Before the Committee on Transportation and Infrastructure
Railroads Subcommittee
United States House of Representatives

For Release on Delivery
Expected at
10:30 a.m. EST
Wednesday
September 21, 2005
CC-2005-070

Reauthorization of Intercity Passenger Rail and Amtrak

Statement of

The Honorable Kenneth M. Mead

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Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to testify today on Amtrak reform proposals. Intercity passenger rail service is an important component of a balanced transportation system in this country, but improvements are needed in how passenger rail service is delivered. In particular, a new model is needed that addresses matters such as who decides on the type and amount of service, who provides service, and who selects the providers. In our opinion, refocusing on these issues will promote greater efficiency, reliability, and cost-effectiveness in the delivery of passenger rail transportation, while continuing to provide essential mobility.

We have testified numerous times since Amtrak's authorization expired in 2002 that the current model is broken. Amtrak continues to incur unsustainably large operating losses, provide poor on-time performance, and bear increasing levels of deferred infrastructure and fleet investment on its system. While Amtrak's most recent cash flow analysis forecasts higher cash on hand by the end of the fiscal year, the improvement results from delays in capital expenditures rather than improved operations. Projected year-end cash on hand of $121 million amounts to only 4 ½ weeks of Amtrak's average cash requirements, leaving Amtrak's stability at risk.

To turn this situation around, a comprehensive reauthorization that provides new direction and adequate funding is needed and is needed in this Congress. Continued ad hoc direction through the appropriations process is not an adequate substitute for reauthorization. The problem with the current model extends beyond funding: there are inadequate incentives for Amtrak to provide cost-effective service; state-of-good-repair needs are not being adequately addressed; and states have insufficient leverage in determining service delivery options, in part because Amtrak receives Federal rail funds, not the states.

A number of proposals introduced in this Congress take varying approaches to improving the delivery of passenger rail services throughout the nation. They reflect common goals of improving cost-efficiency, reducing Federal subsidy costs, and providing long-term funding stability and needed capital improvement. These include recent proposals from both the Senate and House and from industry stakeholders. The different approaches to reforms and restructuring of intercity passenger rail service goals reflect the needs of a diverse constituency, which include states that want improved corridor services and states with limited mode choices that see long distance service as meeting basic mobility needs. Reaching a balance between these divergent needs and the costs of providing service is the challenge reauthorization faces.

Reauthorization should focus on improving mobility in corridors (routes less than 500 miles) around the country—not just in the Northeast Corridor—and in restructuring long-distance services (routes greater than 500 miles) to complement corridor services.[1] This will require new relationships and new partnerships among the Federal Government, the states, Amtrak, and the freight railroads. It will involve giving states much greater authority and control over intercity passenger rail decisions. And, in order for this to work, a considerably more robust Federal funding program for capital, with a reasonable state match, will be required, along with additional state contributions.

Reauthorization should establish meaningful reforms that ensure greater cost-effectiveness, responsiveness, and reliability in the delivery of passenger rail transportation. There are three central themes that will drive successful reform:

- **Improvements in Cost-Effectiveness.** Amtrak, as the sole provider of intercity passenger rail service has few incentives, other than the threat of budget cuts or elimination, for cost control or delivery of services in a cost-effective way. Amtrak has not achieved significant costs savings since its last reauthorization. In fact, operating losses have risen from $797 million in FY 1997 to $1.3 billion in FY 2004. Cash losses have merely kept pace with inflation, rising an average 2.1 percent per year. In short, there has been little or no efficiency gain.

  Funding these losses leads to the bigger question of whether or not Federal dollars for intercity passenger rail are being used as efficiently, and as wisely, as possible. In our recent analysis of Amtrak's long-distance services, our goal was to determine whether cost savings could be had without eliminating any routes, station stops, or frequencies. We found that on one route, the Sunset Limited, the loss in providing first class service (including interest and depreciation) exceeded $600 per passenger. On most routes, the loss per first class passenger was more than double that per coach passenger. Exploring further, we found that eliminating first class service, dining cars and other amenities, and finding cost-effective options for food service, could reduce net operating losses on the long-distance routes by $75 million to $158 million per year. In addition, an average of $79 million in planned capital expenditures over each of the next 5 years could be avoided.

[1] Of Amtrak's 25 million riders in FY04, 11.3 million (45 percent) rode on the Northeast Corridor, 9.8 million (39 percent) rode on other corridor routes, and 3.9 million (15.5 percent) rode on long-distance routes. The average distance traveled by long-distance route riders was less than 700 miles; only .5 million rode a long-distance route end-to-end.

In short, we found opportunities for substantial reductions in net losses on the long-distance routes. While our analysis is not intended to prescribe a one-size-fits-all solution for long-distance routes, it does indicate potential areas for substantial savings. When we issued our report[2], the Amtrak Board of Directors indicated that it intended to pursue some pilot projects along the lines suggested in the report. As of this writing, we are still waiting to hear of such action.

- **States Need a Larger Voice in Determining Service Requirements.** The current model for providing intercity passenger service does put states in a position to decide upon the best mix of service for their needs – what cities are served, schedules and frequency of service, and what amenities should be provided. Those decisions are made by Amtrak, and they are not always in the best interests of the states served. Intercity passenger rail would be better served with state-led initiatives as to where and how intercity passenger rail service is developed. States are in the appropriate position to determine the level of passenger rail service required to meet their strategic transportation needs and state sponsorship will become increasingly important as they will be asked to provide increased operating and investment support. Capital funding decisions, as with mass transit, should ultimately reside with the Department of Transportation, based on congressional direction and in partnership with the states.

- **Adequate and Stable Federal Funding is Essential.** None of the corridors around the country, including the Northeast Corridor (NEC), can provide the type of mobility needed without significant up-front investment. In the NEC this means bringing the existing facilities to a state-of-good-repair with no match requirement. In other corridors around the country it means creating the infrastructure for high-frequency services in partnership with freight railroads and commuter authorities. A robust Federal program of capital matching grants will be essential if these corridors are to be developed. In addition, long-distance services that provide connections between corridors require recapitalization if they are to be run efficiently and are to provide the high quality services their passengers deserve. None of this, however, implies giving more money directly to Amtrak, especially under the current model.

[2] OIG Report Number CR-2005-068, "Analysis of Cost Savings on Amtrak's Long-Distance Services, July 22, 2005. OIG report can be accessed on our website: www.oig.gov.

A number of other issues that have proven contentious in the past must also be addressed such as what to do about Amtrak's legacy debt, its governance, and its assets, including management and ownership of the NEC.

A range of reauthorization proposals have been introduced in this Congress to address these issues, though each to different degrees and each in somewhat different ways. Some recognize the need for greater competition. From our standpoint we are not in a position to say how much, if any, competition might materialize. However, we recognize there needs to be a level playing field to promote competition, and consideration must be given as well to the legitimate interests of the freight railroads who own the rail infrastructure outside the Northeast Corridor. In our view it is unlikely that competition can become a viable option until the passenger rail system is restored to a state-of-good-repair.

Some proposals suggest shifting governance from Amtrak to either the Federal government or the states or both, while others leave Amtrak as the sole provider. Some proposals look to a mixed governance framework depending on whether it is Northeast Corridor services, other corridor services, or long distance trains. In most cases there is greater state involvement. All proposals for reform seek to restore the system to a state-of-good-repair and recognize a state-initiated need to invest in improved corridor rail services.

In testimony earlier this year, we presented a framework for reauthorization that incorporates these themes. Specifically, we identified six core elements to consider.

1. **Formula Grants to States for Capital and Operating Costs.** This program would address the needs of areas served by long-distance routes that have little corridor development potential, while simultaneously creating incentives for states to encourage operating efficiencies from the service operator. Formula funds can be used for operating expenses, capital maintenance, and/or capital improvements at the discretion of the states and have no match requirement.

2. **Restoration of the Current System to a State-of-Good-Repair.** This program would provide Federal funds, with no match required, to address the accumulated backlog of deferred investment and maintenance on the Northeast Corridor and in fleet and facilities outside the Northeast Corridor. After a state-of-good-repair has been achieved, capital funds with a reasonable state match would be available for capital maintenance.

3. **Capital Matching Grants to States for Development of Corridor Services.** This program would give states the ability to improve and expand routes and service on their supported corridor routes through a Federal capital funding program with a reasonable state match requirement.

4. **Resolution of the Legacy Debt Issue**. This element would give the Secretary the authority to evaluate Amtrak's debt and to take action in the best interest of intercity passenger rail that is economically advantageous to the United States Government.

5. **Setting Federal and State Funding of These Programs at Adequate Levels.** Federal funding levels, along with state contributions have not been sufficient to subsidize operations, address deferred capital needs, and significantly improve service along the existing rail network. In the last 2 years, Amtrak has received annual Federal funding of $1.2 billion and an additional $250 million in state funding. In effect, Amtrak received about $1.45 billion in public funds. It will require minimum Federal funding of $2.0 billion a year to restore the system to a state-of-good-repair and provide funding for new corridor development.

6. **Resolution of Northeast Corridor Ownership.** The Northeast Corridor is of considerable interest in reauthorization. Unlike the rest of the passenger rail system, Amtrak owns the infrastructure between Boston and Washington, D.C. It will require at least $4 billion to restore the corridor to a state-of-good-repair. The Federal Government may decide to take on the responsibility of restoring the NEC to a state-of-good-repair, and its debt–if it is determined to be in the public's interest to do so. Once the NEC is returned to a state-of-good-repair, the states can take a larger responsibility in directing and managing ongoing operations and maintenance. In return for fully funding the corridor, the Federal Government may decide to take title to Amtrak's assets. Although Amtrak may very likely remain the operator for NEC, we will be in a better position to decide what is the best use and ownership structure of NEC assets by the end of the reauthorization period.

This framework would require cost efficiencies as Federal funds available to cover operating losses would decline over the 5-year reauthorization period. Specifically, it would give states greater responsibility for passenger rail investments with oversight of capital investment vested in the Department. Additionally, it would focus Federal funding on stable and robust capital investment programs that would bring the system to a state-of-good-repair, maintain it in that condition, and provide for the development of corridors throughout the country.

We have followed the issues in intercity passenger rail, and testified about them, for many years. During that time, we have seen a continuous decline in the intercity passenger rail system. We are glad to see the emergence of multiple proposals for reform. We want the subcommittee to know that we are willing to work with the relevant committees and constituents to secure a solution that would strengthen the delivery of intercity passenger rail in this country.

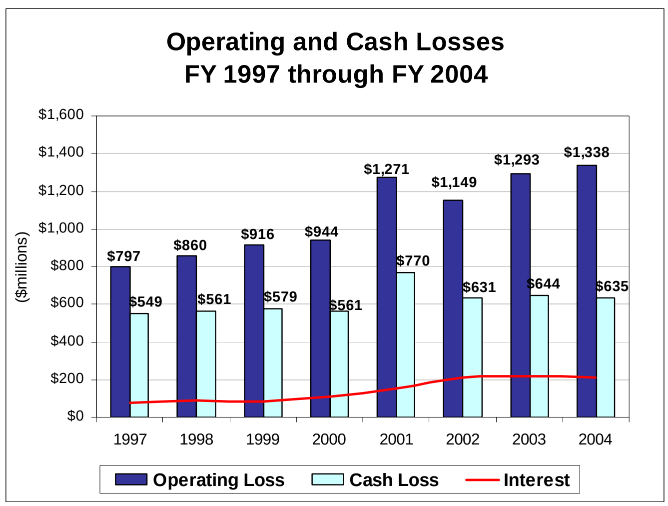
The Current Model Is Broken

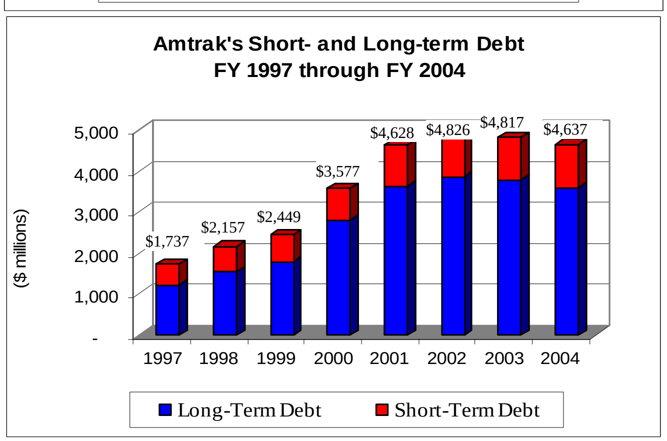
Amtrak has been tasked to be all things to all people, under a model that provides little incentive for cost-effectiveness, reliability, or responsiveness. The current model provides little balance between the national goals of an integrated network and regional and state transportation needs. How much funding and who provides the funding—Federal, state, or a combination— continually remain critical questions to be addressed.

The current model for providing intercity passenger service has resulted in financial instability and declining service quality. Despite multiple efforts over the years to change Amtrak's structure and funding, we have a system that limps along, never in a state-of-good-repair, awash in debt, and perpetually on the edge of collapse. For example:

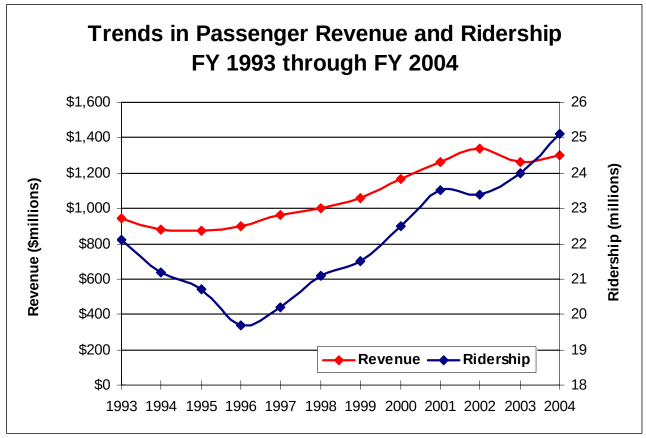
- The system continues to suffer operating losses (excluding depreciation and interest) on all but a handful of routes. On some long-distance trains operating losses exceed $400 per passenger. Through July, FY 2005 operating losses on long-distance trains were 11 percent higher than in the same period a year ago.

- Amtrak's debt grew from $1.7 billion in FY 1997 to $4.6 billion in FY 2004. While debt levels have declined slightly in the past few years, Amtrak's annual debt service payments will approach $300 million for the foreseeable future.



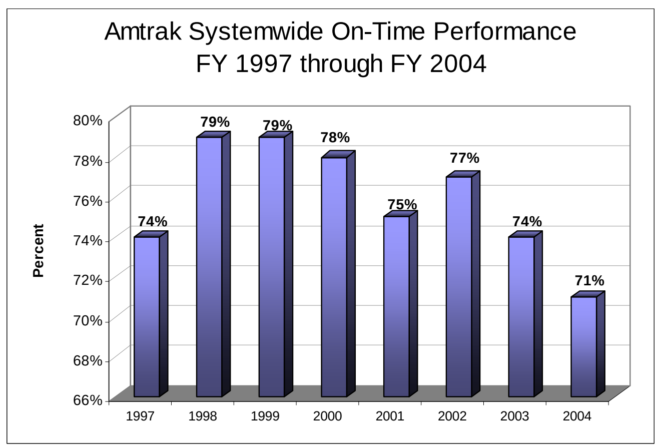


- Although ridership increased to 25.1 million in FY 2004, passenger revenues were $1,304 million, below the $1,341 million achieved in 2002. Through July, FY 2005 passenger revenues were $24 million lower than in the same period in FY 2004.



- Amtrak has an estimated $5 billion backlog of state-of-good-repair investments, and underinvestment is becoming increasingly visible in its effects on service quality and reliability. Deferred capital investment has led to several system failures in recent years and no one knows where or when a critical failure will occur. Continued deferral of needed investment increases the risk that it may not be too far away.

- On-time performance continues to deteriorate. It fell from 77 percent in FY 2002 to 71 percent in FY 2004, with Amtrak's premier service–Acela Express–achieving on-time performance of only 74 percent. On-time performance for long-distance trains averaged less than 50 percent. Through July 2005, system-wide on-time performance slipped further to 70 percent.



Options for Providing Long-Distance Service

Tension surrounds long-distance service in particular because, although it provides essential services, it requires heavy subsidies to do so. In 2004, long-distance trains cumulatively incurred operating losses (excluding interest and depreciation) of more than $600 million. Eliminating long-distance service would not only ignore mobility needs of rural areas of the country, but would reduce operating losses associated with long-distance trains by only about half (or $300 million).[3]

In our recent analysis of Amtrak's long-distance services, we determined that cost savings could be achieved without eliminating any routes, station stops, or frequencies. First, we found that the losses per passenger associated with first class passengers were substantially higher, and on most routes more than double the losses associated with coach passengers. In effect, the 16 percent of passengers traveling first class accounted for about 26 percent of the operating losses on these routes.

Second, we found that eliminating first class service, dining cars, and other amenities, and finding cost-effective options for food service could reduce net operating losses by about $75 million to $158 million per year.[4] Options for reducing losses on food service through initiatives or prototype test projects on several long distance routes could include raising food prices, outsourcing, having passengers obtain meals in stations during regular stops, distributed box meals that have been prepared off the train, selling packaged food from carts on the trains, or redesigning the lounge cars so that they generate sufficient revenues to offset costs. In addition, an average of $79 million in planned capital expenditures could be avoided over each of the next 5 years.

Clearly what makes sense with respect to implementing major service changes needs to be determined on a route-by-route basis. Our analysis was not intended to provide a one-size-fits-all prescription for the long-distance routes, but to suggest areas of possible cost savings and indications of their potential magnitude. At a minimum, our analysis indicates that there are more cost-effective alternatives for providing long-distance service.

A Framework for Reauthorization

Congress and the Administration have difficult decisions to make in determining the appropriate level and structure of funding for intercity passenger rail. We have developed a framework for assessing those decisions. We recognize that many assumptions need to be made about who pays for what and how to balance national, regional, and state transportation needs. Those are decisions for

[3] Because long-distance trains share stations and facilities with corridor trains, eliminating the long-distance trains would not eliminate the shared costs. In addition, Amtrak allocates a share of overhead and infrastructure maintenance to the long-distance trains—some of these costs will be reallocated to all remaining trains.

[4] This range depends on the assumption made regarding the variability of maintenance-related labor. At the low end, we have assumed that all maintenance-related labor is fixed; at the other end, we have assumed that all such labor is variable.

Congress and the Administration to make. Our framework can serve as a strawman for further debate. It includes the following components.

- **Formula Grants With No Match Required.** This approach provides funds to states outside the Northeast Corridor that do not have corridor development potential and that rely on long-distance trains for substantially all intercity passenger rail service. There are at least 16 states with only long-distance service and little potential for any corridor development. We have not taken a position on the ultimate question of whether long-distance service should be retained or eliminated but merely presenting it as an approach for funding states that do not have the population densities to support corridor development.

  This approach could initially include sufficient funds to subsidize existing long-distance and corridor services. Over the reauthorization period the funds associated with corridor services would be reduced and then eliminated at the end of the period. Further, the level of Federal funds subsidizing the long-distance services would be reduced to reflect greater operating efficiencies resulting from capital investments as well as other savings resulting from food and beverage service changes, improved labor productivity, and efficiencies that may be introduced by competitive service providers.

  As determined by the states, funds could be used to defray the cost of operating subsidies, capital investment, or both, with no match required. The amount of the formula grant could be calculated on the basis of Amtrak's FY 2005 operating loss allocable per embarking/disembarking passengers in the affected state or some other formula that provides an equitable allocation.

- **Restore System to a State-of-Good-Repair.** The funding needs to restore the system to a state-of-good-repair reflect the accumulated deferral of investments which has resulted in an estimated $5 billion backlog of capital projects for the system as a whole, threatening current and future service reliability. The Northeast Corridor presents the most difficult challenge for this program and the effects of its deteriorating infrastructure are readily evident. Amtrak's reported on-time performance in the Northeast Corridor as a whole between 1994 and 2003 ranged from 82 to 88 percent. For FY 2004, even Amtrak's premiere Acela service posted an on-time performance of only 74 percent, far short of Amtrak's stated goal of 94 percent. If the decision were made to keep the current Northeast Corridor intact, we estimate Amtrak would need to spend at least $550 million annually for an extended period on infrastructure and rolling stock to eliminate the backlog of capital investment in the Northeast Corridor.

Bringing the eight Northeast Corridor states and the District of Columbia together in a short period of time to direct and manage this effort would be incredibly complex but may be achievable by the end of the reauthorization period. Recognizing this challenge, one option during the reauthorization period could be for the Federal Government through a separate Departmental capital grant program to fully fund the Northeast Corridor's capital requirements until a state-of-good-repair is achieved. This would also address the states' reluctance to inherit a legacy system they did not create.

- **Capital Grants With a Reasonable Match.** Like other proposals, this approach would provide capital grants on a competitively determined basis and would be administered by the Department. States that desire to improve existing intercity rail service and/or develop new corridor services would apply to the Department for a matching grant, similar to the Federal Transit Administration's New Starts Capital Program. The Administration's proposal also suggests such a program but provides a 50/50 capital match rate by the end of the reauthorization period. Our view is that a lower state match rate requirement would provide incentives for states to take an "ownership" role in developing rail corridors on a more competitive basis with other transportation modes (historically, highways and transit have used an 80/20 match rate).

  To accommodate the need for different types of capital investments, two types of capital matches could be established. For investments that qualify as traditional capital investment, such as track or purchases of passenger equipment, the Federal share could go up to 80 or 85 percent. On the other hand, for investments that qualify as capital maintenance, such as those under the transit definition the Federal share might be 70 or 75 percent.

In attaching dollar figures to this construct, we made several assumptions for purposes of illustration as follows.

– Formula grants will not fully cover train operating losses. Amtrak's forecast net cash operating needs (excluding interest) were used as the starting point. The levels of funding represent imputed cost savings of 10 percent per year from a combination of revenue growth and operating cost savings.

– Over the 5-year reauthorization period, Federal subsidies decline for long-distance trains and corridor operating subsidies shift to the states. We expect states to place higher performance and efficiency demands on the service provider to lower operating costs to more affordable levels.

– Debt service is based on Amtrak's projected debt service payments through FY 2009, adjusted for installment payments on their RRIF loan and possible early buyout options on leased equipment.

– Capital requirements to restore the system to a state-of-good-repair are based on Amtrak's Strategic Plan for FY 2005 through FY 2009 and on assumptions we made on allocating capital needs between the Northeast Corridor and the rest of the system. The funding allocation assumes a capital need of $550 million for infrastructure and fleet in the Northeast Corridor and $250 million for infrastructure and fleet outside the Northeast Corridor (NEC).

– Funds available for capital match represent funds remaining after state-of-good-repair funding requirements, formula grants, and debt service are met.

Construct for Reauthorization Funding
($ in Millions)

Federal Contributions	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**
Formula Grants (Capital and/or Operating Subsidy)	$570	$570	$510	$460	$410	$370
Debt Service	276	278	358	306	308	375
Capital to Restore System State-of-Good-Repair	355	655	755	800	800	800
NEC Infrastructure + Fleet	300	525	550	550	550	550
Non-NEC Infrastructure + Fleet	55	130	205	250	250	250
Subtotal	**$1,201**	**$1,503**	**$1,623**	**$1,566**	**$1,518**	**$1,545**
Available Capital for Match			27	234	432	455
Total Federal Contributions	**$1,201**	**$1,503**	**$1,650**	**$1,800**	**$1,950**	**$2,000**

New Federal capital available for state match does not become available until annual Federal funding levels reach $1.65 billion. This construct highlights the policy choice that needs to be made between restoring the system to a state-of-good-repair and investment in new corridor development. At $2 billion, we would expect about $455 million to be available to states to match for use in new and/or improved corridor development.

Mr. Chairman, that concludes my statement. I would be happy to answer any questions at this time.