge infrastructure investment in public airports and the federal air traffic control system have benefited air travel while Amtrak has struggled to survive. Freight and passenger infrastructure issues are connected. While Amtrak operates over few of our Member roads, RRA believes it is time to provide Amtrak with a certain and adequate source of capital and operational funding. The rail commuter, intercity passenger, and freight lines of this country comprise a "Green Map" that can make a major contribution our national environmental, energy conservation, and transportation goals. The time is here to develop a comprehensive surface transportation program as a part of the NTS, which should include a reexamination of the huge subsidies given the truck and barge modes.

A long journey begins with a single step. That first step should be the reauthorization of LRFA. This important program has always had strong bi-partisan support in Congress. We thank you Mr. Chairman, for the introduction of S. 1942 which will continue this vital program. In the final analysis it is the only program available to correct deferred maintenance conditions which regional and shortline inherited from the major carriers.

On behalf of Regional Railroads of America, I would like to express our appreciation to the Chairman and the Subcommittee for the opportunity to present our views today, and I am prepared to respond to any questions the Subcommittee may have.

Senator EXON. Thank you, Ms. Saylor.

STATEMENT OF ALICE C. SAYLOR, VICE PRESIDENT AND GENERAL COUNSEL, AMERICAN SHORT LINE RAILROAD ASSOCIATION, REPRESENTING THE REGIONAL RAILROADS OF AMERICA

Ms. SAYLOR. Thank you, Mr. Chairman. I am here to represent Bill Loftus, who is president of the American Short Line Railroad Association. He would greatly prefer to be here personally, but today is the spring meeting of our board of directors this morning, and he was therefore unable to attend.

The subcommittee has been given copies of Mr. Loftus' statement which has been made, I understand, a part of the record. His statement also incorporates a joint statement by Mr. Dick Bertel and Mr. Gil Gillette, the principal stockholders and officers of the Nebraska Central Railroad, in addition to other short line railroad properties. And I would request that that statement also be admitted to the record.

Senator EXON. Without objection, that is so ordered.

Ms. SAYLOR. I will briefly summarize both of those statements.

First and foremost, the 411 members of the Short Line Association are deeply appreciative of the support and leadership that you, Mr. Chairman, have always shown in continuing the Local Rail Freight Assistance Program. The program, as Mr. Gilbertson said, is modest in terms of the dollars involved, but very high in impact in the preservation of rail service throughout the country.

As Administrator Molitoris referred to, in 1993 the LRFA program demonstrated its value and also its flexibility when Congress used that mechanism to direct $21 million in emergency flood assistance to small railroads in the Midwest. Congress also gave LRFA funding its high mark last year with $17 million, which was the largest appropriation since 1983. These funds are needed. The Federal Railroad Administration has requests totaling $41 million for LRFA funding for 51 track rehabilitation projects on light-density lines right now.

The Nebraska Central Railroad is an outstanding example of the value of short-line operators. In its first year it has increased employment, gained new traffic, and begun a track and bridge rehabilitation program. Mr. Bertel and Mr. Gillette note in their statement that a serious bridge problem on that line will require expenditures of $1.2 million over the next 3 years.

On the issue of impact of light-density line sales on railroad employment, we see the preservation of railroad lines and rail service as a real benefit to communities, shippers, and railroad workers. We estimate that there are presently 26,000 railroad jobs on short-line and regional railroads, many of which could well have been lost to abandonment, but instead they have been saved by light-density line sales to short-line and regional operators.

To impose labor protection costs on the sale of light-density lines would be a serious step backward. In our view, the proposal embodied in House bill 3866, the Sanders amendment, would effectively end the sale of light-density lines to short lines and regional operators and would return the system to a time when abandonment of rail lines was the only economic solution available.

In summary, Mr. Chairman, the American Short Line Railroad Association respectfully urges your support for the reauthorization of local rail freight assistance. We are willing to cooperate fully in any study of labor protection in railroad line sales if Congress believes that a study is warranted.

Thank you.

[The prepared statement of Mr. Loftus follows:]

PREPARED STATEMENT OF WILLIAM E. LOFTUS, PRESIDENT, THE AMERICAN SHORT LINE RAILROAD ASSOCIATION

Mr. Chairman, I am William E. Loftus, President of The American Short Line Railroad Association and I appreciate the opportunity to present the views of our member railroads in support of S. 1942, a bill to provide funding for the Local Rail Freight Assistance Program. ASLRA member railroads include short line and regional carriers in every section of the country and vary widely, both in size and operations. The majority of our members are Class III railroads under the classification system used by the Interstate Commerce Commission.

We are particularly grateful to you Mr. Chairman, and your colleague Senator Harkins for your sponsorship of legislation to continue this important program. The growth and success of the feeder line rail system throughout the country is closely tied to the foresight and consistent support of this Subcommittee and your counterpart Subcommittee in the House, which is chaired by Representative Al Swift of the State of Washington.

The Local Rail Freight Assistance Program has provided more than $190 million in grants to short line and regional railroads for rehabilitation of track and bridge structures. In most instances, the assistance has been provided in the early stages of a railroad's startup operation, soon after acquisition from a major Class I railroad. This is the critical time when a new operator has to deal effectively with the problem of deferred track and bridge maintenance, acquisition of locomotive power, rebuilding a traffic base that had lost customers to other modes and paying the debt from loans used to acquire the line.

Track and bridge rehabilitation is the critical path item in the success equation of a new railroad operation because the new owner cannot hope to get operating costs under control if he or she has to perform daily track maintenance just to keep the line open. Customers need and deserve reliable pickup and delivery times and derailment free transit of their carloads. Once the line is rehabilitated to the standard necessary for the type and level of traffic on the line, the owner/operator can devote more time to marketing and development of new customers in order to diversify the traffic base and maintain a cost effective rail service.

The success rate of the short line and regional railroad entrepreneur has been outstanding. Again, Local Rail Freight Assistance grants and the funds generated from state and shipper sources by the LRFA matching requirements has played an essential role in this success story.

Beginning in 1976, when Congress first authorized the Local Rail Freight Service program in order to continue rail service over thousands of miles of lines that were to be abandoned in the restructuring of the northeast and midwest bankrupt rail system, through to today the failure rate has been very low. In fact, a 1989 study by the Federal Railroad Administration set the bankruptcy experience at one percent.

Short line railroads have served various sections of the country since before 1900 The current growth cycle began in the late 70's, but began its greatest surge with the passage of the Staggers Act in 1980. The numbers since 1980 are truly outstanding.

263 new short line and regional railroads were created since 1980 and almost everyone is in operation today.

29,658 railroad route miles were saved from abandonment.

26,000 railroad jobs were preserved by new short line and regional railroad operations.

Thousands of small communities and small shippers, particularly in rural areas have rail service today and their markets remain competitive throughout the country, in some instances the world, because they are integrated into the national rail network by the short line and regional railroad feeder system.

The essential service aspect of these feeder lines was demonstrated dramatically last year in the flood disaster in the Missouri and Mississippi River Valleys. Large and small railroads were out of service for days, weeks, even a month in one instance. To not restore service on these lines would have impaired and in some cases destroyed the economic base of the communities and regions served.

The ability of the small railroads to recover and restore service was totally dependent upon the funds provided by Congress through the structure and delivery mechanism of the Local Rail Freight Assistance program.

The Federal Railroad Administration distributed $21 million in appropriated flood relief funds to 27 railroads, 25 of which were short line and regional carriers. Gateway Western, the most seriously impacted regional carrier, was finally able to restore its full service route in January, after making major repairs to two bridges and miles of washed out trackage. All other lines were up and running before the end of the year.

Fiscal Year 1994 also marked the high level mark for LRFA funding. The $17 million appropriated was the largest amount since 1983. According to FRA reports, 31 states applied for LRFA funds in FY 1994, seeking a total of $41 million for 51 projects. The requests were far in excess of the $15.3 million available for discretionary grants. FRA had allocated $1.7 million in entitlement funds to the states for rail planning purposes, which in itself is a valuable aspect of this program.

The program requires at least a 30 percent match in non Federal funds for track and bridge rehabilitation projects and a 50 percent match for acquisition or rail facility construction purposes. In all, we expect the $15.3 million spent this year to generate at least another $6 to $8 million in matching funds, since some of the projects receive as high as 55 percent matching from private sector sources.

Our member railroads feel strongly that the public earns a high return on the funds its provides through this modest program. In terms of Federal programs it is extremely small in dollars but high in impact on local rail service, and that impact occurs in almost every state.

I am pleased to offer as part of my statement, the joint statement of Mr. Richard D. Bertel and Mr. Gilbert A. Gillette, who are the principal stockholders and officers of the Rio Grande Pacific Corporation. Their company owns and operates three Class III railroads in five states, operating more than 700 route miles, with more than 100 employees and moving approximately 70,000 revenue carloads per year

One of their subsidiary properties is the Nebraska Central Railroad, a former Union Pacific property that transports about 30,000 to 40,000 thousand carloads of Nebraska corn destined for California for Pacific Rim export and, as a result of NAFTA, to the Mexican market. This line is also the access route to the Chicago & North Western's northern Nebraska route commonly known as the "Cowboy Line."

The Nebraska Central story is typical. In its first year of operation it has increased on-line originating traffic by 20 percent over former UP numbers. However, it must spend 40 percent of revenue on track maintenance and is faced with a $1.2 million to correct serious bridge problems over the next three years.

Both Mr. Bertel and Mr. Gillette have been able to use the benefits of the LRFA program to initiate service on lines they have operated and on lines of other operators for whom they have served as engineering and rail operations consultants. believe you will find their statement of great value in support of continuation of the Local Rail Freight Assistance Program.

Finally, I think it is appropriate to discuss the growth of short line railroads and the impact on railroad employment. The Subcommittee is aware of the labor protection issue as contained in the so-called Sanders Amendment, HR 3866. The bill would amend the Staggers Act to require the Interstate Commerce Commission to impose six year's of wage guarantees for every employee affected by the sale of a light density line approved under Section 10901 of the Interstate Commerce Act.

The costs inherent in the application of HR 3866 would without doubt effectively end the sale of light density lines to private operators and return the system to the time when the major carriers disinvested in these lines to the point where abandonment was the only realistic, economic solution. Our Association believes the current system offers adequate protection of the employees' interests.

The light density line sale program has benefited the railroad workforce significantly. We estimate that 26,000 railroad jobs have been preserved by line sales which would otherwise have been lost along with the loss of rail service. These 26,000 employees pay railroad retirement taxes, to support the retirement system. Some of the larger properties have been organized, generally by a single labor organization rather than the multiple unions that represent employees on the large railroads.

In a typical line sale, the displaced employee has the ability to exercise his or her seniority in the parent company. In addition, many are covered by collective bargaining agreements that guarantee up to 80 percent of an employee's earnings in conjunction with railroad unemployment insurance. The short line operator seeks its employees for new jobs on the new railroad from among the workers who had been employed formerly on the line.

The Nebraska Central Railroad acquisition is an example of what is typical in a line sale under Section 10901. The Nebraska Central today employs 30 employees compared to the 15 that worked on the line during the Union Pacific's ownership. The increase is due to track and bridge work and new business. At the outset, Nebraska Central tried to hire trainmen and maintenance of way employees from the former UP work force, but none accepted. They bid on other positions on the UP.

From the perspective of the short line and regional railroads and the shippers and communities we serve, it would be a serious mistake to impose the labor protection conditions of HR 3866. The line sales program has had many more positive impacts for everyone, including shippers, communities and employees, than any short term dislocation in the workforce that may have occurred. We understand that the labor organizations may not agree, but if Congress is concerned that the line sales system has not dealt fairly with railroad workers, then we suggest an impartial study of labor protection in the railroad industry. Our member railroads would cooperate fully in such a study. Any study, however, should not delay action on the pending reauthorization of the Local Rail Freight Assistance Program.

In summary, Mr. Chairman, the restructuring of the American rail system into a core network and feeder line system has had enormous, economic benefits for every section of the country in the form of continued rail service, often at an increase in both the number of shippers and the amount of traffic coming back to the railroads. The Staggers Act and the policies of the Interstate Commerce Commission have been the foundation of these benefits. The Local Rail Freight Assistance Program has been an important factor in the growth and financial stability of the new short line and regional railroads. We respectfully urge your Subcommittee and the Congress to continue the LRFA program as provided for in S. 1942.

PREPARED STATEMENT OF RICHARD D. BERTEL AND GILBERT A. GILLETTE

My name is Richard D. Bertel, and I am the principal stockholder and Chairman of the Board of RIO GRANDE PACIFIC CORPORATION, Fort Worth, Texas. This is also the statement of Gilbert A. Gillette who is the other major stockholder and President of Rio Grande Pacific Corporation. Mr. Gillette serves as the President and Chief Operating Officer of the IDAHO NORTHERN and PACIFIC RAILROAD, a 300 mile regional railroad operation in Idaho and Oregon. Rio Grande Pacific Corporation was formed in 1986 for the purpose of providing professional civil engineering consulting services to emerging shortline and regional railroads and those who interact with these new operations. Additionally, the company was formed to acquire, own and operate a geographically and commodity diverse portfolio of small railroads for its own account.

Today, RGPC has three (3) wholly owned subsidiary railroads which own/operate some 700+ miles of Class III lines in five (5) states and handle approximately 70,000 revenue carloads per year with approximately 100 employees. Commodities are predominantly agricultural and forest products, and operations are almost exclusively rural in nature. A wide variety of infrastructures can be found today on!our roads from 60 lb. per yard rail manufactured in the 1880's to 133 lb. former secondary branches and mains. Hundreds of our bridges and drainage structures were designed in the early part of this century for loads much lighter than those encountered in today's operating environment. Today's loaded grain covered hopper car is nearly twice as heavy as the loaded grain box car used at the end of World War II, effectively doubling axle loadings on track and structures not originally designed for such use. Operations vary from FRA excepted track at 10 mph and below, up to and including high speed operation in signalled territory at speeds up to 70 mph. All lines have experienced significant deferred maintenance under former Class I stewardship, both in the track and structures.

Our highest volume subsidiary operation is the NEBRASKA CENTRAL RAILROAD COMPANY, which originates between 30-40,000 loaded cars per year of corn from northeast and central Nebraska. Most of this traffic is unit train traffic destined to California, Pacific Rim export and now, as a result of NAFTA, to Mexican destinations. The CNW, a major midwestern Class I railroad has trackage rights and operates over approximately 50 miles of the NCRC in order to serve a major steel mill (Nucor) at Norfolk, Nebraska. CNW also uses these trackage rights to access a 378 mile segment of CNW trackage traversing northern Nebraska commonly known as the "CNW Cowboy Line".

In addition to our direct operating properties, principals of our firm have been directly involved as primary operating and engineering consultants in shortline and regional startups for clients involving lines spun off by ATSF, BN, IC, SOO, SP and UP. These operations encompass thousands of additional miles in fourteen states.

Our sister firm, TRAX Engineering and Associates, Inc. has, since 1983, been heavily involved in the evaluation and appraisal of thousands of miles of light density railroads for shortline operators,' Class I railroads, financial institutions, shipper groups, venture capitalists, state and municipal transportation agencies and the federal government. In 1988, the firm was retained by the FRA in order to produce a congressionally mandated study entitled DEFERRED MAINTENANCE of Class II and III RAILROADS. This study included on-site evaluation of some 6,000 miles of Class II and III railroad lines in approximately 20 states for the purpose of assessing the level of deferred maintenance of track and structures on small railroads nationally. We have worked to assist numerous small railroads and state transportation agencies in their quest for public funding assistance for track and structures rehabilitation and are very familiar with the LRFA program as it has been administered in Texas, Oklahoma, Nebraska, Utah, Oregon and Indiana in recent years.

Today, we enthusiastically urge that the LRFA program be reauthorized or increased. In many cases, access to LRFA funds may be the only way available to overcome years of neglect by the previous Class I owner. Our experience has been that by providing aggressive and intense local management to a property such as Nebraska Central Railroad Company, traffic levels are increased. Originated carloads on the Nebraska Central Railroad Company are presently running nearly 20 percent (annually) ahead of the four year median traffic as handled by Union Pacific

Railroad prior to our acquisition. This experience is common to many of the new operations founded since the Staggers Act of 1980. While these success stories are repeated often, increased traffic tends to exacerbate the deferred maintenance problems left by the Class I's. On the Nebraska Central Railroad Company, we expect to spend nearly 40 percent of TOTAL REVENUES on normalized maintenance per year. Another ticking time bomb both for Nebraska Central Railroad Company and the industry is deferred maintenance on bridges, tunnels and other major structures. It is presently estimated that the NCRC has over $1.2 million in serious bridge repair which must be accomplished over the next three years alone. Without this level of rehabilitation, fixture service to major customers at Norfolk, Nebraska and beyond will be in serious jeopardy. Nationally, the repair of railroad bridges mirrors the problems with highway bridges. Many, many bridges and structures built during the 1930's and 40's are now beginning to reach or exceed their economic life. Replacement of a common timber trestle can range from $1,000.0() to $2,500.00 per linear foot. The average shortline railroad might be expected to have approximately one such structure per mile. The average length might be expected to be 100 feet in length. As you can see, this quickly represents a huge replacement cost and a potentially devastating contingent liability. We estimate that the replacement cost of bridges on the NCRC alone ranges between $30.0 and $47.5 million in 1994 dollars. We believe, that as a result, the proportion of Maintenance of Way dollars on all of our shortlines will increase in favor of bridges and structures over time relative to other trackage components and appurtenances. Engineering estimates also indicate that between $10.0 and $15.0 million ABOVE and BEYOND the normalized maintenance noted heretofore would be required to overcome the EXISTING deferred maintenance in cross ties, ballast and surfacing alone over the next 7-10 years. All of this for a regional some 250+ miles in length.

Like most endeavors, the magnitude of work required must be handled over time, and can best be accomplished with a multi-year approach aimed at the economics of gearing up for these projects. Often, rehabilitation of these lines requires very specialized equipment which is financially out of reach of a start up rail operator. The continued availability of the LRFA program would permit the efficient utilization of specialty railroad contractors and equipment which otherwise could not be financed or would not be available to many railroads. Likewise, the competitiveness of many of the communities served by NCRC (and its other shortline and regional brethren) depends upon the connection to the larger national transportation system provided by these aggressive new railroads.

We urge your vigorous support for the continuation of this important program.

Senator EXON. Ms. Saylor, thank you very much.

Dan Pickett, I want to welcome you here once again, and of course, Mr. Mahoney who is accompanying you. Unless my memory fails me completely, it seems to me Mr. Mahoney has been in this room over the years more than I have, which does not give him very much time to practice law. But we welcome you again, Mr. Mahoney. Would you please proceed, Mr. Pickett?

STATEMENT OF W.D. "DAN" PICKETT, VICE CHAIRMAN, RAILWAY LABOR EXECUTIVES' ASSOCIATION; ACCOMPANIED BY WILLIAM G. MAHONEY, COUNSEL, RAILWAY LABOR EXECUTIVES' ASSOCIATION

Mr. PICKETT. Thank you, Mr. Chairman. And as you said, my name is Dan Pickett. I am vice chairman of the Railway Labor Executives' Association I am also president of the Brotherhood of Railway Signalmen. And accompanying me today is our counsel, William G. Mahoney.

The Railway Labor Executives' Association 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 or better known as Amtrak. The RLEA represents 11 railway unions, a list of which appears in the full text of my statement which has already been submitted to the subcommittee.

Amtrak employs about 25,000 workers, of whom 90 percent 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 has 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 what the President has proposed. The actual ridership and revenues of Amtrak have fallen well below projections, due in part to a series of unfortunate and unforeseeable events such as ice storms and power problems caused by bad weather which forced power stations to cut supplies to Amtrak, ultimately forcing cutbacks in train service and in maintenance, and also employee furloughs.

The result of the bad weather and accidents was a marked reduction in the ridership completely unforeseeable when ridership and revenue projections were developed last year. We are here today urging that the subcommittee support authorizing funds for Amtrak at the following levels: $430 million for the operating costs, $337 million for capital; and $8 million for the 403(b) services. We also urge the subcommittee to fund the Northeast Corridor Improvement Project at $270 million to help implement a high-speed rail service between Boston and Washington, DC.

Although we realize that this subcommittee is concerned with achieving adequate funding levels for Amtrak, we want to bring to your attention specific items of interest regarding Amtrak funding. We were particularly pleased with President Clinton's proposed increase for capital funding. The administration's request for $252 million is $85 million more than Amtrak received in fiscal year 1994, and it is based on the realization that without a strong capital funding Amtrak simply cannot survive.

For many years, Amtrak has been shortchanging its capital improvement. This is because while Congress and this subcommittee have done their very best to support Amtrak the funding the railroad has received has simply not been enough to maintain operation and invest in capital.

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 today 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, the Federal Railroad Administration user fees and also the fuel tax. The Federal Government knows it will be receiving a certain amount each year from this railroad. It makes sense for the Government to establish a capital account to allow Amtrak to plan more than 1 year in advance.

We also feel strongly that there should be a statutory clarification requiring all entities that perform railroad work to be treated as a railroad. There are some who are escaping the contribution into the railroad unemployment and railroad retirement systems. Currently, some of these entities that contract to operate regional commuter rail service evade the obligations by classifying themselves as nonrailroads or intrastate railroads.

This has allowed these entities to escape requirements under all laws governing railroads, thereby creating an uneven playing field on which Amtrak and its workers have to compete. There are two consequences to this separate treatment: Workers who operate commuter rails for private commuter services do not receive the unemployment and retirement protection Congress intended to ensure railroad workers receive, and Amtrak is placed at a distinct competitive disadvantage since private operations can undercut Amtrak in labor costs.

This distinction ultimately hurts workers, denying them important employee benefits Congress intended railroad workers to receive. 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) system. 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 cost of running these services, 403(b) has provided Amtrak its greatest opportunity to expand service around the country. We support Amtrak in finding new ways to fund the 403(b) operation.

Railroad labor will be working with Amtrak, Congress, and with this administration for sustained investment in the rail passenger service.

One other issue I would like to briefly summarize is our position on S. 1942, the reauthorization of the Local Rail Freight Assistance Act. Rail labor opposes funding of this program as it is currently structured. Although rail labor is not opposed to the concept, to Federal subsidies, and loans to railroads, we are opposed to the manner that this act has worked in the past and is presently working.

A relatively recent trend within the railroad industry, a trend that parallels what is occurring in the trucking, in the air, and in the barge components of the transportation industry. We have seen vast growth in the short line industry. This growth is being used by railcarriers with the active support of Government agencies to break unions, lower wage rates, and circumvent legally mandated labor protections to employees adversely impacted by these short line sales.

What happens in these short-line sales is simple. A railcarrier creates a subsidiary or independent corporation that has never been a carrier. The railcarrier then sells or leases track to this newly created subsidiary or independent corporation. It applies to the Interstate Commerce Commission for permission to sell or lease, but ICC scrutiny of the transaction is exempted under section 10901 of the Interstate Commerce Act, refusing to impose protection for the employees.

The employees who worked on that track who would be eligible for such protections if the short line was purchased or leased to an existing carrier are out of work and just plain out of luck. A relative few may be hired by the new carrier with a reduced pay and benefits and no contract whatsoever for protection.

Many of these newly created carriers are undercapitalized, but have received substantial funding under the Local Rail Freight Assistance Act. Today, class I carriers are leasing their branch lines under conditions that ensure they keep all the traffic. Simply stated, they are contracting out their branch line work. Those short lines receive assistance under this program; therefore subsidizing the class I carriers.

The only way that we can support the Local Rail Freight Assistance Act is if it were to be amended to as to guarantee Federal subsidies will not be used to subsidize class I railroads and that the employees who are now paying for short lines with their economic lives are protected. We note that the administration is recommending zero funding for the Local Rail Freight Assistance Act. We concur with that recommendation, unless these defects are removed. Congress should not be subsidizing class I carriers directly or indirectly.

I thank you for the opportunity to be here, and we will take any questions you might have.

[The prepared statement of Mr. Pickett follows:]

PREPARED STATEMENT OF W.D. "DAN" PICKETT

My name is W. D. "Dan" Pickett and I am Vice Chairman of the Railway Labor Executives' Association and President of the Brotherhood of Railroad Signalmen. Accompanying me today is our Counsel, William G. Mahoney.

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 percent 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 and 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.

Senator EXON. Mr. Pickett, thank you very much. We will take a look at your suggestions on LRFA. I think it is a program that must continue. But, let me ask you a question, Mr. Pickett, then I just have a couple of questions for the other two witnesses, and then we will leave the record open for written questions to which I will ask you to respond as quickly as you can for completion of the record.

Mr. Pickett, in view of the new majority on the Interstate Commerce Commission and the authority that it has, in your opinion, could the ICC address some of the labor issues related to short-line sales?

Mr. PICKETT. Yes, it could.

Senator EXON. I think it could and should, and maybe begin to solve, or at least address the concerns which you and others from organized labor have voiced for some time.

Let me turn to the other two members of the panel. First, is safety a significant issue with the small railroads?

Mr. GILBERTSON. Senator, safety is a critical issue in the railroad business. Safety is really a paramount consideration. Railroads are a heavy industry that involve some movement of hazardous materials. It is a critical, critical issue. It has to be.

Senator EXON. Has the Hazardous Materials Transportation Act and other legislation we have passed been helpful in this regard?

Mr. GILBERTSON. The various agencies are in the process of promulgating regulations that affect this issue, and it has been an issue that the industry is addressing. The result of the regulations is not clear yet but it is something that is being increasingly addressed, I think it would be fair to say.

Senator EXON. Ms. Saylor, maybe you could take a crack at this: Do you feel that LRFA could benefit small and regional railroads in helping to resolve issues such as shortage of supply in rail grain cars, an issue that was addressed by the ICC in a hearing in Omaha on Monday of this week?

Ms. SAYLOR. Mr. Chairman, I was in Omaha, and I have been thinking about that question since you posed it at the opening of this hearing. At least as far as I have been able to think through so far, I am not sure that I see a direct connection. Although of course if you are meeting some of the capital needs that might free up some other moneys, that might have an impact, but I have not seen a direct connection between the Local Rail Freight Assistance Program and the problems of grain car supply.

Senator EXON. Would you care to expand on this at all, since you were at the conference in Omaha, as to what if anything was accomplished there?

Ms. SAYLOR. I think there was a very valuable exchange of points of view. I think it was very positive to have all the parties in the same room talking openly. And I very much applaud the Commission for holding that conference.

Senator EXON. Ladies and gentlemen, thank you very much. We will have some additional questions for the record.

As usual, let me close by thanking you for your patience. It is very valuable testimony on very interesting and important matters which we are discussing, and we appreciate and thank you again for your input.

And with that, we are adjourned.

[Whereupon, at 12:40 p.m., the hearing was adjourned.]

APPENDIX

PREPARED STATEMENT OF WALTER J. SHEA, PRESIDENT, TRANSPORTATION TRADES DEPARTMENT, AFL–CIO

My name is Walter J. Shea, president of the Transportation Trades Department, AFL-CIO ("TTD"), which represents 29 unions in the airline, automotive, railroad, transit, trucking and related industries. Attached please find a list of TTD's affiliated labor organizations.

It is a pleasure to communicate to this Subcommittee the views of transportation labor on the issue of reauthorizing investment programs for America's national passenger railroad—Amtrak.

We believe the time has come to address the serious long-term funding deficiencies that plague Amtrak's rail network to ensure we preserve this vital national asset. The absence of meaningful increases in funding will result in continued deterioration of service and the threat of thousands of lost jobs in all crafts.

CRITICAL PERIOD IN AMTRAK HISTORY

Passenger rail in this country, and specifically Amtrak, has reached a critical stage in its history. The vision which led to Amtrak's creation was based on the well founded idea that passenger rail has always and will always play a vital role in our transportation system and in the health of our economy.

Not only does Amtrak tie together large cities with small towns, major urban centers with rural communities, it provides the nation's only high speed surface transportation system for business and leisure travelers. But perhaps most important, Amtrak has provided a cost-effective means of travel for Americans who, through no fault of their own, have lost transportation choices due to reckless deregulation policies in the airline and bus industries. We believe the government has a duty to the taxpayers of this country to not only support a viable rail passenger system, but also to protect the public investment.

Today, the United States, unlike our foreign competitors, continues to grapple with his duty as our transportation infrastructure travels down a dangerous path of decay and neglect. A strong case has been and continues to be made for increasing federal investment in Amtrak, as our national passenger railroad has suffered during the past decade due to diminishing resources at a time of rising costs and new demands for service and physical plant overhaul.

GAO REPORT SOUNDS ALARM

Kenneth Mead director of transportation issues for the General Accounting Office, reports that "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."

Mead also states that for Amtrak to maintain a viable national passenger network while improving the bottom line, it will require "substantial operating and capital funding." As Congress begins to make long-term funding decisions regarding the future of Amtrak, Mead concludes, "federal and state support will need to be commensurate with the assigned task."

Unfortunately, the result of Amtrak's inadequate federal resources—a point enforced by GAO's findings—has been a "band-aid" approach to managing a national passenger rail network. The nation has suffered as have the employees of Amtrak who have been forced to earn significantly less than their counterparts on the freight railroads while enduring through an era of hostile management, an era I'm happy to report should he behind us.

This Subcommittee knows all too well that the budget environment we are in today will require the expression of a forceful, well reasoned argument in support of the proposition that increased investment in Amtrak represents sound transportation and investment policy. TTD and its affiliates are pleased to have the opportunity to be a party to that dialogue, particularly since this Subcommittee will lead the debate over establishing reasonable authorized spending levels that allow Amtrak to meet its growing financial needs.

SUPPORT IN WHITE HOUSE

It is important to point out that transportation labor is pleased we have a President and Transportation Secretary who believe in the need to support our transportation system in general and passenger rail specifically. The President's overall transportation budget request for FY93, for example, while troublesome in certain select areas, is evidence of the President's commitment. Clearly, the Administration understands the financial problems Amtrak faces, the underlying reasons behind the problems, and where the solutions lie.

It is also important, however, as we address the issue of transportation spending programs that we place the discussion in an international context. While America struggles to find an adequate funding stream for Amtrak commensurate with the high expectations Congress and the nation place on our national passenger railroad, our foreign competitors recognize the need to move persons and goods faster and more efficiently than their competitors. That also must be America's vision as our economy continues to adjust to the massive onslaught of global competition.

In our view Amtrak in the near term provides the only legitimate foundation on which to develop and build an intercity and interstate U.S. high speed rail network envisioned by this Subcommittee and by President Bill Clinton and Transportation Secretary Federico Peña. The President has articulated that vision but to date adequate funding continues to evade it.

While the vision is well evolved America will continue to fall short of the mark in terms of building a world-class passenger rail system unless we find the will to fund Amtrak at levels a vast majority of Congress recognize is more than justified, particulariy when one looks at the alternative: unmitigated congestion throughout our transportation system, poorly funded capital needs, elimination and reduction in train service and associated job loss, and deferral of maintenance and overhaul, and new equipment purchases. We must begin today to address how to best avoid the unenviable task of trying to deal with this problem when it reaches crisis proportions, a period I must say is fast approaching. Amtrak reauthorization legislation holds the key to allocating adequate federal resources to improve Amtrak's financial state, stabilize thousands of jobs, and provide Amtrak management the financial support needed for longer range planning.

It must be noted that if it were not for the leadership and vision of this Subcommittee and a large majority of Congress, Amtrak would not exist today due to repeated attempts—misguided, I might add—to eliminate federal funding of vital Amtrak operating and capital programs. These investments support the national Amtrak network and thousands of good jobs at a time when new, long-term job opportunities continue to elude the unemployed and underemployed in this country.

Transportation labor has a longstanding and well supported position that any legitimate national transportation investment program must include a strong passenger rail component—both intercity and long distance.

DISMISSING THE "SUBSIDY-FREE" MYTH

Unfortunately, there are those who believe passenger rail service can be provided free from federal subsidy. But this Subcommittee knows that such a propsition is removed from the experience both here and abroad. It has been reported that the German government has put the final touches on approving a $5.2 billion construction project to build a Transrapid high speed train system between Hamburg and Berlin, which will support some 10,000 jobs.

In the longer term, Germany plans to invest over $47 billion to fiilly integrate the Western and Eastern Germany rail systems, and the key European nations collectively are planning to integrate their rail systems with the infusion of $100 billion in new investment.

Other individual countries—France, Switzerland, Great Britain, Belgium, Netherlands, Japan and others—are spending billions of dollars in capital and operating investments to increase capacity, upgrade their passenger rail systems, and introduce state-of-the-art higher speed trains. America must also find a way to seize these opportunities and it is our view that the Amtrak system provides the foundation on which newer, faster train service can (and should) be introduced.

To fully tap Amtrak's potential, however, there must be a new mind-set in Washington and throughout America that the notion of a subsidy-free passenger rail system is not only a myth, but in fact during the 1980s became a euphemism for privatizing publicly supported transportation services.

Not only does Amtrak lack the necessary resources, it often is forced to play a game that eventually catches up with any business enterprise: deferring until tomorrow what should be done today. Service and employee morale have suffered, as has Amtrak's ability to build its passenger base in the face of service reductions and constandy deteriorating travel conditions on those parts of the system that have most suffered such as long-distance train service.

As Amtrak Chairman Tom Downs explains, the railroad's equipment and facilities are depreciating at the rate of $250 million per year. Over the past decade, depreciation has exceeded investment by almost $600 million. Any business analyst will tell you that this spells disastrous consequences unless we find a way to reverse the trend.

In the face of repeated attacks on Amtrak's very existence over the years, Congress has provided funding to address the need for physical plant improvements, equipment purchases, and locomotive/passenger car overhaul. And with mounting budgetary pressures, Congress has stood strong during its more than two-decade commitment to federally support a national passenger rail system. The nation as a whole has benefited tremendously from that unyielding conviction but much more will be needed.

REAUTHORIZATION OF AMTRAK PROGRAMS

It is important to point out that TTD and its affiliated unions are pieased with the Clinton Administration's decision to restore government confidence in transportation investments. The President's budget request for Amtrak and other impoant transportation programs reflects a genuine commitment to reversing the dangerous trends established during the past decade during which efforts were undertaken to literally destroy Amtrak as we know it and turn it over to private operators motivated by private profit rather than the public interest.

Amtrak has faced an extremely difficult and tumultuous budgetary environment for the past several years that has resulted more than once in the enactment of a supplemental appropriation of federal funds to help deal with significant revenue shortfalls. Unfortunately, while Congress has recognized Amtrak's dire needs and has acted swiffly to avert crippling problems, those efforts have not avoided the furlough of workers and today leave the railroad understaffed and neglected in several areas.

To address these problems with a long-term funding plan we believe the Subcommittee must consider increasing the authorization for Amtrak programs in some key areas. We might add that Amtrak's authorization requests represent a well reasoned approach to stabilizing our nation passenger railroad. Specifically, from our perspective the Amtrak reauthorization legislation must include the following:

- *Operating Assistance*. Operating assistance is critical to curing Amtrak's serious financial ailments. This program will help to handle day-to-day operating expenses, to recall workers on furlough due to deferred shop craft work and reduced on-board staffing levels, and to cover the costs of equipment overhaul work which recently has been paid for with the use of capital monies. Congress must authorize funds sufficient to continue operating quality and efficient service.
- *Northeast Corridor Improvement Project (NECIP)*. NECIP represents America's only true high speed rail corridor, serving the needs of over 110 million commuter and intercity passengers. Congress has long recognized NECIP as a critical transportation corridor serving the Washington, D.C. to Boston, Mass. markets. The President's FY95 request (Il percent below FY94 levels), however, falls short of meeting needs such as infrastructure improvements, trainset acquisitions and the electrification project scheduled to begin construction this fall. We would urge the Subcommittee to authorize funding at a level commensurate with the importance of the development, maintenance and expansion of this vital corridor.
- *Capital Grants*. Due to the many problems already discussed in this testimony it is evident that Amtrak is in need of overall increases in federal capital support to meet basic capital expenses created by daily operations, to purchase passenger equipment, and to meet the expenses resulting from new federal mandates. The President's budget request reflects this view and we would urge the Subcommittee to ensure Amtrak receives the funds it needs in this investment program to offer the highest return on investment.
- *Leveling the Playing Field*. It is important for Congress to address the serious economic disadvantage faced by Amtrak and its employees because of the heavily unbalanced playing field on which Amtrak and its workers must compete with those entities (pnvate contract commuter operators, for example) which today escape obligations to employees by evading responsibilities under Railroad Retirement, Railroad Unemployment and other important railroad statutes. This inequity results in

two senous adverse effects: first, those workers employed by such exempt entities are denied adequate retirement and unemployment benefits that Congress has always intended for rail workers; and second, Amtrak is placed at a competitive disadvantage during the bidding process as those private bidders have lower costs due to their avoidance of their obligations to employees. It also increases the cost to Amtrak and its employees of their contributions to the railroad retirement and unemployment systems while threatening the continued integrity of these systems by narrowing their revenue bases. We therefore call for the leveling of the playing field with the enactment of a provision to address this inequitable disparity.

FINAL OBSERVATIONS

A final point to be considered is the fresh attitude and perspective new Amtrak Chairman Tom Downs brings to the job. For too many years the employees of Amtrak have been forced to work in unacceptable conditions while inheriting a disproportionate share of the burden and sacrifice to keep Amtrak afloat.

Mr. Downs speaks about the need to change Amtrak's "corporate culture." But he also recognizes that achieving new levels of excellence will require a new relationship with the employees and their unions. We share in Mr. Downs' enthusiasm and optinism, and we hope to help him fulfill his vision for Amtrak and the nation.

As Amtrak proceeds with its own internal management audit, Congress faces some critical decisions in the next few years as efforts to bring down the federal deficit are weighed against the need to invest in America's transportation infrastructure needs. President Clinton has committed himself to achieving legitimate deficit reduction without sacrificing the short- and long-term needs of our economy and transportation system.

It is no secret that in its history Amtrak has teetered on the edge of insolvency. But it is a majority of Congress that continues to make a policy statement that investment in Amtrak is good transportation policy and good public policy. GAO has confirmed that the status quo will not suffice.

As this Subcommittee—and, in fact, the entire Congress—crafts an Amtrak reauthorization bill that best addresses America's needs, it is important to consider the fact that there is not a single major economic power in the international community that as a matter of policy does not consider public investment in a safe, efficient and reliable passenger rail system vital to that nation's economic well being.

The American people deserve an Amtrak network which measures up to that same standard. Increases in authorized spending levels for Amtrak investment programs would represent a major first step.

On behalf of transportation labor, I thank the Subcommittee for providing us the opportunity to express our views.

LETTER FROM WALTER J. SHEA, PRESIDENT, TRANSPORTATION TRADES DEPARTMENT, AFL–CIO

APRIL 13, 1994.

The Honorable J. JAMES EXON,
U.S. Senate,
Washington, DC 20510

DEAR CHAIRMAN EXON: On behalf of transportation labor, I am writing to express our opposition to S. 1942, which seeks to authorize federal spending programs for Local Rail Freight Assistance, due to the continuing absence of a legislative provision to protect those employees adversely affected by short line spinoffs. Attached please find a list of the affiliated unions of the Transportation Trades Department, AFL-CIO (TTD).

At the outset it is important to note that the views of transportation labor concermng federal investment in this program are supported by the Clinton Administration which requested zero funding for Local Rail Freight Assistance in its FY95 transportation budget. We applaud the Administration for recognizing the problems with this short line subsidy program as it is currently structured.

Our nation's transportation industry and its several million working men and women have witnessed a period of great economic havoc inspired in part by an ill advised regulatory regime which started with the deregulation of the airline industry in 1977. During this period major employers were destroyed, massive megamergers and consolidations were consummated with little or no responsible government oversight, hundreds of thousands of good jobs were wiped out, and in each of the modes established companies pursued a strategy of creating non-union, low-wage operations, or in the vernacular, "double-breasted" entities.

In the railroad industry, deregulation inspired the spinoff of short line railroads, the result of which has been the creation of a splintered and financially unstable segment of the rail network, the abandonment of hundreds of communities and the displacement of tens of thousands of workers forced to accept substandard working conditions on these so-called "new entities"—that is, if they were lucky enough to secure a job. Moreover, the problem of undercapitalization which plagues most short lines has had adverse effects on safety and stability of service.

As we are witnessing in the motor carrier less-than-truckload ("LTL") sector, major carriers continue to invest in non-union double-breasted operations, often to compete with their own unionized, existing operations. This has been a destructive trend, both for the industry and its employees. Unfortunately, we are also seeing the airline industry consider similar strategic approaches that are having the same net effect for workers.

The short line phenomenon in the rail industry is much the same, as it is weU known that these spinoffs are nothing more than paper transactions structured to capture cheap wages, abrogate union contracts and circumvent employees' statutory rights. Furthermore, the new short line operators remain captive tQ the major carriers for business and thus, for all practical purposes remain an integral part of the rail system still owned and operated by the selling carrier. Meanwhile, the employees who have been lucky enough to secure jobs find themselves earning lower wages and receiving substandard health care and other benefits.

Local Rail Freight Assistance is essentially a government subsidy program to promote and encourage this trend. We believe logic and sound public policy principles disqualify local rail freight assistance as a legitimate government investment program. It makes little sense to invest taxpayers' dollars in railroad spinoffs that, due to the economics in the industry, face (together with their employees) uncertain futures in the event of unanticipated economic downturns such as the most recent prolonged recession.

This industry trend has left employees in a state of desperation as they witness the disappearance of their employer only to learn that their "new" job will be at the same place, but performing many additional duties without contract protection, and at a lower rate of pay with fewer benefits. We do not believe the federal government should invest in enterprises that in effect claim good jobs, erode standards of living, and have the net effect of abrogating existing collective bargaining agreements.

It is no secret that the short line program was inspired, created and expanded in total disregard of the interests of railroad employees who bear the full burden of whatever benefits their employers realized from that program. But whether or not a particular short line sale benefits the carriers involved, in every case the workers suffer. That is why members of Congress are considering legislation to close a loophole in the Interstate Commerce Act through which railcarriers have exploited the low wage, non-umon opportunities provided by the present short line program. At the very least, before our government again commits itself to subsidize this economic injury to railroad employees from short line transactions, Congress must consider protecting the interests of the affected employees in the same manner as it has expressly protected those interests in other provisions of the Interstate Commerce Act.

Our nation's transportation industry and its employees are at a crossroads. We have seen destructive regulatory policies literally dismember once-thriving companies. Across all modes these policies have claimed more than a half-million jobs and have raised serious public policy questions that are particularly relevant as this Subcommittee considers S. 1942.

The short line rail sector today accounts for almost 25 percent of U.S. trackage, up from six percent two decades ago. On Class I railroads, trackage has declined 26 percent while employment has plummeted nearly 50 percent. This trend alone should alarm Congress enough to want to re-think the present regulatory regime. One industry observer, quoted in the Winter 1993 edition of University of Toledo Law Review, describes the short line phenomenon as follows:

> The railroad industry, built over many decades by constant consolidation and merger, suddenly seems to be scattering itseff like confetti across the country. Increasingly, the industry may be evolving into a handful of giant crossountry railroads-the railroading equivalent of interstate highways-augmented by small or regional lines that are mostly spinoffs of the big ones.

We believe it is time to have a serious debate over the policies that have given rise to what we view as a dangerous trend that has led to an expedited contraction of our rail network and a significant downward trend both in job opportunities and in the earning power of those fortunate enough to still be employed in this industry. S. 1942 as written only perpetuates the myth that short lines are new, job-creating entities as it would allow railcarriers to continue using this federally-supported program to replace their unionized employees with low-wage, non-union workers.

We urge this Subcommittee to reject the authorization of spending programs for Local Rail Freight Assistance unless Congress takes the necessary legislative action to protect the interests of workers adversely affected by short line transactions.

Thank you for your consideration of our views.

Sincerely,

WALTER J. SHEA,
President.

PREPARED STATEMENT OF DARREL RENSINK, DIRECTOR, IOWA DEPARTMENT OF TRANSPORTATION

Mr. Chairman, my name is Darrel Rensink, and I am Director of the Iowa Department of Transportation. Today I am representing The American Association of State Highway and Transportation Officials (AASHTO) in my capacity as Chairman of the National Conference of State Railway Officials (NCSRO), which is also AASHTO's Standing Committee on Railways. I appreciate the opportunity to express our views on the reauthorization of the Local Rail Freight Assistance LRFA) program.

I serve as Director of a department of transportation in a state that has helped develop and depends on the operation of short line railroads. Additionally, I chair a committee representing the rail needs of virtually every state in the nation. In that capacity, I would like to voice NCSRO's full support of S. 1942. Our members have been intimately involved with the planning, development, and funding of branchline and short line railroad needs under LRFA for many years. We have continually pressed for multi-year funding at the authorized level before the various committees of Congress, and with the officials of the U.S. Department of Transportation.

We continue to support this important program for a number of reasons:

- *Preservation of Feeder Rail Network*—LRFA funding is intended for the preservation and improvement of low density rail lines. These lines comprise thousands of miles and form the feeder system that moves much of the nation's freight to market. The problems this program is designed to address have not been eliminated. A further weakening of the feeder system will put more freight on an overburdened highway system, and continue to cause dislocations of shippers and disruption of economies throughout the United States. Class I railroads continue to eliminate low density lines which they cannot operate profitably. When purchased or leased by shortline or regional railroads and improved, these same lines can become profitable. Most importantly, service is generally improved and competitive prices to shippers are preserved.
- *Improvement in Railroad Safety*—Over the last five years, small railroads have continued to experience track-related derailments at a much higher rate than Class I railroads. A principle reason is that carriers generally defer maintenance on branch lines that they are going to sell or abandon. Investment in improved track condition is the most efficient means of increasing railroad safety.
- *Continued Economic Benefits*—Small railroads employ people, serve shippers, hire contractors and buy supplies, the same as any small business. Many small businesses have difficulty securing financing for acquisition or capital improvements and small railroads clearly are no different. The LRFA program has helped to fill this gap and thus preserve the important economic benefits to the communities and people that depend on railroad transportation.

If I might use my home state as an example, LRFA funding has been crucial to the preservation of the transportation system. While the rail system is a vital component of the transportation of agricultural commodities throughout the nation, it is particularly important in the Midwest. Iowa has spent $35M through this federal program to repair rail trackage, and the need for this program continues.

The state of Iowa has participated in contracts totaling $148M since 1974. This has been used to rehabilitate and improve nearly 1700 miles of rail trackage. These contracts were partnerships between the federal government, state government, railroads and shippers. In addition to the $35M in LRFA funds, the State contributed $27M, shippers and users contributed $40M, and the railroads participated with $46M. Much of the state and federal participation has been in the form of loans, which has allowed us to improve additional lines.

Iowa's need for continuing LRFA funding is parallel to the national experience. The Federal Railroad Administration (FRA) has noted that many thousands of miles of light density lines may have to be sold or abandoned in the next few years. The

FRA has also determined that total rehabilitation needs for existing Class II and Class III railroads could exceed $452M beyond their own available funding.

In closing, this program must continue moving forward if we are to properly address the full transportation needs of states and communities and to give business and industry the ability to compete in domestic and world markets. AASHTO believes that continued authorization and funding for this program will enhance the efficient movement of goods by more fully utilizing the rail mode in accordance with the National Transportation Policy and existing federal legislation.

We are pleased this Committee has provided leadership on this vital rail funding issue and I want to thank you again for the opportunity to express our opinion. If you or the committee have any questions, we would be pleased to give you a very prompt response.

PREPARED STATEMENT OF ROBERT A. SCARDELLETTI, INTERNATIONAL PRESIDENT, TRANSPORTATION COMMUNICATIONS INTERNATIONAL UNION, AFL–CIO—MAY 10, 1994

I am the International President of the Transportation Communications International Union, AFL-CIO ("TCU"), which represents approximately 135,000 active and retired employees in the railroad industry in the United States and Canada. These include carmen, patrolmen, supervisors, clerks and other employees. On behalf of TCU and rail labor, I appreciate the opportunity to clarify our views with regard to S. 1942, a bill to renew funding for the Local Rail Freight Assistance Program.

Last month, when you received statements and testimony from representatives of rail carriers and rail labor in regard to S. 1942, you also heard reference made to a bill pending in the House of Representatives, H.R. 3866 (the "Sanders Amendment"). H.R. 3866 would amend the Interstate Commerce Act ("the Act")[1] to provide protection for employees who are displaced when carriers spin off parts of their rail lines to allegedly "new" carriers and thereby eliminate statutory obligations to employees. On behalf of rail labor, the Railway Labor Executives' Association ("RLEA") registered objection to S. 1942 largely because it provides assistance to these newly minted, often undercapitalized, entities that are established precisely to take advantage of the a loophole in the Act that the Sanders Amendment attempts to close. TCU hereby supplements the RLEA's submission on S. 1942 to clarify the basis of rail labor's support for H.R. 3866 and to put this amendment in its proper context.

HISTORICAL BACKGROUND OF LABOR PROTECTION

Rail lines have been the subject of sale, abandonment, lease, merger and other forms of transfer since early in this century. These transfers often adversely affect rail employees, who suffer the outright loss of jobs or the reduction of income or benefits as they are displaced to inferior positions. For decades, Congress has recognized that unless these transactions are regulated, they will unduly penalize employees and cause disruption in an industry whose stability is critical to the public interest. Consequently, Congress has long provided employees affected by rail consolidations, abandonments and sales a certain amount of protection from the havoc that these changes would otherwise wreak on their livelihoods.

These protections are incorporated into Section 11343 of the Interstate Commerce Act, which empowers the Interstate Commerce Commission (the "ICC" or "Commission") to approve and authorize transactions that transfer control from one carrier to another. Transactions subject to Section 11343 will be approved by the Commission only if they are "consistent with the public interest,"[2] and if the carriers provide a fair arrangement to protect the interests of employees affected by the transaction.[3] Section 11343 transactions are thus subject to mandatory employee protections.[4]

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[1] 49 U.S.C. § 10101, et seq., as amended.

[2] 49 U.S.C. § 11344(c).

[3] 49 U.S.C. § 11347.

[4] For example, the "New York Dock" protections provide for both procedural guarantees and compensatory benefits. Procedurally, a carrier contemplating a transaction that may affect its employees must give notice of the intended transaction and must negotiate an "implementing arrangement" to apply protective benefits to the specific transaction involved and to determine a method for the selection and assignment of employees to perform the work required by the transaction. If the parties cannot reach agreement on the implementing arrangement, their dis-

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For many decades, until relatively recently, labor protective benefits were a fact of life—and a cost of doing business—in the rail industry. Labor protective provisions resulted in decades of labor peace during a period of intense rail consolidation because they allowed rail carriers to engage in their desired transfers while at the same time protecting the adversely affected employees.

EROSION OF LABOR PROTECTION

The balance shifted, however, in the deregulation fervor of the 1980's. The ICC determined to spur economic activity in the rail industry by "deregulating" the carriers' obligations to provide labor protection for their employees. For this purpose, they utilized Section 10901, a provision in the Act that concerns the construction of extensions and additions to railroad lines, or the operation of such lines.[5] Although this provision on its face applies to "[a] rail carrier providing transportation subject to the jurisdiction" of the Commission, the ICC strained to interpret the statutory language entirely out of that context. Instead, the Commission applied Section 10901 to new entities that were created to acquire and operate a particular existing rail line and thus become carriers under the Act. These Section 10901 transactions further differed from Section 11343 transactions in that labor protection under Section 10901 was not mandatory, but instead was made discretionary with the Commission.[6]

Under the Commission's tortured reading of Section 10901, the short rail lines that operated as feeders to the larger carriers or served a small geographic area—lines known as "short lines," branch lines or "limited density lines"—could be transferred by a carrier to an allegedly new, non-carrier entity. This "new" company would then apply for exemption from the labor protection that would be mandatory if such lines were transferred to an existing carrier. And in the name of competition, the Commission was more than willing to exercise its authority to exempt such transactions from regulation. Indeed, in 1985, the ICC announced its intention not to impose employee protections in sales of rail lines to non-carriers except in the "extraordinary case" or the "exceptional showing."[7] Since then, the Commission has failed to find exceptional circumstances in any contested Section 10901 case.

The ICC thus gave Section 10901 an expansive reading, applied it in contexts never contemplated by Congress, and virtually immunized Section 10901 transactions from labor protection. In this process, the Commission opened a loophole in the statutory scheme that carriers quickly exploited. Existing carriers, or their holding companies, simply create "independent" subsidiaries that are presented to the Commission as "new" carriers. Other existing carriers then sell a short line to the "new" entity. The company buying the lines thus avoids the obligation to assume the employees or their collective bargaining agreements from the selling carrier. And the selling carrier benefits from this transaction by avoiding the payment of the labor protection that would be required for affected employees if the line were sold directly to another existing carrier. In addition, the selling carrier retains the benefit of the traffic along the lines, which often feeds onto rails they continue to operate. The only party that loses in these transactions is the affected employee. Thus the effect, as well as the intent, of these Section 10901 transactions is purely to avoid the labor protections Congress established to maintain fairness and stability in the rail industry.[8]

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pute must be submitted to arbitration. In addition, any employee who is placed in a worse position with respect to compensation or benefits is to be made whole for a protective period of up to six years.

[5] Section 10901 provides in pertinent part as follows: A rail carrier providing transportation subject to the jurisdiction of the Interstate Commerce Commission * * * may (1) construct an extension to any of its railroad lines; (2) construct an additional railroad line; (3) acquire or operate an extended or additional railroad line; or (4) provide transportation over, or by means of, an extended or additional railroad line; only if the Commission finds that the present or future public convenience and necessity require or permit the construction or acquisition (or both) and operation of the railroad line. 49 U.S.C. § 10901(a).

[6] 49 U.S.C. § 10901(e).

[7] Ex Parte No. 392 (Sub No. 1), Class Exemption for the Acquisition and Operation of Rail Lines Under 49 U.S.C. 10901, 1 I.C.C. 2d 810 (1985), aff'd sub nom. *Illinois Commerce Commission* v. *I.C.C.*, 817 F.2d 145 (D.C. Cir. 1987) (table).

[8] The recent case of *Railway Labor Executives' Association* v. *I.C.C.*, 999 F.2d 574 (D.C. Cir. 1993), illustrates the transparency of these transactions. In that case an existing carrier (Southern Railway) applied to the Commission for approval under Section 11343 to lease a short stretch of track to another carrier (the North Carolina and Virginia Railway, a subsidiary of RailTex). Before the Commission could act on the application, the carriers withdrew it, advising the Commission of "a possible restructuring of the transaction." Id. at 576. RailTex then formed a new subsidiary (the Chesapeake and Albemarle Railroad) to enter into an identical lease with Southern and to seek approval of the transaction under Section 10901 on the basis that the

THE CURRENT STATE OF LABOR PROTECTION

As a result of these sham transactions, many thousands of jobs have been lost, and the affected employees deprived of the protection that Congress intended to provide for them.[9] True, the "new" entity may hire some of the employees—but usually at sharply reduced wages and without the benefit of a collective bargaining representative or contract. And some of the affected employees may exercise their seniority to bid onto remaining jobs on the original carrier. However, this only bumps the adverse effect onto the more junior employee who has to pay the price of the displacement.

Some of the Commissioners of the ICC, as well as some of the courts, have recognized that Section 10901 transactions have become little more than charades concocted to rid existing carriers of the labor costs associated with certain lines while preserving to them the benefits of the traffic associated with those lines. Former Commissioner Lamboley has consistently identified and lamented this phenomenon in his dissents from the Section 10901 cases that proliferated after 1985. For example, he noted that

> The Commission's consistent refusal to impose labor protection in connection with [Section 10901] class exemption procedures provides ample and continued inducement for carriers to utilize such transactions as a vehicle to remedy, and more recently to avoid, labor relations issues and contractual obligations.[10]

He also accurately described the statutory subversion that has resulted:

> [Section 10901) procedures * * * have been utilized to avoid or abrogate legitimate collective bargaining agreements and statutory requirements of the Railway Labor Act, without procedural and substantive accommodation of the respective policies and interests in each Act.[11]

More recently, the United States Court of Appeals for the Seventh Circuit acknowledged that through its new-found Section 10901 exemption procedures, the Commission has "fostered the creation of new, unregulated short-line railroads to take over lines formerly operated by regulated railroads." *Fox Valley & Western Limited* v. *ICC,* 15 F.3d 641, 644 (7th Cir. 1994). A proposed short line transfer, according to the court, was "functionally, practically, and therefore (by a small further step) legally the same" as a Section 11343 transaction (requiring mandatory labor protection). And the distinction that the carriers were exploiting was "hypertechnical." The only difference, of course—and the reason for all the maneuvering—is the avoidance of labor costs. As the Court of Appeals for the District of Columbia Circuit recently noted, however, Congress' intent in regulating rail transactions was not "merely to transfer wealth from employees to their employer." *Railway Labor Executives' Association* v. *United States,* 987 F.2d 806, 815 (D.C. Cir. 1993). Yet that is precisely the effect of the Section 10901 procedures as they have evolved in the Commission.

THE PROPOSAL TO RESTORE THE STATUTORY INTENT

Congress is presently considering a bill to restore its original intent to provide some degree of protection to rail employees who are dismissed or displaced by rail transactions of the kind now masquerading as exempt transactions. H.R. 3866 would amend Section 10901 to provide labor protections as a matter of statutory mandate rather than Commission discretion.

Some may contend that the Commission, as newly constituted, will exercise its discretion more rationally in analyzing proposed Section 10901 transactions so that the proposed legislative response is unnecessary. Yet it was less than a decade ago that the Commission "tied its hands by declaring that it will not impose labor pro-

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C&A was a "new carrier." Although RailTex did not acknowledge that this transparent maneuver was for the purpose of evading the labor protections that would be imposed in the initial transaction, it came very close by acknowledging that its purpose was "to avoid the unusual administrative delay associated with approval of section 11343 transactions." Id.

The Commission, in its discretion, found that the carrier did not intend (impermissibly) to evade Section 11343's labor protections; it only intended (permissibly) to evade Section 11343's delays. On the basis of that distinction, the Commission approved the transaction and, as always in Section 10901 cases, declined to impose labor protections.

[9] Through this device, the number of miles of line that have been transferred to new short line railroads increased dramatically in the 1980's. In 1988 the Association of American Railroads estimated that in the previous five years 16,000 miles of rail line were transferred to 169 short line operators. Statistics of Regional and Local Railroads at 60 (Washington, D.C 1988).

[10] Wisconsin Central Ltd.—Exemption Acquisition and Operation—Certain Lines of Soo Line Railroad Company, F.D. No. 31102 (Nov. 17, 1988) (dissenting expression).

[11] Montana Rail Link, Inc.—Exemption Acquisition and Operation—Certain Lines of Burlington Northern Railroad Company F.D. No. 31089 (July 19, 1988) (dissenting expression).

tection in section 10901 cases unless there are exceptional circumstances."[12] Conceivably, the ICC may now decide to find exceptional circumstances more reasonably. Or the Commission may decide to reconsider its position in Section 10901 cases and determine to impose labor protections unless there are exceptional circumstances. Or the Commission may, as even the previous Commission did on one occasion, "engage in some fancy footwork" to bring a transaction under Section 11343 rather than under Section 10901 to ensure that labor protections apply.[13] Although any of these scenarios is possible, none is assured.

The critical matter of rail labor policy as contemplated by Congress cannot be left subject to the winds of administrative change without jeopardizing the stability that Congress deemed to be in the public interest. Plainly, there remains the potential for abuse of Congress' intent if the Section 10901 loophole is not statutorily foreclosed. For that reason, H.R. 3866 would amend Section 10901 to make it parallel with Section 11343 in requiring labor protective arrangements to accompany any transfer of a rail line—regardless of whether the new operator is an existing carrier, a "non-carrier," or a new affiliate of an existing carrier. Through this amendment, Congress can restore the balance of interests that it originally intended.

QUESTIONS ASKED BY SENATOR EXON AND ANSWERS THERETO BY MR. SCARDELLETTI

FUNDING

Question. If Amtrak is funded for FY 1995 to the level proposed by the Administration, what will be the effect on members of rail labor unions?

Answer. TCU believes strongly that a nationwide rail passenger system is vital to our country and that Amtrak has been a success despite long-term inadequate investment. While TCU salutes President Clinton's clear commitment to Amtrak and rail passenger service, we feel that funding for Amtrak should be increased from the level proposed by the Administration to the level recommended by Amtrak.

Previous, inadequate investment has left Amtrak with deteriorating and ill-maintained equipment, a skeletal route system with insufficient frequencies of train service, and poor staffing on many trains and in stations. It is time to address long-term funding deficiencies to put Amtrak on track to become a first-rate rail passenger system that America can be proud of.

TCU members working at Amtrak are committed to making it the best and most productive rail passenger service in the world. They expect to be compensated fairly and treated fairly, to work under safe conditions, and to have reasonable expectations of job security. TCU wants to work with management to make Amtrak a service-focused, productive, high-performance company. But we have a long way to go. Our members have grown weary of threats to their livelihoods and of apologizing to passengers for poorly maintained equipment, late trains, and countless other ills caused by deteriorating plant and equipment.

Management's attempts to make-do with fewer overhauls of equipment led to lay-offs of TCU-represented carmen in 1992. A reduction in train frequencies and closures of stations in late 1993 resulted in lay-offs of TCU ticket agents and on board service employees. Passenger complaints and strained employee morale attest to woefully inadequate staffing at many locations. Overall employment levels have remained stable only due to Amtrak's operation of commuter trains in California, Massachusetts and elsewhere.

TCU fears a downward spiral of deteriorating service, decay and job cuts unless a turnaround begins soon. The President's budget request reflects his commitment to Amtrak, but more is needed. For more than twenty years, the United States Congress has recognized Amtrak's vital role in America's transportation network, defending it from the naysayers and those who would have killed it altogether. Amtrak's success is more important today than ever, and it has also become clear that Amtrak is key to the future development of high speed rail service in our country.

It is for these reasons that TCU urges Congress to improve upon the funding level proposed by the Administration.

SAFETY

Question. In light of the importance of rail safety not only to passengers but also to Amtrak employees, how does RLEA evaluate the current level of cooperation between labor and management in this regard?

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[12] *Fox Valley,* supra, 15 F.3d at 645.
[13] Fox Valley, supra, 15 F.3d at 644.

Answer. TCU local officers and members participate in many safety programs and committees throughout the Amtrak system. Our members—from carmen to train directors to on-board train attendants—play critical roles in making Amtrak safe for passengers and workers.

TCU believes, however, that more can be done to make traveling on Amtrak safer. A centrally coordinated, joint labor-management safety program could give needed direction to the many scattered local efforts. Operation Redblock, a successful jointly run program to combat alcohol and drug use, provides a model.

TCU is disappointed, for example, that there has been no ongoing discussion between labor and management of on-train emergency evacuation procedures. A labor-management Task Force had been established pursuant to the provisions of Public Law 102-533, the Amtrak Authorization and Development Act, to make recommendations for improvement in Amtrak's emergency response training. Since the Task Force report to Congress on May 28, 1993, however, TCU has received no further communication from Amtrak on this important matter. The proposal by TCU and other union representatives that the Task Force reconvene periodically to evaluate progress in emergency evacuation procedures and training was not agreed to by Amtrak management.

Most of the tragic accidents which have attracted public attention are not the fault of Amtrak. However, the more commonplace injuries incurred by passengers and employees are often the result of deteriorating plant and equipment and improper maintenance. Ankles twisted on uneven platforms, splinters from ancient baggage carts, and injuries to workers in decrepit maintenance shops are daily occurrences.

The inadequate repair and maintenance workforces contribute greatly to these safety hazards. Deferred maintenance jeopardizes public safety, and equipment that is not well kept is a tremendous deterrent to increased ridership and public confidence. Inadequate training, and funding cutbacks have caused a temptation on the part of Amtrak to have non-qualified persons perform work they are not trained to do.

This temptation to use non-qualified help seriously jeopardizes the integrity and safety aspects of the mechanical fleet which, in our opinion, creates extreme potential hazardous conditions, and seriously places the employees and the traveling public in jeopardy.

The rail industry, not unlike the construction trades, was built on a craft basis. The entire industry, freight and passenger, has historically operated along craft lines. Employees are trained according to those lines. The temptation to utilize other employees creates an atmosphere that ignores the unique training skills and qualifications of the respective crafts.

Extensive long-term apprentice programs exist to develop skilled craftsmen, each specialized in a particular trade. A practice that would ignore the increasingly complex technology in the industry and the diverse skills necessary for the different craftsmen in the shop creates serious safety concerns. The skills pursued by each craft employee are not interchangeable.

Amtrak has a special need to maintain a high level of quality and expertise in maintaining its equipment. Amtrak's primary customer is the traveling public. Cross-utilization seriously jeopardizes public safety by compromising the unique skills and expertise that are currently built into the mechanical craft and class demarcations. The question of public safety is foremost. The use of shop craft employees to perform tasks outside their craft lines, beyond the scope of their training, is not in the best interests of the employees or the public that we serve.

There are numerous recent examples that clearly demonstrate the dangers of allowing non-qualified employees to perform work they are neither equipped or trained to do. One which comes to mind was an incident involving a sheet metal supervisor who was instructed to hook up air lines between locomotives at Amtrak's Union Station in Washington, D.C. This work is normally performed by the carmen craft.

In this case, the supervisor, apparently not knowing the intricacies of the work, failed to open air valves and further failed to perform a proper air test. The result was a locomotive engineer, operating the engine North on the Northeast corridor, discovered he had no brakes and was unable to stop his locomotive, resulting in a collision with another train and causing severe injuries to personnel and damage to equipment. Hundreds of thousands of dollars were lost, not to mention the injuries sustained by personnel.

Amtrak is currently running more than 400 cars that are 30 to 50 years old. A recent report by the National Institute for Occupational Safety and Health about injuries to on board employees in sleeping cars identified inadequate maintenance as a primary problem (NIOSH Health Hazard Evaluation Report, HETA 93-0531-

2410, March, 1994). And a recent General Accounting Office study decried the inadequate maintenance of Amtrak rolling stock and recommended the establishment of minimum safety standards for passenger cars (GAO, Amtrak Safety: Amtrak Should Implement Minimum Safety Standards for Passenger Cars, September, 1993).

The continuing deterioration of some stations and the inability to relocate stations to safer locales has coincided with a significant increase of violent crime at Amtrak facilities. We know of one effort in Southern California where local TCU representatives, managers and Amtrak police formed a task force to recommend preventive efforts and education for employees. Again, we believe that both greater capital investment and a system wide labor-management safety and security program are sorely needed.

Inadequate staffing on the trains also poses serious dangers. Not long ago, a regular Amtrak rider wrote that "This bright idea of one attendant for two cars may be cost-effective, but it is a major inconvenience for the passenger and is extremely dangerous. Twice I have personally shut a coach door after the train had left a station. Both times the train was already traveling in excess of 40 mph and there was not an attendant there to shut the door * * * Someone is going to get killed." TCU shares that passenger's foreboding.

EMPLOYMENT NEGOTIATIONS

Question. In RLEA's view what are the major issues to be discussed in the upcoming employment negotiations in 1995 with Amtrak?

Answer. It would be inappropriate, and it is certainly premature, for TCU to discuss particulars for the next round of collective bargaining with Amtrak. By its nature, collective bargaining is a dynamic, give-and-take process that cannot be summarized before it has begun. TCU is currently surveying its members on Amtrak to determine their priorities and expectations. Neither TCU nor Amtrak management has served bargaining notices to the other party.

We do know that our members expect reasonable wage increases. Amtrak wages lag far behind wages for similar work on major commuter systems. Until the last wage contract, they trailed freight wages by a large margin as well. This wage penalty for working on Amtrak leads to the anomalous and unproductive situation of Amtrak spending money to train employees, only to have them immediately leave for better paying jobs on commuter and freight railroads. And because of the layoffs in recent years, job security concerns have heightened among many of our members.

Our members also wish to avoid repetition of the 1988-1991 wage negotiation impasse. By any measure, productivity by Amtrak employees had never been higher, but Amtrak management was then confrontational, resulting in three years with no new contract. Labor relations were at their lowest ebb during that period. However, in 1991 and 1992 contracts were reached which were overwhelmingly approved by TCU members. Those contracts have provided stability in labor-management relations and continued productivity gains and allowed Amtrak managers to focus more on issues of quality customer service.

COMMUTER OPERATIONS

Question. How has the designation of certain commuter rail operators as non-railroad or intrastate operators affected rail-labor employment and railroad retirement system?

Answer. The continued health of the Railroad Retirement system is one of TCU's priorities. The Railroad Retirement system, like the Social Security system, is financed on a pay-as-you-go basis rather than on an advance funding basis. Therefore, TCU is concerned with declining levels of employment in the railroad industry and any other development which could narrow the revenue base of the Retirement system, including the contracting out of railroad work and the designation of rail commuter operations as "non-railroad."

A recent example is a situation now developing within the commuter segment of the rail industry that could have far reaching effects on the stability of the Railroad Retirement Trust Fund. Herzog Transit Services, Inc., (HTSI) currently operates the TriCounty Commuter Rail Authority in Florida. The Railroad Retirement Board previously found this operation not to be a covered entity under the applicable tax act. However, we understand that questions are now being raised relative to the common control aspects of this operation with a recognized rail carrier. TCU has requested the Board to reconsider their previous finding and rule that HTSI is a covered entity.

In addition, it is most disturbing that HTSI is now seeking to branch out and is actively bidding for other commuter rail operations including the North County

Transit District in San Diego, California. HTSI is claiming to potential clients, that they are exempt from Railroad Retirement Tax Laws under any circumstance and can therefore operate commuter operations much cheaper than other operators such as Amtrak. We certainly question whether HTSI has this "automatic" exemption and whether the employees who are actually performing rail service should be considered not covered under Railroad Retirement, just because HTSI manages a particular operation. This situation is of very great concern to all of Rail Labor due to the potential for serious damage to the Railroad Retirement Trust Fund.

As you know, Amtrak has become the nation's leader in operating commuter rail service under contract with local or regional authorities. Amtrak can tap the considerable experience and skill of its work force as well as parts of its infrastructure under utilized due to an infrequent number of intercity trains. A virtually seamless commuter-intercity rail transportation system can and should continue to be developed.

Amtrak's commuter operations' contracts also contribute to its overall revenue which mitigates many of the problems discussed above. And if it weren't for Amtrak's commuter operations, many Amtrak employees would not be working. Yet Amtrak is sometimes at a competitive disadvantage in bids to operate commuter services with entities who escape obligations to employees by evading Railroad Retirement employment taxes. Sometimes these competing firms provide no adequate retirement or pension plans for their employees. TCU joins with the RLEA in calling for the leveling of the playing field by correcting this inequity.

TCU has also submitted a proposal to the Commission on Railroad Retirement Reform to establish an alternative method of financing the Railroad Retirement system which would help eliminate incentives, especially in the freight railroad sector, to reduce jobs and contract out work. This alternative, which became known as the "pegged-payroll" method, would, in effect, have "frozen" railroad employment at 1989 levels for the purpose of assessing the Railroad Retirement taxes to be paid by railroad employers. Such a financing method would insure that the Retirement system would have a stable revenue base. This change would be most beneficial for railroads such as Amtrak which have and expect to have relatively stable or growing work forces.

LOCAL RAIL FREIGHT ASSISTANCE

Question. RLEA testified that grants issued pursuant to LRFA have been used to interfere with and break unions. Please elaborate more specifically as to how these funds undermine unions and what recommendations RLEA would make to rectify this problem.

Answer. This question has been thoroughly addressed in our testimony submitted to the committee on May 10, 1994.

SUPPLY OF GRAIN CARS

Question. The ICC recently held hearings in Omaha to discuss the shortage of rail grain cars for shippers during harvest season. Does RLEA feel LRFA can address the issue of enhancing public or private investments in the supply of grain cars?

Answer. TCU does not support the LRFA Program, nor do we believe that it is capable of making much of an impact in enhancing the supply of grain cars.

Prepared Statement of the New York State Department of Transportation

The New York State Department of Transportation submits the following testimony to Chairman Exon and the Subcommittee on Surface Transportation. We request that this statement be included as part of the record of hearings on reauthorization of Amtrak legislation conducted on April 13, 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 (S. 2002), 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 Administration's 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 will not allow adequate expansion to relieve current overcrowding.

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 more 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 50 percent of the 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 and legislate a 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 50 percent of the project cost.

PREPARED STATEMENT OF THE COALITION OF NORTHEASTERN GOVERNORS (CONEG)

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 rune 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 coal 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 planting 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 fee! 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, "High-Speed Ground Transportation: 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 iniand 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 (FFA). 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 rail 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 cntical 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.

PREPARED STATEMENT OF SECRETARY KIRK BROWN, ILLINOIS DEPARTMENT OF TRANSPORTATION

It is a pleasure to be able to submit testimony on behalf of the Illinois Department of Transportation (IDOT) before the Surface Transportation Subcommittee of the Senate Committee on Commerce, Science and Transportation. At this time, I would like to thank Chairman Exon and the members of the Subcommittee for their commitment to Illinois' transportation program.

Currently, Illinois, Alabama, New York, Pennsylvania, Missouri, Michigan, California, North Carolina and Wisconsin are involved in a participatory program with Amtrak to provide state-sponsored, supplemental rail passenger service in each state or between that state and an adjacent state. We understand that a number of other states have discussed such service with Amtrak. This program, set up under Section 403(b) of the Intercity Rail Passenger Services Act of 1970, was designated by Congress to allow a state or locality to supplement the Amtrak basic system of national routes with added services under a cost-sharing arrangement with Amtrak.

Some state-sponsored/403(b) services were dropped over the years, as travel patterns changed or as Amtrak revised its cost-sharing percentages, but many trains have run continuously since Amtrak's first year of operation. for example, the Illinois Zephyr, which serves Chicago, Naperville, Macomb, Quincy and other smaller towns, is thought to be the nation's first and longest running 403(b) train. It provides essential intercity transportation in a corridor without interstate highways or air service, serving historic western Illinois, a major state university and four community colleges. It connects the city of Chicago and its booming western suburbs to regional centers in western Illinois.

Examining this train can shed light on some of the issues surrounding the 403(b) program today. In fY 1993, the Illinois Zephyr cost $2.98 million to run, seven days a week. Revenues from the train's 82,225 riders that year total led $2.10 million. As a result, the train's cost-recovery ratio, the percent of costs recovered from the farebox, was 70.4 percent, which approaches Amtrak's national average. The state of Illinois' share of the $880,000 deficit was $574,000 or 65 percent. Amtrak paid the remaining 35 percent of the deficit.

Most important, however, is the fact that through a partnership with the state, Amtrak provided 82,225 people with badly-needed intercity transportation at a cost to the federal government of $309,000 or less than $3.76 per rider. Amtrak and the state have jointly supported this valuable service for over 20 years. Because of this cost-sharing partnership, Amtrak's risk of downturns in the travel market leading to increased subsidy needs, for example, were limited to only 35 percent of deficits because the state of Illinois was there to share the risk. That is what is vital about the 403(b) program: a partnership, a sharing of risk, an attitude of "Let's do together what neither could do separately." An example from Illinois' 16 daily 403(b) trains demonstrates another aspect of this risk sharing, and the depth of the 403(b) partnership. A long-running train called the Illini connects Carbondale, home of Southern Illinois University. and Champaign/Urbana, home of the University of Illinois, to Chicago. Until 1986, the Illini existed as a morning train to Chicago, and an afternoon train back south and was quite successful. On the same corridor were two basic system trains, the city of New Orleans, also oriented in a morning-northbound and evening- southbound schedule, and the Shawnee, which served the opposite schedule.

In early 1986, however, Amtrak was forced to discontinue the least profitable trains to reduce its deficit. In that regard, the morning- southbound Shawnee was very weak, although the afternoon-northbound leg was popular. Meanwhile, the morning-northbound Illini had been severely weakened by a change in the city of New Orleans' schedule which put it through Champaign earlier than the Illini. Business travelers, especially, liked the earlier arrival in Chicago, and they diverted from the 403(b) Illini to the city of New Orleans in large numbers. This increased the state's subsidy sharply.

Amtrak's proposal to the state recognized our joint weaknesses and strengths, however, by suggesting that the Shawnee and Illini be merged into one train, with the two weak legs cancel led. The new train would be called the Illini and still be a 403(b) train. Amtrak then could cut the losses associated not just with the weak half of the Shawnee but also their 35 percent share of the deficit on the weak half of the Illini. The state would benefit as well, reducing its subsidy by concentrating the available passengers on one, better scheduled train. The results were as expected: Amtrak reduced its deficit, Illinois reduced its subsidy and, in fact, the Illini has been profitable ever since. This resulted in added funds for Amtrak which retains all profits from the operation of 403(b) trains.

The examples from these two trains—the Zephyr and the Illini—are just a portion of the state/Amtrak partnership. Joint marketing and advertising programs, joint station improvements (with the states heavily overmatching since Amtrak can rarely afford its normal 50 percent share), and large state investments in track improvements and modernization (over $40 million on the Chicago-St. Louis corridor alone since 1989) add value to Amtrak at low or no federal cost, attracting riders to basic system trains as well as 403(b) trains.

The 403(b) program has now reached an important turning point. On the positive side, many states are very desirous of establishing new 403(b) service given the greater recognition of the transportation benefits of intercity rail passenger service and the concomitant energy and environmental benefits and intercity intermodal efficiency. However, an attempt is being made to reduce Amtrak's overall deficit by altering the 403(b) cost-sharing arrangement. In the Amtrak reauthorization bill that was recently introduced (S. 2002), the share would be changed from a percentage of short-term avoidable costs to a percentage of long-term avoidable costs. This change will result in substantial cost increases to states that presently have 403(b) service and higher costs for any states planning to establish such service in the future.

In Illinois, as well as other states, the average cost increase would be approximately 40 percent under the proposed formula. However, the 40 percent increase in costs has an even more drastic effect on the subsidy a state must pay. The increase in costs causes a rise in the deficit, of which the state would be required to pay 65 percent. As a result, the amount of the state's share, the amount of funds it actually contributes, would be increased dramatically. The increase would amount to a huge 75 percent in the case of the Illinois Zephyr. This kind of increase could very well precipitate the elimination of existing 403(b) service as well as prohibit the establishment of new service.

Proponents of the change in the formula from a percentage of short-term avoidable costs to a percentage of long-term avoidable costs state that it is necessary to help cover long-term heavy maintenance and replacement of Amtrak equipment. However, states are already substantially contributing to these long-term costs. The states are charged for depreciation and interest on the equipment over and above sharing in regular operating losses.

The principle on which the 403(b) program was established, that the states would share with the federal government in the cost of this service, is a critical part of this program. At this important time, Illinois urges Congress to maintain the state share at 65 percent of short-term avoidable costs. In addition, a separate 403(b) appropriation would greatly help the states in their planning process.

There are ways to strengthen the 403(b) program. An increased state role in the decision-making and cost allocation process would better involve the participants in all aspects of the program. Illinois also feels that the development of performance standards to determine if a 403(b) train should be initiated or continued and also to determine if a 403(b) train should be absorbed into the basic Amtrak system is an important step in the evolution of the program. One standard that has been suggested is California's, which requires that a 403(b) train meet a 55 percent cost recovery ratio in order to continue operation. Other measures, such as avoidable loss per passenger mile or revenue/cost ratios above system averages, might also be used.

The 403(b) trains have been, and continue to be, an important transportation option for many travelers in Illinois and the nation. This is not the time to make changes that could reduce the availability of this service but rather a time to jointly explore opportunities to improve it. Thank you for the opportunity to submit this testimony.

Questions Asked by Senator Exon and Answers Thereto by Ms. Molitoris

AMTRAK AUTHORIZATION LEVELS

Question. What is the long-term future of Amtrak? What is the Federal funding requirement?

Answer. Amtrak is an important element of the Nation's intercity passenger transportation system. Its role is especially significant in the high-density corridors it serves, and it will have an important role in the operation of high speed rail technology. Amtrak has suffered from years of underinvestment in its plant and rolling stock. Efficiency and on-time performance have suffered. Revenue and ridership also suffered from the effects of the recent recession.

The Department has identified world class service as one of its primary objectives. Capital investment plus new levels of customer service from Amtrak are essential to reaching the goal of world class service.

In the foreseeable future, continued Federal assistance will be needed. In the Administration's authorization bill for Amtrak, we are contemplating a substantial increase in capital investment to help Amtrak.

Question. Does the Federal Railroad Administration (FRA) see the need for a dedicated source of long-term funding for Amtrak?

Answer. At this time, no legislation has been introduced in Congress for a dedicated source of long-term funding for Amtrak. A dedicated source of funding deserves consideration in the context of the Federal Government's treatment of financial assistance for all modes of transportation. The ability of FRA and Amtrak to plan for future improvement would be greatly enhanced by establishing a dedicated source of funding.

Question. How will this bill help Amtrak?

Answer. The Administration's Amtrak reauthorization bill has several features. It authorizes substantial capital investment to permit Amtrak to acquire modern equipment and facilities that will improve service and reduce maintenance and long-term operating costs. It changes the basis for the 403(b) state-requested rail passenger service program cost allocation formula from short-term to long-term avoidable loss, thus factoring in overhauls, and a portion of overhead. It, therefore, provides greater consistency in Amtrak's relationships with the states and with the same level of Federal funds provides additional opportunities for the startup of new services. The Administration's bill requests funding for the engineering, design and construction to upgrade the James A. Farley Post Office Building in New York City into a much-needed intercity and commuter facility. It also proposes that investments be reviewed through an annual report on the returns from capital spending in connection with past appropriations and future requests. It requires the Department to conduct a major analysis of the 403(b) program and submit recommendations for revising this program along with the next Amtrak reauthorization. It revises the Northeast Corridor Improvement Project authorization to focus on expenditure of funds to achieve reliable, high-speed rail service, enhance capacity, acquire equipment and mitigate environmental impacts.

403 (B)

Question. Please explain the Administration's proposed changes for section 403(b), state-assisted service.

Answer. The Administration is proposing changes that would facilitate the start-up of new 403(b) service. Because of subsidy limitations which are likely to continue, Amtrak has been unable to accommodate States' requests for new 403(b) service. We would create a separate authorization to pay for Amtrak's share of all 403(b) trains, and shift the basis for cost-sharing between Amtrak and the States from short-term to long-term avoidable loss so that there is more consistency among cost-sharing arrangements among the States. In effect, the lower Federal payment needed for each train would allow more services to be funded for the same amount of Federal funding. The Secretary would also be required to conduct a comprehensive review of the 403(b) program and report in two years to Congress on findings and recommendations. This review would address the question of whether and at what point a 403(b) service should become part of Amtrak's basic system.

SAFETY

Question. As Chairman of the Surface Transportation Subcommittee, safety on our nations' transportation system always has been one of my major concerns. How does FRA evaluate Amtrak's safety performance within the last two years and what could be done to enhance Amtrak's safety record for passengers and employees?

Answer. In 1992, Amtrak had the lowest accident rate (accidents per million train-miles) of all Class I railroads. In 1993, Amtrak had the second lowest accident rate.

In 1991 and 1992, the frequency of casualties per million passenger-miles on Amtrak was below the national average. In 1993, Amtrak was slightly above the national average (0.49 compared to .043.)

As a result of the September 22, 1993, Amtrak "Sunset Limited" accident at Mobile, Alabama, certain issues were raised during the post-accident followup meeting between FRA and Amtrak, relative to strengthening Amtrak's emergency preparedness and crash survivability of its passenger equipment.

An FRA task force was formed to address selected elements of emergency response/preparedness for passenger train accidents. Initial indications are that Amtrak's emergency notification procedures, on-board emergency equipment and procedures, and emergency training programs are acceptable.

Amtrak is in the process of issuing cellular telephones to on-board personnel. FRA recommended, and Amtrak concurred, that this process needed to be accelerated and that specific procedures be developed for their use in emergency situations.

Amtrak has accepted FRA recommendations to equip future passenger cars with strip lighting, and to improve signage indicating the location of fire extinguishers.

Amtrak has also agreed to expand its CPR training to ensure that at least one on-board employee is qualified.

NORTHEAST CORRIDOR IMPROVEMENT PROGRAM

Question. Is this a good use of Federal money? What are some of the benefits of this project?

Answer. Investment in the Northeast Corridor Improvement Program (NECIP) is a sound use of Federal funds for a number of reasons. In terms of increasing the capacity of the Northeast's transportation system, investment in the underutilized rail system is much more cost-effective than expanding existing highway and/or air facilities. Currently, Amtrak captures between 40 and 45 percent of the New York City-Washington air/rail market. Three-hour rail travel times between New York City and Boston, the goal of the current NECIP investment, should allow Amtrak to capture a similar proportion of this very large market.

The NECIP is expected to produce the following benefits:

- an annual incremental net revenue increase to Amtrak of between $35 and $50 million;
- travel time savings to existing commuter and intercity travelers valued at more than $110 million by 2010;
- capacity improvement which will allow a 20 percent increase in rail commuter patronage;
- a reduction in petroleum consumption in intercity passenger travel in the corridor of 9 percent from passenger switching to electrified rail operations from auto and air modes; and
- reduced air pollution from NEC intercity travel alone of between 4 percent (carbon monoxide) and 12 percent (nitrogen oxide).

Question. What are the principal findings in the Northeast Corridor Master Plan, and when will it be implemented?

Answer. The principal findings of the Plan are as follows: 1) three-hour service between Boston and New York is achievable if the improvements identified in the plan are implemented; 2) improved coordination among the agencies involved in implementing the plan will also be required regarding capital programming, maintenance and construction scheduling, bridge openings and train scheduling and operations; and 3) implementation of the plan will result in an improved financial performance for Amtrak and substantial benefits to the entire region, including commuter trip time savings, pollution abatement, and less need for airport and highway expansion.

Implementation of the plan will occur over the next 10-15 years as FRA, Amtrak, commuter operators, state departments of transportation, and freight railroads operating over the corridor coordinate budgets, construction schedules and train operations to insure the most efficient use of this most valuable transportation asset.

Question. How was the Northeast Corridor Master Plan put together? Which organizations were consulted?

Answer. The plan was put together in consultation with all organizations which sponsor or operate intercity, commuter and freight services on the Northeast Corridor between New York City and Boston. These organizations were first consulted regarding their plans for future service expansions and asked to identify projects which they believed would be necessary to meet expansion needs in the period through year 2010.

This information was analyzed to determine those improvements that are necessary to provide for 3-hour trip times between Boston and New York City and to accommodate the increased frequencies of commuter, freight and Amtrak service in the future. The results of this analysis were reviewed by these organizations and their comments were taken into account in developing the plan.

PENN STATIONIFARLEY BUILDING

Question. What benefits will be realized with a $90 million grant in fiscal year 1995 for the Farley Building Project and the Pennsylvania Redevelopment Project? Why is this grant amount necessary to realize these benefits?

Answer. The Pennsylvania Station and Farley Building project will create a first class intermodal passenger train station for Amtrak in New York City where 38 percent of Amtrak's customers either begin or end their trip. It will also make available additional space in the existing Penn Station when Amtrak vacates that space to accommodate growing commuter rail riders.

The three funding parties to this project would each provide approximately one-third of the cost, with a Federal commitment of $100 million, a State/City commitment of $100 million and an Amtrak/non-Federal share of $115 million. The $90 million grant will represent the balance of the Federal commitment, which includes the $10 million already appropriated in FY 1994.

Question. What is the status of the $10 million grant that FRA proposed making for the Farley Building Project?

Answer. On April 28, 1994, the Federal Railroad Administration (FRA) and Amtrak signed a $10 million grant agreement for the New York Pennsylvania Station Redevelopment Project. FRA will retain $1 million for the environmental analyses and to identify historical preservation requirements. The remaining $9 million will be used by Amtrak to initiate design and engineering leading to the development of documents necessary for project construction.

Question. How does FRA intend to secure financial commitments for Amtrak from local, State, and private sources for the Pennsylvania Station/Farley Building Project?

Answer. FRA is developing a Memorandum of Understanding which will indicate the roles and responsibilities of the parties and the intent of the parties to commit funds. Once more accurate cost information is available, a binding agreement of participation will be sought from all parties.

HIGH-SPEED TRAINSETS

Question. What is the status of Amtrak's procurement of the high-speed trainsets? What is FRA's involvement?

Answer. Amtrak will soon issue a formal request for proposals (RFP) to organizations pre-qualified for bidding on the trainsets. Contracts are expected to be issued this winter.

FRA has been working closely with Amtrak to ensure that the RFP specifications meet all the existing safety requirements as well as those that can reasonably be expected to be issued in the future for high-speed trains. The RFP has incorporated a number of FRA suggested changes since the preparation of the first draft.

Question. What are the Department of Transportation and FRA doing to ensure that Amtrak maximizes U.S. job creation in the procurement of the new trainsets?

Answer. The Conference Report that accompanied the FY 1994 DOT Appropriations Act requires that Amtrak consult with the Department in two areas regarding the procurement of new trainsets: setting "Buy America" standards; and the creation of jobs for U.S. Citizens. The exact language of the Report directs Amtrak to "seek to maximize the U.S. content of the new trainsets," at a minimum being consistent with the provisions of the "Buy America Act," and directs the DOT to work with Amtrak "and set appropriate goals to ensure maximum U.S. job creation consistent with the goals of the overall program." Amtrak has written to FRA and proposed specific language to be included in the RFP to satisfy both objectives. In seeking to maximize the U.S. content and the creation of U.S. jobs, bidders for the trainset contract will be required to comply with the Buy American requirements contained in section 305(k) of the Rail Passenger Service Act and the Buy American Act and will also be required to state the percentage of U.S. content that they would commit to and the steps they would take to ensure that U.S. jobs are maximized if they were awarded the trainset contract. Amtrak has indicated that it hopes to achieve at least a 70 percent American content through this process.

LOCAL RAIL FREIGHT ASSISTANCE PROGRAM

Question. While you were with the Ohio Department of Transportation, did the State aggressively participate in the Local Rail Freight Assistance (LRFA) Program?

Answer. From 1983 through 1990, Ohio used $8.8 million in LRFA funding to implement 27 projects. I frequently used LRFA funding as the catalyst that compelled affected railroads, shipper groups, local communities, and other state agencies to commit the balance of funding required to implement a project. For example, with LRFA funding we were able to acquire an abandoned CSX line from Wellston to Firebrick, which is in Appalachia. Funding for the acquisition was also provided by the Ohio Departments of Transportation and Economic Development, the Cities of Wellston and Jackson, and the benef itting shippers. Subsequently, we used LRFA funding to rehabilitate the portion of the line from Jackson south to Firebrick. As a result of this project, thousands of jobs were saved in an area where there are few. This is one of many LRFA funded projects which greatly benef itted the State of Ohio.

Question. During that period of time, did you feel that LRFA was properly designed to assist Ohio and the other participating States?

Answer. Yes. The LRFA Program has not only helped ensure the continuation of rail freight service on light density lines, but it has also leveraged rail infrastructure investment from other sources. The LRFA Program has evolved over the years into a effective mechanism for addressing the infrastructure needs of the small railroads. Ohio's state rail assistance program was tailored to mirror the LRFA Program.

Question. Do you feel that LRFA would have been strengthened if FRA had been required to loan its funding to the States?

Answer. As a former State official, I do not believe States would be interested in pursuing direct Federal loans for rehabilitation of light density track. As you know, the current LRFA Program allows a State the flexibility to loan or grant the LRFA funding. States have full authority to determine the terms and conditions of the loans, including the interest rate. Loan repayments are available to be used by a State for future LRFA eligible projects. In addition to Nebraska, the States of Alabama, Arkansas, Florida, Illinois, Iowa, Minnesota, Montana, North Dakota, and Washington have very successfully loaned LRFA funding. In some cases, however, the railroads simply do not generate sufficient revenue to be able to make repayments so it is appropriate for the State to grant the LRFA funding in the most effective way to the case under consideration.

Question. Would the absence of a Federal assistance program for small railroads result in a significant number of them discontinuing service?

Answer. Since the deregulation of the railroad industry, the number of small railroads has increased significantly. Because LRFA funding has been available during this period, it is not clear how termination of the LRFA Program will affect continued rail service by small railroads. It is possible that the absence of LRFA funding for rehabilitation of lines operated by small railroads will negatively affect the continuation of service on some light density rail lines. In fact, a 1993 update by FRA concluded that $130 million in small railroad infrastructure needs exist that cannot be financed by the railroads. Therefore, it seems reasonable to conclude that the LRFA program addresses a real and critical need.

Question. Would you characterize for the Committee the value of the small railroad industry to the Country's national transportation system?

Answer. There are 513 small railroads that collectively operate over 44,000 miles of track. In comparison, the Interstate Highway System is less than 43,000 miles. Small railroads account for approximately 11 percent of total railroad employment of 271,000 and 25 percent of the Nation's 170,000 rail freight system. They originate or terminate 16 percent of total rail traffic, and play an integral role in our Nation's daily commerce. Small railroads are the economic lifelines to many communities and provide the critical transportation link connecting shippers with the Country's major rail carriers.

Question. How significant is the small railroad industry's contribution to our Nation's transportation infrastructure?

Answer. In January 1993, FRA provided a Report to Congress on "Small Railroad Investment Goals and Financial Options". Of the 339 small railroads surveyed for the report, 118 provided information regarding infrastructure investment goals for the period 1991 through 1995. According to the 118 railroads, they would invest a total of $918.9 million. This is approximately $184 million per year.

QUESTIONS ASKED BY SENATOR DORGAN AND ANSWERS THERETO BY MS. MOLITORIS

LOCAL RAIL FREIGHT ASSISTANCE PROGRAM

Question. As you know, the Administration is proposing to terminate the LRFA program. Can you provide me with the justification for this? Also, what does the Administration believe will be the impact of this program's termination? In other words, who is going to be hurt? What is the anticipated impact on farmers and others who have relied upon this program to keep sections of rail service open?

Answer. The Department included $15 million in its budget request for the LRFA Program. Based on discussions with OMB and the White House, the LRFA request was eliminated from the budget. The cap on discretionary spending inevitably led to this very difficult decision.

Since the deregulation of the railroad industry, the number of small railroads has increased significantly. These are the railroads which often serve farmers and other rural businesses. Because LRFA funding has been available during this period, it is not clear how termination of the LRFA program will affect the small railroads and the shippers they serve. It is possible that the absence of LRFA funding for rehabilitation of lines operated by small railroads will negatively affect the continuation of service on some light density rail lines.

Question. Some states have positive balances of LRFA funds available to them. It is my understanding that North Dakota has about a $5 million balance. What will be the effect on states like North Dakota if the LRFA Program is terminated?

Will the State be able to use that money or will it have to be returned if the LRFA program is terminated?

Answer. Under section 5(d) of the Department of Transportation Act (Act), States have the flexibility to grant or loan LRFA funding to the railroads. Under subsection 5(d)(1) of the Act, States determine all the financial terms and conditions when funds are loaned.

In accordance with subsection 5(d)(3) of the Act, States are required to place the Federal share of repaid funds in an interest-bearing account. The $4,980,038 currently held by North Dakota includes LRFA funding that had been loaned and subsequently repaid to the State, interest paid by the borrower, and interest accrued on the funds held by the State. These funds are now available to make further loans or grants under Subsection 5(b) of the Act in the same manner and under the same conditions as if they were granted to the State by the Secretary.

If the LRFA Program were merely not to be reauthorized, as is the Administration's present position, Section 5 of the Act would remain in effect. Therefore, the repaid funds held by North Dakota would continue to be available to make further loans and grants pursuant to Subsection 5(b) of the Act. If, however, Section 5 of the Act (the LRFA Program) were to be repealed without specifically permitting States to retain repaid funds, the State of North Dakota would be required to return the Federal share of the repaid loan funds and the interest accumulated during the State's deposit of the funds in the interest-bearing account. The interest which the State has chosen to charge the railroad is not part of the Federal share and may be retained by the State.

QUESTIONS ASKED BY SENATOR PRESSLER AND ANSWERS THERETO BY MS. MOLITORIS

Question. The Local Rail Freight Assistance (LRFA) program was described by you during your confirmation hearings as being, "very successful in ensuring the continuation of rail freight service on many light density rural lines." You went on to add, "If confirmed, I will work with the Secretary in exploring the continuing need for funding these programs." I was pleased at that time to hear your endorsement of the LRFA program. Therefore, you can understand my disappointment that the Administration has chosen to not request any funding for the same program you described as, quote, "very successful." In fact, only a year ago you said that the LRFA had a dual benefit. Not only did the program have a good return on its investment but it also attracted new business. If that is true, it is an exceptional government program—one that is both efficient and useful. Why, then, did the Clinton Administration treat it so shabbily in its budget proposal?

Answer. The Department included $15 million in its budget request for the LRFA Program. Based on discussions with OMB and the White House, the LRFA request was eliminated from the budget. The cap on discretionary spending inevitably led to this very difficult decision.

Question. In response to another question I asked during your confirmation hearing about helping rural states get passenger service you said that, "the issue of rail passenger service for low population centers is a *policy* decision to be addressed by Congress." I somewhat disagree with that conclusion, given that the National Transportation System (NTS), a nationwide, comprehensive approach to our country's transportation infrastructure, is an Administration proposal, in conjunction with Congressional approval. As you know, the NTS was unveiled as a program to connect all areas of this country with one another. Therefore, I believe that Congress and the President have the joint responsibility for establishing the agenda for transportation issues. I am sure you can understand my concerns that South Dakota's transportation system not be short changed in the Federal budget. In your view, to what extent will the citizens of South Dakota be cut out of our nation's transportation infrastructure if the Administration transportation budget proposal were enacted?

Answer. The FY 1995 budget cannot ensure that improvements in all modes of transportation will be adequately funded in all States. While I understand your concern that the lack of LRFA funding may impact primarily rural states, other much larger Federal assistance programs will continue to contribute to the development of South Dakota's transportation infrastructure.

Question. I understand that Mr. Gilbertson, the President of the Louisville and Indiana Railroad, will recommend that the LRFA program become a part of the National Transportation System. What do you think of that proposal?

Answer. The Department will soon begin an extensive outreach program working with States, local governments, transportation providers, transportation users and others to develop and define the National Transportation System. The goal is to develop a system, and an approach to transportation investment, that will ensure that we make decisions strategically, with balance among modes and taking into account environmental and social concerns. The NTS is not envisioned as incorporating specific program financing mechanisms, however.

Question. If we are to have a comprehensive approach to transportation in this country, and it is to include rail passenger and freight service, how are largely rural states like my own going to be able to continue to be served by an infra-structure that in many cases is operating at a loss (Amtrak) and, in the case of LRFA, grossly under funded?

Answer. The underfunding of infrastructure investment due to budget constraints has been felt in urban as well as rural states. The Department is searching for a comprehensive approach that will be both equitable and flexible, in that it provides considerable choice for State and local authorities to spend Federal dollars on their particular needs, which are bound to be different between urban and rural areas.

QUESTIONS ASKED BY SENATOR EXON AND ANSWERS THERETO BY MR. MEAD

Question. While everyone testifying at the hearing before the Committee on April 13 noted the importance of increased capital funding of Amtrak, can the General Accounting Office indicate if there are non-tax sources of revenue which Amtrak can tap to increase its financial stability? For example, has Amtrak considered leasing advertising space on its passenger cars as do commuter buses and subway cars?

Answer. As we noted in our testimony, Amtrak has a number of non-tax and non-passenger related revenue sources, including, commuter rail contracts, real estate development, telecommunications, mail and express baggage. 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. In fact, 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. Despite commuter rail services and other revenue enhancing activities, Amtrak's financial condition has deteriorated.

To expand some of these existing activities, such as real estate development, might require additional capital at a time when Amtrak already faces financial strains due to lack of capital. Furthermore, although these activities may generate additional revenue for Amtrak, expanding these business activities may subject Amtrak to the risk of losing money. In fact, Amtrak abandoned its efforts to operate a railroad car equipment overhaul business because of financial losses. In pursuing new revenue sources or revenue enhancement activities Amtrak needs to ensure net financial gains. In pursuing new revenue sources outside of passenger rail service an additional complication is the concern of private businesses about "unfair competition" by a federally subsidized entity.

Amtrak's current revenue enhancement activities include the leasing of outdoor and in-station billboard advertising space. Amtrak estimates that it will receive $2.1 million from billboard advertising this fiscal year. Amtrak management has rejected proposals to lease advertising space inside its cars because it would be aesthetically unpleasing to its passengers. There is a perception that intercity travellers—on rail, airplanes, and buses—prefer to travel free of advertisements. However, Amtrak is considering videotape displays inside its train stations to advertise nearby shopping and sight-seeing facilities.

Question. In light of limited federal funds, how does GAO view the feasibility of Amtrak expanding its role in providing additional rail passenger services to states?

Answer. Currently, Amtrak has contracts with eight states to provide state-supported, 403(b) passenger rail service. In each case, Amtrak shares in the cost of providing the service. Some contracts require the state to reimburse Amtrak for its short-term avoidable losses while other contracts require the state to reimburse Amtrak for the long-term avoidable losses of providing the rail service. In addition, most contracts require the states to reimburse Amtrak for 50 percent of the capital equipment costs. Amtrak estimates that in fiscal year 1993 it absorbed about $18 million of the costs of providing 403(b) service.

We believe that any consideration of expanding 403 (b) service should be along the lines proposed in the "Amtrak Investment Act of 1994" (S. 2002), which would make all participating states responsible for up to 65 percent of long-term avoidable losses associated with the service. The share of associated capital losses would remain 50 percent for both the state and Amtrak. This proposal would affect five of the eight states currently participating in the program, shifting their reimbursable obligations from short-term to long-term losses. By shifting a greater proportion of the costs to the states, this proposal would free up some operating funds for Amtrak. Without such changes to the 403(b) program, however, we believe Amtrak should not consider significantly expanding 403(b) service. Doing so will only increase Amtrak's need for federal operating subsidies and/or reduce the quality of rail service Amtrak can provide on its current system. It will, in essence, force Amtrak to spread its available funding even thinner.

Question. Please explain to the Committee, the factors contributing to Amtrak's deteriorating financial condition and how Amtrak's improved revenue-to-cost ratio is misleading in determining Amtrak's need for federal funding.

Answer. Amtrak's financial condition has deteriorated over the past several years because operating revenues have been lower than projected due, in part, to the fact that ridership and yield have not been as high as expected. This situation has largely resulted from, among other things: (1) the recent recession; (2) increased price and service competition from airlines; and (3) old, unattractive, and poorly maintained rail facilities and equipment. Since 1991, Amtrak overestimated its projected passenger revenues by $440 million. According to Amtrak officials, the corporation's optimistic revenue projections resulted from underestimating the length and severity of the recent recession. Also, Amtrak was under increasing pressure to show progress in achieving its goal of having 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. 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.

Each year, Amtrak computes a "revenue-to-expense" ratio as a measure of its annual performance. Amtrak uses this ratio to show its progress toward covering a larger proportion of its expenses through its farebox. In fiscal year 1993 revenues covered about 80 percent of operating expenses. However, this calculation excluded certain expenses; including, (1) depreciation; (2) the Federal Railroad Administration's (FRA) mandatory retirement payment; (3) various taxes paid to the federal or state governments; (4) user fees assessed by FRA; (5) other miscellaneous expenses relating to accident claims; and (6) losses incurred in providing 403(b) service to the states and disbursements for labor protection, which are excluded at the direction of the Congress, according to an Amtrak official. If these expenses, which totaled about $370 million, had been included, the ratio would have been only 66 percent, or 14 percentage points lower than reported by Amtrak. Yet despite the overall deterioration of its working capital position, Amtrak has covered an increasing percentage of its operating expenses with operating revenues—but not as much as 80 percent.

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. 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.

Questions Asked by Senator Pressler and Answers Thereto by Mr. Mead

Question. I appreciate very much the comprehensive job the GAO did on the status of Amtrak. You listed a number of problems that need to be solved in the short-term for Amtrak to survive. Additionally, your report states that the Administration's proposed funding levels are inadequate to allow Amtrak to continue nationwide service. I am sure you are well aware of the need to reduce the budget deficit and know full well that more federal money will not be easily forthcoming. If additional federal dollars are not allocated for Amtrak's budget, what are you predictions for Amtrak's fate?

Answer. If Amtrak continues to receive the level of federal funding proposed in the "Amtrak Investment Act of 1994" (S. 2002), over the next several years we will probably see some improvement in the Northeast Corridor and little difference in the rest of Amtrak's system. Amtrak will continue to provide nationwide passenger rail service. Its service and passenger revenues might even increase as Amtrak takes delivery of previously ordered cars. Over the next three to four years, however, Amtrak will face additional expenses that we discussed in our testimony, such as increased costs for maintenance and infrastructure improvements that are already overdue and not covered by the proposed funding level. At the same time, the cost of labor and of using freight railroad tracks and rights-of-way may escalate. Without additional federal funds to pay for these expenses, Amtrak will have to look for ways to cut expenses, which will include cutting routes or types of service.

Question. Can the States take-up the slack if the federal government is not able to come up with any more money?

Answer. We did not poll state transportation agencies to determine the extent to which states could help fund Amtrak. In general, however, states are faced with budget constraints similar to the federal government. In some cases, as in state supported 403(b) service, states are already helping to finance Amtrak service, but are not providing funds to cover all service.

In some cases, several adjacent states might find it in their interest to band together and pool their resources to support an increase in service along an interstate corridor. Regional alliances have been forged to promote high speed ground transportation, although no regional compact has gone so far as to provide funding for such an operation. Similar compacts could be developed to support and fully fund incremental service improvements including adding frequencies or rights-of-way upgrades. These improvements would be for services above and beyond those Amtrak provides as part of the basic system.

It is unlikely, however, that the states would be willing or able to finance a nationally connected system. In our review of high-speed rail issues, we contacted a number of state planning agencies to determine the extent to which those states expected to fund high-speed rail initiatives.[1] We found that, in most cases, state planning officials were not optimistic that their states could provide large sums to fund the construction of high-speed rail systems. Private investment analysts with whom we spoke expressed similar views.

Question. What is the feasibility of completely privatizing Amtrak? To what extent would passenger service suffer?

Answer. We believe it is very unlikely that Amtrak could be privatized and continue to operate nationwide intercity passenger service. Amtrak has lost money each year since it began operations in 1971. Amtrak received federal support totaling $891.5 million in 1993, will receive over $900.0 million in 1994, and the President's budget provides for $987.6 million in 1995.

Since 1990, Amtrak's federal subsidy has not covered the gap between operating expenses and revenues. As a result, cumulative operating deficits exceeded federal operating subsidies by $102 million in current year dollars. To cover this deficit, Amtrak has steadily reduced its working capital over the last 7 years by $217 million in current year dollars. Additionally, as explained in our testimony, Amtrak faces over the next few years difficult and costly challenges that must be met if Amtrak is to operate a viable intercity network. These challenges include the need to (1) modernize its locomotive and passenger car fleet, acquire high-speed train, and continue rail improvements in the Northeast Corridor; (2) maintain its aging passenger car fleet; (3) modernize the Beech Grove, Indiana overhaul facility, (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 for Amtrak's union employees.

If Amtrak is to continue to provide nationwide intercity service at its present level, to offer quality and reliable service, and to improve its overall financial condition, it can do so only if it receives substantial operating and capital funding. Only a handful of routes in Amtrak's system may ever generate sufficient revenues to cover all operating costs.

Question. I know that Mr. Leonard of the National Association of Railroad Passengers believes that Amtrak should be supported because of, in part, its environmental benefits. Did the GAO study take a look at that aspect and, if so, what do you think about that claim relative to other forms of transportation?

Answer. Intercity rail passenger service is often cited as an environmentally benign form of travel compared to the dominant air and auto modes. If this is so, then shifting traffic from air and auto to rail could help to mitigate the environmental pollution associated with intercity passenger transportation. However, the ability of train travel to lessen environmental problems depends on several factors including the kinds of trips diverted, the type of train propulsion, and the load factors on the train and the other modes.

Much of the air pollution from automobiles—carbon monoxide, nitrogen oxides, and sulfuric emissions—are produced during daily commutes and as a result of other intraurban trips. These trips are not divertible to Amtrak although environmental benefits could accrue if the traffic were shifted to light rail or commuter rail. In addition, the extent to which rail travel mitigates air pollution depends largely on the type of power used. Electric-powered trains are relatively clean and the emissions are produced at the power plant where they are more readily controlled. Emis-

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

sions from diesel engines, especially for nitrogen oxide emissions, can be higher than comparable output from automobiles carrying a similar number of riders. Trains emit less carbon monoxide per passenger than automobiles, but carbon monoxide is largely an urban problem and much Amtrak travel occurs over rural areas. Finally, the load factors of the modes and the magnitude of the traffic shifts are important. Amtrak's share of most travel markets is so small compared to the magnitude of the pollution problem, that Amtrak's impact on mitigating pollution will be very small. To shift large amounts of traffic to rail so as to have an impact would require substantial investment in Amtrak. The Congress would need to consider whether this approach to addressing the pollution problem was cost effective compared to spending the resources on other pollution prevention measures.

QUESTIONS ASKED BY SENATOR EXON AND ANSWERS THERETO BY MR. DOWNS

Question. While everyone testifying at the hearing before the Committee on April 13 noted the importance of increased capital funding of Amtrak, are there non-tax sources of revenue which Amtrak can tap to increase its financial stability? For example, has Amtrak considered leasing advertising space on its passenger cars as do commuter buses and subway cars?

Answer. We are constantly evaluating new initiatives to expand our revenue generating potential. Over the years, these efforts have led to increased mail and real estate revenues, added phone service to our trains, and leased right-of-way for fiber optics service. In addition, Amtrak is the largest contract operator of commuter rail service in the country. We have, more recently, contracted with vendors whereby they assume part of our menu costs in exchange for name recognition on the menus. Additionally, we are developing a program to sell advertising space on our new video equipped cars.

We have in the past dedicated portions of these revenues to supplement our federal capital grants. Over the past 3 or 4 years, however, the stagnant economy, floods, and other natural disasters have had a significant impact on passengers revenues and all this revenue has been required to continue operations of our passenger trains.

Question. In the past year, there have been tragic derailments involving Amtrak in Alabama, Florida, Indiana, and other places. What initiatives can be implemented to increase Amtrak's overall safety performance for both our nation's rail passengers and Amtrak employees?

Answer. The tragic accident in Alabama was different from the accidents in Indiana and Florida. The accidents in Florida and Indiana were at grade crossings. Rail-automobile accidents at these crossings have been a persistent problem for all railroads, and we are working as outlined in a question below to minimize these tragic events.

In contrast, the accident at Saraland, Alabama, had its roots in maritime traffic. The accident was caused when a heavy barge maneuvering up a non-navigable waterway hit a railroad bridge, throwing the bridge three and a half feet out of line, and then the barge delayed reporting this accident. We understand that the Department of Transportation and the Coast Guard are working together to strengthen maritime safety procedures (including requiring specific navigational equipment, training, and improving accident reporting).

Question. In light of limited federal funds, how does Amtrak view the feasibility of expanding its role in providing additional rail passenger service to States?

Answer. Federal policy should encourage states to play a more active role in sharing the costs of providing rail passenger service. If the net result of a change in policy drives more states out of the business of sharing costs, the cost will shift back to the federal government (either in the form of operating subsidies or labor protection for the discontinuance of a route). Some of these services have gone on to make contributions to reducing overhead at Amtrak. The "Pennsylvania" was such a service when it operated a 403(b) train. Amtrak absorbed this train into the basic system in FY 1994 and it is now one of the best short distance services that Amtrak operates. If it were not for the 403(b) program, this type of service may not have ever been started. In addition, states that participate in the 403(b) service also have made significant capital contributions that benefit not only the state supported service but also the basic Amtrak system service and help Amtrak address many of the backlog of capital projects that need to be done.

State and local governments are investing hundreds of millions of dollars into rail line improvements and the acquisition of equipment. For example, California has invested heavily in acquisition of mainline trackage, rail line improvements, and acquisition of equipment, and Amtrak has expanded its services in that state. Amtrak's three corridor services within California are very popular and are expected to grow significantly in the coming years.

Question. What initiatives is Amtrak planning to implement to significantly reduce the amount of Federal financial assistance to Amtrak?

Answer. In addition to expanding the operation of contract commuter services which are now the fastest growing portion of our revenues, Amtrak is looking very seriously at breaking into various Separate Business Units (SBU's) that have the potential of improving service quality at the most efficient cost.

We have recently signed a contract to out source all of our computer operations and networks to IBM's Integrated Systems Solutions Corporation. Over the life of the agreement, this contract is expected to save Amtrak over $100 million in operating costs and $70 million in capital expenditures. Amtrak will attempt to identify other areas where outsourcing makes sense.

In addition, mail and express service offers some potential for Amtrak and we are exploring those opportunities with the U.S. Postal Service on a regular basis. We also think that there is more we can do with Government travel and have had several productive sessions with the General Services Administration (GSA).

On board advertising is another area being considered as way for Amtrak to generate greater revenues that will require some modifications to equipment design. Obviously, this effort has to be done very carefully with assurances that our customers will find it acceptable.

Question. What will be the major issues to be discussed in Amtrak's upcoming employment negotiations in 1995 with rail labor unions?

Answer. Unions are likely to make wage increases the major focus of bargaining. Several labor contracts already provide for a cost of living increases effective July 1, 1995, and January 1, 1996, and a two percent increase effective July 1, 1995.

Question. What difficulties does Amtrak experience in bidding for commuter rail contracts against other operators?

Answer. Amtrak is subject to the Railway Labor Act (RLA), which in turn subjects us to the Railroad Retirement Act (RRA), the Railroad Unemployment Insurance Act (RUIA), and the Federal Employers' Liability Act (FELA). Mowever some of our competitors to date have claimed exemptions to these on the basis that commuter rail operations are intrastate, not interstate, activities and hence do not fall under the Interstate Commerce Act. For example, Herzog Transit Services, Inc., and UTDC Transit Services, Inc. have operated Florida Tri-Rail service outside the jurisdiction of the FLA,. RRA, RUIA, and FELA. Thus, Amtrak is at a competitive disadvantage, since RRA Tier II benefits and other costs associated with the RLA add approximately 16 percent to our direct labor costs.

Question. How can Amtrak increase its competitiveness in bids for commuter rail services?

Answer. Amtrak should be able to compete on a level playing field if all operators were subject to the same cost requirements we are.

Question. The most frequent complaints the Committee receives about Amtrak deal with "courtesy" issues. Passengers understand delays and malfunctions. However, they do not understand why they are not informed as to what is happening and what is being done to rectify the problem. On an airplane, for example, the pilot gets on the intercom and explains that there is delay. Amtrak passengers have complained that they sit on the tracks for hours and are not offered an explanation. A smile, a few kind words, and a helpful attitude do not cost the corporation or its employees a penny, but they would go a long way to enhance customer satisfaction. What is Amtrak doing to address these "courtesy" issues?

Answer. Amtrak strongly believes that the service we are providing is below our potential and is not meeting customer expectations. I too have been particularly concerned about delays and problems which have gone unexplained, leaving customers justifiably confused and angry.

We will soon begin a new training program entitled "People Serving People," to address this issue. The overall objective of "People Serving People" is to change the way we communicate as an organization with our customers and with one another, change the way we serve our guests, and change the way we manage our service. The program will help build a customerfocused culture. The areas this program particularly targets for improvement are: Interpersonal skills, service delivery and presentation, comfort and cleanliness, and leadership.

Question. An Amtrak study has indicated that an Omaha and Kansas City rail link could be self-sufficient and provide service from St. Louis to Las Vegas via Kansas City and Omaha. What needs to happen to make this excellent proposal a reality?

Answer. As part of the 1992 Congressional report "Service to Areas not presently Serviced", Amtrak evaluated the financial impact of extending one St. Louis-Kansas

City daily round-trip frequency to Omaha. The proposed schedule would allow connections in Omaha to the western population centers of Denver, Salt Lake City, Las Vegas, Portland, Seattle, and Oakland/San Francisco. The projected financial impact of this service ranged from an increase of $1 million in annual federal subsidy requirements to a $14,000 subsidy decrease. To operate this service, it would be necessary for Amtrak or others to obtain the necessary rolling stock (estimated at $7.5 million in 1992), construct the required station and/or platform facilities at intermediate stops, and install stand-by power and servicing facilities at Omaha. Additionally, track improvements necessary to support passenger service would be required over certain segments between Kansas City and Omaha. The cost of the facility and track improvements has not been quantified. It is unlikely Amtrak would be able to do this on its own. State or regional support may also be necessary to get this accomplished.

Question. Amtrak has had its share of grade-crossing accidents including a recent one in Omaha. The Rail Safety Act needs to be reauthorized this year, and the Committee could use that bill as a vehicle for a railroad-crossing safety initiative. Does Amtrak have any suggestions on how to make America's rail crossings safer?

Answer. Increased enforcement of highway-rail intersection laws, perhaps by increasing federal incentives for states to enact and enforce strict laws, would help. Amtrak is also actively pursuing education and public outreach through Operation Lifesaver. Amtrak is also pursuing a joint effort with the American Trucking Association and independent trucking associations to develop new safety training and communication programs. Finally, stronger investment could be made in research and development of superior engineering and technology to reduce grade crossing accidents, such as grade separations, and better warning systems and crossing closures.

Question. Union Station is a great success. It has created jobs and increased ridership. How does the quality of this station's facilities affect ridership? Are there other potential Union Stations elsewhere in the Amtrak system?

Answer. Washington Union Station is very much a success from both a rail passenger and a commercial perspective. It has been our experience that significant improvements to stations can enhance the image of Amtrak in a community, resulting in increased transportation revenue. The amount of revenue increase is a function of how bad the station condition was initially, contrasted with its improved condition. Typically, these increases are in the range of 4 to 8 percent. Revenue increase attributable to the Washington Union Station redevelopment were closer to 15 percent, reflecting its transformation from a "boarded-up" condemned building to one of the finest redeveloped public buildings in the world.

There are few other opportunities in the country that offer the potential of a Washington Union Station. The building's physical characteristics (one of the finest public buildings in the country), its location (across from the U.S. Capitol), its size (retail space equal to a small shopping center), its role as a major transportation center (120 trains per day), plus Metro Rail and Bus Service), and significant pedestrian traffic (almost 70,000 people daily) combine to make it perhaps the most successful project of its type. Other station redevelopment projects may have varying degrees of success based upon how well they satisfy these components, but there are probably not many that can do it as completely.

Question. What benefits will be realized with a $90 million grant in fiscal year 1995 for the Farley Building Project and the Pennsylvania Redevelopment Project? Why is this grant amount necessary to realize these benefits?

Answer. The $90 million grant will enable Amtrak to secure commitments for the additional $215 million required to fund the relocation. The $90 million is necessary to allow Amtrak to complete all of the construction documentation required and commence construction.

QUESTIONS ASKED BY SENATOR DORGAN AND ANSWERS THERETO BY MR. DOWNS

Question. First, could you give me, in broad terms, the amount of savings Amtrak will achieve through the cuts made in the past year, in North Dakota and throughout the nation, and how this relates to the rest of Amtrak's budget?

Answer. In response to a budget shortfall of $30 million anticipated after FY'94 appropriations were finalized, Amtrak initiated several cost-cutting measures. Reduction in services was projected to save $8.8 million and based on early ridership results, these projections appear to be on target. In addition, reductions in station staffing were anticipated to save another $3.3 million in FY'94. These reductions resulted in the complete elimination of staffing at 15 lightly-patronized stations, with the remainder of positions eliminated from large stations.

Service reduction efforts focused on Amtrak's poorest financial performers and were selected to achieve the greatest potential savings while affecting the fewest passengers. Based on this, operations were reduced from daily to tori-weekly frequency for the Chicago-Houston/Dallas Texas Eagle south of St. Louis, and the Chicago-Seattle Pioneer west of Denver. Amtrak retained daily Chicago-Seattle service via the Empire Builder, which travels through northern North Dakota. Further savings were achieved through the elimination of the River Cities between St. Louis and Carbondale, Illinois, with the operation of bus service maintaining this connection. Finally, by restructuring Philadelphia-Harrisburg service, Amtrak was able to realize cost savings through efficiencies while increasing ridership by extending two trains to New York.

Stations selected for staffing elimination were chosen from those with the least patronage which were near staffed locations. These were distributed among twelve stations, including one station in North Dakota.

Question. How much money are we talking about spending in high speed rail? Last year? The coming year?

Answer. The Northeast High-Speed Rail Improvement Project is estimated 0 cost about $1.3 billion under its current scope. To date, approximately $620 million has been appropriated for the project. Amtrak is requesting $185 million for NHRIP in FY' 95.

In addition, President Clinton has proposed spending $32.5 million on research and development of high speed rail technology.

Question. What kinds of assurances can you give those of us from rural areas that we are not simply at the threshold of seeing passenger rail service a thing of the past for rural areas? Is the Administration committed to preserving rail service in rural areas? Is the Administration willing to of what it takes to support it—which might mean more direct subsidies? Or is it the case that rural residents should be prepared to see another mode of transportation disappear—like we are seeing in air service?

Answer. I have been struck in my few months at Amtrak by the comments from riders in rural areas. They have told me that in many parts of the country, Amtrak provides the only form of public transportation available. Airlines have pulled out, bus service has pulled out, and basically if you do not have a car, you do not have mobility. For these areas, Amtrak service is particularly vital. I understand the concerns of many rural residents when Amtrak, facing a budget shortfall of $30 million last year cut service back from daily to trlweekly last fall. I was not at Amtrak then and I think I might not have pursued that course of action.

I can tell you that I am committed to a national intercity rail passenger system—not just an urban system, not just a commuter system. I do not intend to see Amtrak disappear from rural America.

QUESTIONS ASKED BY SENATOR BREAUX AND ANSWERS THERETO BY MR. DOWNS

Question. If Amtrak is authorized and appropriated funding for 403(b) train service assistance to the States, will the establishment of daily service between New Orleans, Louisiana and Mobile, Alabama be given high-priority status?

Answer. We have been working very closely with the three states involved (through the Southern Rapid Rail Transit Commission) to begin daily service as soon as possible, and it is on our list of planned 403(b) services. However, pursuant to the FY'94 Transportation Appropriations act, implementing service in this fiscal year would require that the states pay 100 percent of the operating losses associated with this service. At this point we still do not have an agreement from the states to do so.

Question. The enclosed letter is a response to me from Amtrak concerning a constituent's (Mr. William Butterworth) interest in securing an Amtrak passenger smoking policy that will accommodate the interests of smokers such as himself. Specifically, I note that Amtrak wrote in July of 1993 of an objective "to provide a physically segregated smoking space * * *" My constituent, Mr. Butterworth, would very much like to see Amtrak provide a separate car specifically for smokers. When, therefore, will Amtrak implement its objective, and will it include the utilization of Nseparate cars" for smokers, particularly on long-distance routes?

Answer. The smoking issue is one of the most difficult facing Amtrak. Addressing this issue represents a difficult compromise between the non-smoking majority and the smoking minority that travel with us. In light of the heightened social awareness of associated health implications, Amtrak's objective is to continue to move toward a smoke-free environment. In addition, we have the concern of the health of our employees who work on board the trains.

The suggestion that we install designated smoking cars on our trains is one option. However, Amtrak faces a critical equipment shortage. Based on passenger surveys and input from our operating crews, it became apparent that non-smokers did not want to share a coach with smokers, and that many smokers who desired a place to smoke did not want to ride in a smoking car for the entire trip. Consequently, we had a great deal of difficulty in filling even a small number of seats allocated for smoking.

Furthermore, the present ventilation system on all of our equipment does not permit us to segregate a single car into a smoking and non-smoking section. While the smoking lounge alternative appears to be technically feasible, the cost of the project for Superliner long-distance trains only is between $9 and $16 million. Such major modifications would divert severely strained capital resources from other desperately needed programs.

QUESTIONS ASKED BY SENATOR PRESSLER AND ANSWERS THERETO BY MR. DOWNS

Question. I understand that Amtrak is considering proposals to expand service along routes that include Boston to Portland, Maine. As I am sure you know, Maine is one of the three contiguous states not currently served by Amtrak. I commend you for thinking to the future during these trying times for Amtrak. Are there currently any plans to add service to the other two states not served by Amtrak, South Dakota and Oklahoma? After all, the citizens of South Dakota and Oklahoma contribute to the substantial subsidies Amtrak receives.

Answer. In the current budget environment, it is only possible for Amtrak to begin new service if states agree to pay a significant share of the costs—one example is the state you noted, Maine, which has invested heavily in capital improvements and has agreed to finance some of the operating losses incurred with the new services. As for specific states you mentioned: Amtrak is working closely with the state of Oklahoma to initiate possible service between Fort Worth and Saint Louis, via Tulsa. Our planning department will begin assessing the possibility of that route shortly. Amtrak has never evaluated the possibility of service in South Dakota because the state has not approached us, and because freight rail lines in the state are not well-developed and would likely require enormous capital investment to bring them up to standard.

Question. The December 1, 1993 issue of the Washington Post reported you as saying, "In my mind, this is America's railroad. It is not a series of regional railroads." However, it is my understanding that one-eighth of Amtrak's income is derived from commuter rail service, representing Amtrak's second largest source of operating revenue. That is, commuter rail operations represent Amtrak's second largest source of operating revenue. Additionally, the Northeast Corridor, a generally populated and urban area received last year over $200 million in federal subsidies for improvement projects. In light of these facts is it not more accurate to say that Amtrak is the railroad for people living in and around urban centers?

Answer. While Amtrak does transact a significant amount of business in and around urban corridors, we are a national intercity railroad. Amtrak serves many areas that are not served by air and bus service—in many areas, we are the only form of public transportation available.

We are currently in the process of assessing exactly how much that business contributes to our operating revenues. We have initiated a program within Amtrak to analyze our various components as if they were separate business subsidiaries, to more accurately evaluate the costs and revenues associated with the separate services. We are beginning with the Northeast Corridor, a project that generates large revenues but also incurs significant capital and expenses (since we own the capital assets on that line, while we own very little of the non-equipment capital elsewhere). Another "line of business" we will evaluate is inter-city service, which serves rural areas. California service will likely be a third separate "line of business" to be evaluated. In this way, Amtrak will be able to address your concerns more concretely.

Question. Past administrations have recommended ending federal subsidies for Amtrak. If that were to happen what would become of Amtrak? Is it possible that what would remain would be a profitable, efficient and non-subsidized entity serving those areas that could support passenger rail service? Or would we soon return to the days of little passenger railroads and even less nationwide service? Isn't it possible that some form of rail passenger service would remain, a system that doesn't require hundreds of millions of dollars from the federal government?

Answer. Amtrak was created because freight railroads were losing massive amounts of money carrying passengers (over $1.7 billion per year, calculated in current dollars). While Amtrak has cut these annual losses to a fraction, it is highly unlikely that any passenger rail system in the United States could operate without some form of federal assistance. This is not unusual when you look at other nations. France plans to spend a total of nearly $25 billion in rail investments in this century, not including metro and light rail lines. Germany plans to invest over $70 billion on its main lines in the 1990s. The "Chunnel" (channel tunnel) connecting France and England opened last week to a cost of $11 billion. Various European countries are planning to spend $100 billion to connect their high-speed operations into a 19,000 mile network.

While some form of rail passenger service might survive in some areas of the country, it is highly unlikely that any sort of national network would operate if federal funds were drastically reduced. This would leave many areas of the country—particularly rural areas—even less connected by public transportation than they are now.

QUESTIONS ASKED BY SENATOR HUTCHISON AND ANSWERS THERETO BY MR. DOWNS

Question. I understand that the Federal Railroad Administration has provided a $3 million grant to demonstrate a turbo train in 125 mph service over existing track in the Northeast. What is the status of this project? What do you hope to achieve with this demonstration? Do you anticipate demonstrating the train in other parts of the country?

Answer. The Federal Railroad Administration has provided the State of New York a $3 million grant to demonstrate 125 m.p.h. passenger service between New York and Buffalo for a period of four months. The funding provided will be used to install the latest generation of turbine power plants in tow power units of existing Amtrak turboliners. In addition, Amtrak is providing $2 million to fund the rebuilding of the interior of the two power units and three passenger cars. The two power units are currently located at Morrison Knudsen's Hornel, New York facility to begin the engine exchange. The three passenger cars are located at Amtrak's Beech Grove shop where work on the interior has begun. The current schedule calls for the modification to be completed in October, 1994.

Question. Amtrak is in the process of procuring 26 electric train sets for the Northeast corridor. In addition, you will acquire two fossil fuel locomotives to operate at 125 mph speeds as part of the procurement. Can you tell me how the demonstration of the turbo train fits in with Amtrak's procurement of the non-electric locomotives?

Answer. Amtrak's current plans do call for the acquisition of two high speed trainsets equipped with fossil fuel power units. The proposed acquisition schedule calls for the delivery of these trainsets sometime in mid 1997. The turboliner demonstration will provide Amtrak, in the interim, with a trainset that could be used to demonstrate 125 mph service on other corridors.

QUESTIONS ASKED BY SENATOR MCCAIN AND ANSWERS THERETO BY MR. DOWNS

Question. During consideration of the Earthquake Emergency Supplemental Legislation, PL 103-211, the Congress appropriated $10 million to relocate the central Amtrak station to the James A. Farley Post Office in New York City. To date, have any of these funds been obligated?

Answer. A grant agreement was executed on April 28, 1994, by the Federal Railroad Administration (FRA) and Amtrak to obligate $9 million for architectural design, engineering and planning work to advance the James A. Farley project. FRA retained $1 million for historic preservation and environmental assessment.

Question. Specifically, for what service(s) or products have these funds been spent?

Answer. As of this date, none of the funds have been spent. Contracts with architects, engineers, and other design professionals will be effective May 16, 1994.

Question. Could Amtrak have used its existing capital, or any other funds that are available to it, to facilitate the move to the James A. Farley Post Office?

Answer. Amtrak internal funds are currently obligated and unavailable to facilitate the move to the James A. Farley Building.

Question. In your opinion, had the Congress not appr897patied the $10 million in PL 103-122, what would have been the effect on the relocation project? Please specify.

Answer. In the absence of the appropriation, the planning effort would have been delayed for nine to twelve months, until the remaining funds required to complete the project were committed.

Question. If the Earthquake Supplemental bill had not funded the relocation of the Amtrak station to the James A. Farley Post Office, but the Congress did act to fund the move as part of the routine appropriations process—funding the project on the Transportation Appropriations bill—would there have been any detrimental effect on the relocation process?

Answer. The delay in the start of the project for up to twelve months would mean completion of the intermodal station would be delayed. The result would be to continue operating out of the existing station for that time period, where passenger operations amenities, ADA compliance, and life safety measures would continue to impair ridership.

Question. How much does Amtrak estimate the complete relocation to cost?

Answer. The estimated cost to complete the relocation to the Farley building is $315 million.

Question. How long does Amtrak envision the relocation to take?

Answer. The relocation will take five years, including design and construction of the new facility, and have a projected completion date of September, 1999.

QUESTIONS ASKED BY SENATOR EXON AND ANSWERS THERETO BY NATIONAL ASSOCIATION OF RAILROAD PASSENGERS

NON-TAX SOURCES OF REVENUE

Question. While everyone testifying at the hearing before the committee on April 13 noted the importance of increased capital funding of Amtrak, can the National Association of Railroad Passengers (NARP) indicated if there are nontax sources of revenue which Amtrak can tap to increase its financial stability? For example, has Amtrak considered leasing advertising space on its passenger cars as do commuter buses and subway cars?

Answer. NARP believes that Amtrak already has been very much alive to opportunities to raise its revenues in various ways. In 1993, sources other than Amtrak intercity ticket sales made up 31 percent of Amtrak's total revenues. In 1986, this category was 8 percent of total revenues. Much of that growth has come from cost-plus commuter rail contracts, which account for 56.5 percent of the non-intercity-train total. Mail and express make up 12.3 percent; real estate sources 11.3 percent. NARP supports Amtrak's efforts in this regard.

NARP is pleased with Amtrak's efforts to comply with its statutory mandate to "minimize Federal subsidies [through] increased revenues from mail and express." NARP is encouraged by Amtrak President Downs' statement to the NARP board that the roughly $50 million in Amtrak mail and express business (gross revenues) should grow to about $150 million. Amtrak's policy is to carry mail and express only where revenues exceed costs.

The specific proposal about on-board advertising has merit. It should be targeted to specific markets based on research or Amtrak's judgement. Inside Amtrak passenger cars, there may be some opportunity for placards, especially on corridor equipment having a high turnover of passenger-viewers. Such placards may be appropriate on bulk-heads in the ends of cars (as is done on some European trains), but should not dominate seating areas of coaches. Advertisements on the outside of rail cars would not be as effective as they are on local buses, because buses are almost always visible to large numbers of people on the street.

The revenues raised by these ideas or programs are useful to Amtrak, but attention must still be paid to the area from which 69 percent of Amtrak's revenues comes—intercity ticket sales. NARP believes that efforts to increase passenger revenues would bear fruit. Capital funds are needed to provide passenger capacity on reliable and attractive equipment, which in turn is needed to increase total revenues in an appreciable amount.

SAFETY

Question. In the past year, there have been tragic derailments involving Amtrak in Alabama, Florida, Indiana, and other places. What initiatives can be implemented to increase Amtrak's overall safety performance for both our Nation's rail passengers and Amtrak employees?

Answer. NARP is deeply concerned about the derailments suffered by Amtrak in the last year. Only one of them (Alabama) resulted in passenger fatalities, which reflects the inherent safety of passenger trains. The type of accident which took place in Alabama, involving passenger cars plunging into deep water and resulting in many fatalities, had not been seen in the U.S. since 1958 (and never before on Amtrak).

The one factor all the derailments had in common was that they all had causes from outside the railroad—large trucks and a barge. Therefore, two approaches to the problem would be helpful.

First, the operating practices of large trucks and barges must be changed so that they are less a threat to passenger trains. Driving a truck in front of an approaching passenger train should be made a criminal offense, and the companies owning or operating such trucks should be held liable for damages. There should be stricter licensing requirements for individuals operating barges, and they should be certified that they know how to operate radar equipment and read navigation charts.

Second, steps should be taken to protect passenger trains from large trucks and barges. Grade crossings on passenger routes should have sensors in them that detect broken gates or stalled vehicles. The sensors should feed that information into the railroad signal system, and bring approaching trains to a halt. Grade crossing elimination on passenger routes should have a high priority, just as it did when the interstate highways were built.

Bridges on passenger routes crossing navigable waters also should have sensors in them, tied into the railroad signal system. The sensors not only would detect broken rails (as the Alabama bridge was equipped to do), but also significant shifts in bridge structure (which the Alabama bridge was not equipped to do). The National Transportation Safety Board recommended such sensors over ten years ago, but the Federal Railroad Administration found them to be cost-prohibitive. Since then, there have been technological advances that may have made sensors more practical.

Bridges on passenger routes crossing highways also may be candidates for sensors, but the last incident NARP can remember in which a truck hit a bridge and caused a passenger train derailment was over 20 years ago (with no fatalities).

There has been some question in the media about how the Amtrak equipment performed once it was in the water in Alabama. Because of the rarity of this type of accident, NARP does not have a lot of information on rail cars in water, but looks forward to reviewing whatever information the National Transportation Safety Board is able to produce on this topic.

403(b) STATE SERVICES

Question. In light of limited Federal funds, how does NARP view the feasibility of expanding its role in providing additional rail passenger services to States?

Answer. The most important item which would allow states to invest more in passenger rail would be to make passenger rail an eligible Surface Transportation Program (STP) under ISTEA. This was done in the Senate ISTEA bill of 1991, but was resisted in the House and dropped in conference. Such a provision would have made it possible for more federal funding to flow to intercity passenger rail without increasing total federal transportation funding, by allowing states the choice to spend some of their highway trust fund allocation on rail (rather than spending that portion on roads).

In 1991, some states, notably Iowa and North Carolina, were prepared to use a small part of their STP funds in this way. Iowa had hoped to use it for a train set to run from Omaha to Ames, Cedar Rapids and Chicago. North Carolina hoped to use it for signal and grade crossing work between Raleigh, Greensboro and Charlotte. Instead, both states will get the same amount of federal transportation funds, but will be likely to spend it on highways.

Of course, ISTEA funds would be limited to capital investments, as is the case with the other modes. But any states' 403(b) operations funding share could be reduced by strategic capital investments. For example, if Illinois were able to use ISTEA money for faster locomotives, better signals, and better grade crossings between St. Louis and Chicago, then the overall operations of that 403(b) corridor would become more efficient. Trip times would decline, while ridership and passenger revenue would increase. If costs are held in line while revenues rise, then the operating loss—i.e., Amtrak and Illinois' 403(b) costs—would decrease.

While NARP does not have a direct role in providing passenger service, it worked very hard in 1991 to have passenger rail included in the STP. NARP worked to get the message out about how states and localities could use ISTEA to the benefit of rail transit. It published A Citizens Guide to IS TEA to help its members and other individuals understand the importance of ISTEA to rail transit, and how to work with states and localities on ISTEA issues.

NARP also worked in the winter of 1993-94 to inform states and localities about the opportunity presented to them by the ISTEA Enhancements Program to fund restoration of historic train stations.

QUESTIONS ASKED BY SENATOR EXON AND ANSWERS THERETO BY MR. GILBERTSON

ROLE OF SMALL RAILROADS

Question. Please characterize for the committee the value of the small railroad industry to the country's national transportation system?

Answer. Regional and local railroads preserve rail service over light density rail lines that are otherwise in jeopardy of being downgraded or abandoned. These lines are more often than not in rural areas where traffic volume is insufficient to support the cost structure of the Class I railroads. Because they operate with lower costs and provide more flexible local service than the giant national railroads, they act as efficient feeder lines for the national transportation system. Without them, rail service is lost, and if truck service is available, it becomes exceedingly expensive because it has no competition for the traffic.

LOANS

Question. Do small railroads continue to find it difficult to secure loans in the private sector?

Answer. It is difficult for many small railroads to secure loans in the private sector for track, bridge and other infrastructure improvements. First these are new start-up businesses operating over lines that were money losers under their previous owners. It is very difficult to convince bankers that they are anything but high risk ventures for which they charge high interest rates and offer very short payback terms.

Second, all railroads are capital intensive. That is especially true for new regional railroads that must make up for years of deferred maintenance by the previous owners. As a result, these new businesses may require large loans that may be in excess of existing collateral coverage or out of line with start up cash flows.

Third, these start-up companies are working with shippers who have suffered from the inefficient, inflexible and expensive service that the large Class I owners imposed on lines that did not earn an acceptable return on investment under their cost structure. The new owners must work very hard to win back this traffic. While the majority of the new regionals that have started up since 1980 have achieved success in this regard, it proves very difficult to convince bankers in a start-up situation that a sufficient number of shippers will return to rail service.

A January, 1993 study by the Federal Railroad Administration (FRA), "Small Railroad Investment Goals and Financial Options" is instructive in this regard. According to the study, 118 of 339 carriers interviewed indicated an interest in loan guarantees as provided under the existing 511 program. These railroads indicated that they would need to spend $1.77 billion through 1995 to maintain and upgrade their systems to the appropriate level for existing and anticipated traffic. They expected to finance or fund internally $1.33 billion of these spending requirements, but estimated that they would be unable to raise another $440 million.

ALTERNATIVE FUNDING

Question. Does RRA have suggestions as to alternative initiatives that can be undertaken to enhance the LRFA program or supplement its funding?

Answer. RRA strongly believes that this nation's national transportation policy is completely out of step with reality. The federal government spends hundreds of billions of dollars on a highway system that is overcrowded, expensive to maintain, and that contributes significantly to air pollution and safety problems. It does this at the expense of the railroad industry which must pays 100 percent of its maintenance costs and pay property tax on its track, which usually runs under capacity, which uses far less fuel per ton mile than trucks and which creates far less pollution per ton mile than truck. In F.Y. 1994 the federal government alone will spend over $17 billion on the nation's highway system. We are here today asking you to preserve between $15 to $20 million for investment in the most fragile portion of the nation's rail system.

This is certainly not balanced, and it ignores the inherent energy, pollution and safety advantages of the rail mode. We believe that if the federal government is serious about creating a truly national transportation policy, then it must invest available funds in a more balanced fashion. We offer the following alternatives to achieve that goal.

- Allow the rail portion of intermodal projects to be funded out to the Surface Transportation Fund. While there is a great deal of lip service given to "intermodalism" in ISTEA, the reality is that only the highway portion of intermodal facilities are being funded.

• Establish a no-interest, revolving long term loan program that would provide funding for up to 70 percent of the cost of railroad rehabilitation projects. As I understand budget scorekeeping rules, such a program would require an appropriation less than the dollar amount that would be borrowed and therefore serves as a kind of leverage for important investment dollars.
• Dedicate the proceeds raised from the Safety User Fee to LRFA funding. As is the case with so much railroad law, railroads have once again been singled out from its modal competitors with a unique mandated cost. If the government insists on imposing this discriminatory fee, it should at least put the money to work make railroads safer. Poor track conditions pose the greatest safety hazard in a railroad's day-to-day operation. Every additional dollar invested in track improvements is an investment in safety improvements.
• Dedicate the proceeds raised from safety fines to LRFA funding.

LABOR

Question. RLEA testified that LRFA funds have been used often to undermine the goals of organized labor. What is RRA's response?

Answer. If the goal of organized labor is to save rail jobs, then we are in complete accord with that goal. Regional railroad owners are in the business of saving rail line that is headed for downgrading or abandonment. It is true that these lines cannot support the wage levels and work rule costs associated with the Class I carriers. That is precisely the reason the Class I's let these lines deteriorate to the point where they can be approved for abandonment. As business declines, workers are furloughed, and furloughed workers do not receive labor protection. While new regional railroads may not hire 100 percent of the employees that once worked for the Class I owner, the ones they hire are 100 percent more than would be employed if the line was abandoned.

If the goal of organized labor is to grow railroad employment, then we are in complete accord with that goal. My organization, Regional Railroads of America, represent 130 of these new railroads formed since 1980. Over 70 percent of these companies employ more people today than on their first day of operation. All but a handful of the rest are at the same employment level.

If the goal of organized labor is to improve railroad infrastructure, then we are in complete accord with that goal. Every one of these new companies have purchased lines that have experienced years of deferred maintenance by their previous owners. Every one of them has invested heavily in reducing or eliminating that deferred maintenance. While I have not visited every one, I feel confident in saying there is not a new regional railroad in the country today that has not invested more in its track structure in its first year of ownership than the previous owner invested in its last year of ownership.

Since passage of Staggers in 1980, 270 new railroads have been created which operate over 31,000 miles of rail line and employ over 9,300 individuals. In 1984, the year before the ICC began using the Section 10901 process extensively, there were 472 abandonment applications filed at the agency. By 1992, the last year for which data has been published, applications had fallen to 147, and stood as low as 122 in 1991.

I view this as one of the great success stories of the railroad industry and not at all at odds with the goals of railroad workers.

GRAIN

Question. Does RRA feel that the LRFA program could benefit small and regional railroads in helping to resolve issues such as the shortage in supply of rail grain cars, as addressed by the Interstate Commerce Commission recently in Omaha?

Answer. The LRFA program has been used primarily as a track rehabilitation program. The statute does provide for states to use the funds to purchase or lease "other rail properties." The extent to which the funds could be used to secure additional grain cars for regional railroad service is unclear, but should be explored.

QUESTIONS ASKED BY SENATOR HOLLINGS AND ANSWERS THERETO BY MR. LOFTUS

ROLE OF SMALL RAILROADS

Question. Please characterize for the Committee the value of the small railroad industry to the Country's national transportation system?

Answer. Small railroads have been the growth sector of the American railroad industry over the last decade and a half. While the major Class I linehaul railroads concentrate on providing efficient and cost-effective service on their core, high density network of approximately 130,000 miles of railroad, there are over 500 smaller feeder railroads that complete the national rail network. These smaller Class II and Class III railroads (as defined by the regulations of the Interstate Commerce Commission) pick up and deliver inbound and outbound freight cars at mines and quarries, mills, factories. grain elevators, lumber operations and farm processing plants. Others are switching operations through which the linehaui railroads can interchange freight cars. These short line and regional railroads have sprung up all over the country since the early 1980's when the Staggers Act took effect. This trend has fostered the preservation of rail service to local communities wherever possible.

The numbers tell the story:

• 263 new short line and regional railroads have been created since 1980

• 29,658 miles of track have been saved from possible abandonment by these start-up operations

• Employment is up—short line and regional operators employed almost 26,000 people in 1990, an increase of 10,000 over 1980

• Rail service to thousands of communities and industries has been preserved Short line and regional railroads in 1993 accounted for $2.8 Billion in revenue (9 percent of the rail industry total); operated 43,000 route miles (25 percent of the industry total); and short line and regional rail employees amounted to 11 percent of total railroad employment.

These short line and regional railroads are smaller only by comparison with the larger Class I linehaul systems. The small railroads are large indeed, especially to shippers and the small towns and cities that rely on them for rail service. In fact, while most of these smaller lines are owned privately, by corporations and in some cases individuals, there are others owned by local government agencies that bought them to ensure that freight service continued. Since railroads are the environmentally-friendly and in most cases least expensive mode of freight transportation, this trend is very encouraging. The smaller railroads feed traffic to the larger linehaul carriers, and are able to provide more customized, local service to their customers. This helps to retain freight on the rail network, which is a benefit to the rail system, and to the nation as a whole by keeping freight moved by rail off the overburdened national highway network.

LOANS

Question. Do small railroads continue to find it difficult to secure loans in the private sector?

Answer. Small railroads have difficulty in securing loans for track and bridge repair projects from commercial banks for several reasons. The most common problem is that local banks know little about the railroad business and are reluctant to enter a field that which they have little experience and there is not data source in which to compare a potential railroad borrower with other companies. Most large banks generally are not interested in lending amounts less than $30 million because the work effort is as extensive for that amount as it is for a three to five million dollar loan.

The Federal Railroad Administration documented the difficulty that small railroads have in the commercial loan market in its report to Congress, Small Railroad Investment Goals and Financial Options, dated January 1993. The study noted that "The unique nature of the railroad business has made it difficult for conventional sources of finance to meet the needs of these smaller carriers It is also clear that the private capital markets may not be providing adequate financing for such investments, even in cases where the loans appear to have an other wise acceptable level of risk."

There has been no private or public sector initiative that has made loan funds generally available to small railroads. Thus small carriers have to rely on internally generated funds to repair track and bridges. The FRA report also estimated their needs at $452 million for track and bridge repair projects.

ALTERNATIVE FUNDING

Question. Does ASLRA have suggestions as to alternative initiatives that can be undertaken to enhance the LRFA program or supplement its funding?

Answer. We believe that the Local Rail Freight Assistance Program serves very important, but limited purpose, in providing assistance to small railroads. It has been used primarily for grants to help startup railroads quickly bring their track structures up to a level where safe and efficient operations can be maintained. LRFA grants have also leveraged additional funds from states and shipper groups. In all instances, however, the funds have been limited and focused on short term, immediate needs.

Funding for larger, multi-year track and bridge projects has not been available. We believe a direct loan program that would provide funding for multi-year projects in the range of $10 to $35 million per project would answer the need. In addition to providing sufficient funding, the railroad would have the assurance that the funds would be available to complete the project. It is important that the loans be made available at the cost of money to the government and on repayment terms that would not create a cash flow problem for the borrower. Under current budget scoring procedures, such loans would not be a significant budget issue.

SAFETY

Question. Is safety a significant issue with small railroads?

Answer. Safety is of paramount importance to every small and regional railroad operator. As a practical matter, there are three basic reasons for this. First, small and regional railroad operators tend to take great pride in their operations, and take steps to avoid any negative occurrences that would reflect poorly on their company, such as any safety-related mishaps. Secondly, and perhaps more practically, safety-related mishaps will increase the company's operating expense, and will ultimately increase the cost of insurance coverage, both of which will negatively impact the often modest bottom-line profitability of these small businesses. Thirdly, the oversight of the Federal Railroad Administration, often supplemented by state inspectors, makes it essential that a small railroad operator conform with all applicable safety regulations. The fines for failure to do so are sufficiently costly that full safety compliance is the only rational choice.

LABOR

Question. RLEA testified that LRFA funds have been used often to undermine the goals of organized labor. What is ASLRA's response?

Answer. As the Committee is aware, the LRFA funds were essential to the preservation of rail service in the Northeast and Midwest, when the bankrupt railroads were restructured into Conrail. The same situation has been true for other sections of the country when larger railroads reduced their systems by selling low density, marginal branch and secondary lines. LRFA helped the new operators preserve over 29,000 miles of railroad and almost 26,000 jobs that would otherwise have been lost.

The record does not support the RLEA assessment that the use of LRFA funds have been contrary to labor's interests. Many of the railroads which receive the funds have union agreements with the United Transportation Union, Brotherhood of Maintenance of Way Employees, Brotherhood of Locomotive Engineers, Brotherhood of Railroad Signalmen and others. In 1993, when Congress provided $21 million LRFA funds for flood relief on 13 small railroads, most of the funds went to unionized Class 11 and Class Ill railroads. The $15 million in LRFA funds that FRA has just awarded for 1994, provided funding for union railroads including Alaska Railroad, Chicago & Illinois Midland, Bangor & Aroostook, Long Island, Chicago Central & Pacific, Louisiana & North -"'est and others. Also, as pointed out in the response to your first question (above), employment n the short line and regional railroad industry is up significantly since 1980.

QUESTIONS ASKED BY SENATOR HOLLINGS AND ANSWERS THERETO BY MR. MCLAUGHLIN

FUNDING

Question. If Amtrak is funded for FY 1995 to the level proposed by the Administration, what will be the effect on members of rail labor unions?

Answer. If Amtrak is funded for FY 1995 to the level proposed by the Administration, there will be a stabilizing effect on the Amtrak workforce. Amtrak has seen layoffs in almost all levels in the previous FYs. There may be a very slight increase in the shops where car maintenance is done.

SAFETY

Question. In light of the importance of rail safety to not only passengers but also to Amtrak employees, how does RLEA evaluate the current level of cooperation between labor and management in this regard?

Answer. The current leadership of Amtrak has only been in place for a few months. There are still additional changes underway among Amtrak's management personnel. It is too early to evaluate the impact these changes will have in relationship to the cooperation of labor and management concerning safety, but we are looking toward the future optimistically.

EMPLOYMENT NEGOTIATIONS

Question. In RLEA's view what are the major issues to be discussed in the upcoming employment negotiations in 1995 with Amtrak?

Answer. It is too early to predict what will be happening in the upcoming negotiations between Amtrak and RLEA members.

COMMUTER OPERATIONS

Question. How has the designation of certain commuter rail operators as non-railroad or intrastate operators affected rail labor employment and railroad retirement system?

Answer. Allowing certain commuter authorities to use unfair loopholes to escape railroad retirement coverage not only robs commuter employees of the full level of retirement security provided by railroad retirement, it threatens the entire railroad retirement system and everyone in it. The railroad retirement system is funded primarily by payroll taxes paid by employers and employees. If employment drops, the system's income drops, while current and near term liabilities stay the same or increase. Thus, if policies are adopted which cause a drastic and unanticipated loss of employment, the financial status of the railroad retirement system, which currently is good, will be jeopardized. The loss of revenue can be made up only by higher payroll taxes, by a painful reduction in benefit levels, or by an offsetting subsidy from the general funds. Payroll taxes for railroad retirement are already very high (36.3 percent of payroll as compared with 15.3 percent of payroll under social security) and are unlikely to be increased. The Congress is unlikely to inflict painful benefit reductions on retirees. The only solution left would be a massive Federal bailout from the general funds if Rail employment would drop a significant amount.

LOCAL RAIL FREIGHT ASSISTANCE

Question. RLEA testified that grants issued pursuant to LRFA have been used to interfere with and break unions. Please elaborate more specifically as to how these funds undermine unions and what recommendations RLEA would make to rectify this problem.

Answer. Many carriers were created by the ICC through Section 10901 which provides no labor protection. Later, these same carriers applied for funding local rail freight assistance programs, in effect getting a government grant to avoid labor protection. If the LRFA funds did not exist, then it is doubtful a new carrier would have been created and the employees would still be working for the selling carrier at higher wages and better benefits. In effect, LFRA is a socialistic program granting funds to non-union railroad operators.

Question. The ICC recently held hearings in Omaha to discuss the shortage of rail grain cars for shippers during harvest season. Does RLEA feel LRFA can address the issue of enhancing public or private investments in the supply of grain cars?

Answer. It is doubtful that the funds available in LFRA are large enough to enhance the investments in the supply of rail cars.

PREPARED STATEMENT OF SENATOR PRESSLER

Mr. Chairman, thank you for allowing me to participate in today's hearing. While I no longer serve on this subcommittee, I am interested in efforts to promote and improve all modes of transportation, from surface transportation to air transportation. As you know, I have actively supported short-line and regional railroad development over the past decade. am here today to show my continued support for the advancement of rail freight service.

Mr. Chairman, I am pleased to join you in sponsoring S. 1942, the Local Rail Freight Assistance (LRFA) Reauthorization Act. The LRFA program is a very important program to South Dakota and many other states. Continuation of LRFA will help ensure that rail freight needs are not overlooked or forgotten during this time of high speed rail promotion. Unfortunately, we must continually fight to secure funding for LRFA.

As you know, the Administration has zero funded LRFA in its fiscal year 1995 budget request. I was very disappointed the Administration failed to recognize the importance of this very modest program for addressing rail freight needs while at the same time, proposing to substantially increase funding for the National Rail Passenger Corporation, better known as Amtrak.

While rail passenger service is important, in my judgement we should not limit federal involvement to Amtrak. For states like South Dakota not served by Amtrak, rail freight is equally important. In my view, the freight needs of rural America should also be addressed in our annual budgetary process. While we will face another hard fight during the Appropriations process, the LRFA program is worth fighting for.

Given our nation's current budgetary constraints, we must consider carefully to what extent federal subsidization for transportation programs should continue. At the same time, I am very concerned that the President's transportation budget proposal unfairly cuts a number of very modest transportation programs important to rural states. In addition to zero funding LRFA, which received an allocation of $17 million for fiscal year 1994, the Administration is proposing further cuts for the Essential Air Service (EAS) Program. If the President's transportation budget were enacted, South Dakota would not only lose access to any federal rail assistance, but also lose air service assistance for two of the three South Dakota cities currently receiving subsidies.

Let me add that EAS is a very modest program, just like LRFA. The 1994 EAS budgetary allocation was $33 million. Contrast the LRFA and EAS programs with the hundreds of millions of federal dollars spent annually on Amtrak. The Administration has proposed to fund passenger rail programs at slightly more than $1 billion. While the Clinton Administration has proposed to terminate LRFA and reduce funding for EAS, the Amtrak budget would be increased by 29 percent. it is difficult for me to reconcile this in the face of the obvious inadequacies of the Amtrak system compared to the relative efficiency of regional air carriers, the type which receive the bulk of EAS funds and the rail improvements made available through LRFA.

Mr. Chairman, I would like to submit for the hearing record a letter from South Dakota's Department of Transportation in strong support for the LRFA program. Additionally, I would like to submit a resolution by the American Association of State Highway and Transportation Officials (AASHTO) in support of reauthorizing LRFA.

Again, Mr. Chairman, thank you for holding today's hearing and permitting me to share my concerns. I look forward to hearing from today's witnesses.

LETTER FROM RICHARD L. HOWARD, SECRETARY, SOUTH DAKOTA DEPARTMENT OF TRANSPORTATION

April 15, 1994.

The Honorable Larry Pressler,
U.S. Senate,
Washington, DC 20510

Dear Senator Pressler: It is our understanding that on April 13, 1994, the Senate Commerce, Science and Transportation Committee received testimony on legislation to reauthorize the Local Rail Freight Assistance Program (LRFA), S. 1942. The State of South Dakota continues to support this program, strongly commends you for co-sponsoring that legislation, and urges you to continue to work for enactment of legislation reauthorizing the LRFA program.

While this program is small by the standards of the Federal government, it nevertheless provides funding that helps rebuild and revitalize critical transportation links between rural America and world markets.

America's national interest requires preservation of the grain shipment arteries that haul our agricultural based commodities to American consumers and world markets. In addition to grain, South Dakota prnducers of wood products and minerals rely on dependable rail service. In South Dakota the LRFA program has linked government in cooperation with operating railroads to establish and implement plans for infrastructure improvements.

As you know, over the past few years LRFA grants have been utilized for several projects in South Dakota. Examples of those projects are rehabilitation of portions of the D & I Railroad between Canton and East Wye Switch, the Sisseton/Milbank Railroad for 17.5 miles between Milbank and Wilmot, the DM&E Railroad for 12.8 miles between Huron and Yale, and Ellis & Eastern Railroad for 4.4 miles in Sioux Falls.

Under the LRFA program Federal funds used in these and projects in other states are matched by significant non-Federal matching shares. In South Dakota, private railroads have contributed towards the non-Federal share of several projects. The State has contributed as well. Because local interests have to put up significant funds to attract the Federal dollars, the projects supported by the LRFA program are of very high utility and represent sound investments.

Lastly, we advise that states as a whole support reauthorization of this program. Enclosed for your information is a current resolution of the American Association of State Highway and Transportation Officials, which supports reauthorization of the LRFA program.

In conclusion, the State of South Dakota strongly supports the continuation of this program. We urge your support of S. 1942 or similar legislation which would reauthorize the LRFA program for 3 years or longer. We also recommend a funding authorization level of $30 million per year for the program, which is the level proposed in S. 1942. We would appreciate your making this letter a part of the Committee's hearing record on LRFA and in distributing a copy of the letter to appropriate Members of the Committee.

Thank you for your consideration of our views and for your long record of leadership on this issue. We look forward to providing any assistance you may require on this important matter.

Sincerely,

RICHARD L. HOWARD,
Secretary.

LOCAL RAIL FREIGHT ASSISTANCE (LRFA) PROGRAM FUNDING RETENTION (JULY 27, 1992, REVISED NOVEMBER 30, 1993)—PR.14-92

Whereas, the Local Rail Freight Assistance (LRFA) program has made possible the rehabilitation of numerous rail lines since inception of the program in 1976; and

Whereas, the states have successfully used LRFA funds to continue the vitality of many agricultaral, mineral, and forest resources and other industries which require rail service to be economically viable; and

Whereas, the Congress of the United States provided $17 million for the LRFA program for FY 1994; and

Whereas, the LFRA program has been the basis of supported efforts in many states to preserve operation of light density railroad lines: and

Whereas, throughout the United States there are additional rail lines which can be made safer, economically viable, and self-sustaining for the long term if rehabilitated; and

Whereas, the LRFA program is critical to the continued operation of many light density lines throughout the nation; and

Whereas, cessation of operations of these light density lines would increase truck traffic on already overburdened streets, roads, and highways; and

Whereas, the National Conference of State Railway Officials (NCSRO) in its 1985 national survey identified LRFA program needs of $1.3 billion for the railroad industry as a whole:

Now, therefore, be it resolved that the American Association of State Highway and Transportation Officials (AASHTO) encourages the United States Congress to retain the LRFA program in the FY 1995 transportation appropriations bill, at a level of $20 million as approved in the Senate FY 1994 Transportation Appropriation's B!iL LRFA is a critically needed, efficient, and effective federal program that should be continued.

Be it further resolved that AASHTO Member Departments encourage their Governor and Congressional delegation to support continued funding of the LRFA program to preserve light density railroads as an integral component of the nation's mult1modal transportation system.

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