U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

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September 17, 2012

MEMORANDUM

TO: Members, Committee on Transportation and Infrastructure

FROM: Staff, Committee on Transportation and Infrastructure

SUBJECT: Oversight Hearing on "A Review of Amtrak Operations, Part III: Examining 41 Years of Taxpayer Subsidies"

PURPOSE

The Committee on Transportation and Infrastructure will meet on Thursday, September 20th, 2012, at 9:30 a.m. to receive testimony reviewing Amtrak's 41 years of taxpayer subsidies. Specifically, the hearing will investigate the monetary losses associated with Amtrak's operations; explore and compare Amtrak's level of federal subsidy with the subsidies provided to other modes of passenger transportation; and examine management deficiencies identified by the Amtrak Office of Inspector General in reviewing Amtrak's food and beverage operations and significant overtime expenses.

BACKGROUND

The Rail Passenger Service Act of 1970 (P.L. 91-518) created the National Railroad Passenger Corporation (Amtrak) and charged it with the responsibility for providing intercity passenger rail transportation on a basic route system designated by the Department of Transportation. Before Amtrak's creation, freight rail companies were required by federal law to operate passenger rail services. Amtrak was designed to serve long-distance passenger travel needs and is operated as a for-profit company, rather than a public authority.[1]

[1] *See* 49 U.S.C. §§24301, 24302.

41 Years of Taxpayer Subsidy

Funding for Amtrak's capital and operating expenses comes from operational revenues and appropriated funds. Amtrak's operations have never resulted in a net profit with most of its routes losing money. The system as a whole only accounts for 0.1 percent of America's passenger travel.[2] Over the past 41 years, Amtrak has received nearly $40 billion dollars taxpayer subsidies. The following chart illustrates Amtrak's taxpayer funding since its creation:

Fiscal Year	Annual Total (in millions)	Fiscal Year	Annual Total (in millions)
1971-72	40	1993	891
1973	170	1994	909
1974	140	1995	972
1975	277	1996	750
1976	651	1997	843
1977	801	1998	1,686
1978	1,116	1999	1,701
1979	1,269	2000	571
1980	1,244	2001	520
1981	1,256	2002	832
1982	905	2003	1,043
1983	895	2004	1,218
1984	816	2005	1,207
1985	712	2006	1,294
1986	603	2007	1,294
1987	624	2008	1,325
1988	608	2009	1,490
1989	604	ARRA 2009*	1,300
1990	629	2010	1,565
1991	815	2011	1,486
1992	856	2012	1,418
	Total	**41 Years**	**39,345**

* *$1.3 billion in capital funds appropriated for Amtrak in the American Recovery and Reinvestment Act of 2009.*
Source – Federal Railroad Administration

The average per passenger subsidy for Amtrak in 2011 was more than $49, as derived by dividing the total number of passengers by the total amount of federal appropriations. Over the past five years, Amtrak has averaged an annual taxpayer subsidy of more than $1.432 billion, which equates to an average subsidy of nearly $51 dollars per passenger.

Amtrak 5-Year Taxpayer Subsidy Per Rider			
Year	**Total Number of Passengers**	**Federal Appropriations**	**Per Ticket Subsidy**
2007	25.8m	1.294b	$50.16
2008	28.7m	1.325b	$46.17
2009	27.2m	1.490b	$54.78
2010	28.7m	1.565b	$54.53
2011	30.2m	1.486b	$49.25
Average	**28.1m**	**1.432b**	**$50.97**

[2] Randal O'Toole, *Gridlock: Why We're Stuck in Traffic and What to Do About It* (Washington: Cato Institute, 2009), p. 91.

Even without considering the almost $1 billion per year in capital grants to Amtrak, the corporation operates at an "above the rail" operational loss. Amtrak's 15 long-distance routes have the highest losses, with the largest per passenger subsidy being the Sunset Limited, which runs from Los Angeles to New Orleans. In 2011, the Sunset Limited carried only 99,000 passengers, while requiring a significant operational subsidy of more than $375 per passenger. Furthermore, the Southwest Chief running from Los Angeles to Chicago had a per passenger operational subsidy of more than $177. The chart below illustrates the 10 worst-performing Amtrak routes and the average operational subsidy per passenger for each route.

Amtrak's 10 Worst Performing Routes and Their Operational Subsidies *(FY 2011)*			
Route Name	**Ridership**	**Net Operating Loss**	**Subsidy Per Passenger**
Sunset Ltd.	99,714	($37.4)	($375.1)
Southwest Chief	354,912	($63.0)	($177.5)
California Zephyr	355,324	($58.9)	($165.8)
Cardinal	110,923	($17.8)	($160.5)
Crescent	304,086	($42.4)	($139.4)
Coast Starlight	426,584	($50.6)	($118.6)
Hoosier State	37,249	($4.4)	($118.1)
Silver Star	424,394	($48.1)	($113.3)
Silver Meteor	373,576	($41.3)	($110.6)
Empire Builder	469,167	($51.1)	($108.9)

Intercity Bus Transportation

From 2006-2010, intercity bus transportation has seen a dramatic increase in demand. According to a December 2010 DePaul University study, intercity bus operations expanded annually by an average of nearly 7 percent between 2006 and 2010, including a 6 percent increase in 2010. By comparison, between 2009 and 2010, aviation operations grew by 3 percent, and Amtrak's increase in daily operations was only .5%. In particular, curbside intercity bus operators like the Boltbus and Megabus have expanded the number of departures by 23.9% and now account for more than 440 daily bus operations in the United States. The study also found that intercity bus service had the fastest growth of any intercity transportation mode from 2008-2009. From 2007 to 2010 Intercity Bus ridership grew at a rate nearly twice as fast as Amtrak.[3]

In order to improve the competitiveness of intercity bus transportation, operators have looked to increase the quality of their service over the past few years. In 2010, Greyhound introduced a premium service on select routes, offering passengers free WiFi internet, spacious cabins and guaranteed seating. In addition, the Red Bus operating between South and Central Florida as well as Atlanta offers seats that recline to near-horizontal positions as well as a GPS satellite monitoring system.

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[3] Joseph P. Schwieterman, Lauren Fischer, Sara Smith, and Christine Towles, "The Return of the Intercity Bus: The Decline and Recovery of Scheduled Service to American Cities, 1960–2007," Chaddick Institute for Metropolitan Development, Chicago, 2007, p. 4; "Monthly Performance Report for September 2010," p. A-2.2, and "Monthly Performance Report for September 2007," Amtrak, Washington, p. A-2.2.

Cross-Modal Comparison of Transportation Subsidies

Historically, U.S. transportation financing needs have been funded through user fees rather than taxpayer subsidies. The Airport Development Aid Program and the Airport and Airway Trust Fund provide federal funding for development of the U.S. aviation system through aviation related user fees. Likewise, federal funding for the interstate highway system comes through the Highway Trust Fund (HTF). The HTF is funded with proceeds from gasoline and vehicle tax revenue. However, unlike federal funding for aviation and highways, Amtrak's federal financial support has typically come through annual taxpayer appropriations from the Department of Treasury's General Fund.

A 2011 Nathan Associates Inc. study on Federal Subsidies for Passenger Transportation found that per passenger intercity bus transportation had the lowest per passenger subsidy among aviation, intercity bus, Amtrak and mass transit. The following illustrates the significant disparity in per trip federal subsidies across different transportation modes.

- Aviation passengers received $4.28 per trip
- Mass transit riders received $0.95 per trip
- Amtrak riders received $46.33 per trip; and
- Intercity commercial bus passengers received $0.10 per trip

Amtrak Food and Beverage Service Losses

The sale of food and beverage items onboard Amtrak trains is performed by Amtrak employees. Amtrak provides various levels of food and beverage service ranging from snack/beverage services in lounge cars to full meals in dedicated dining cars. Amtrak has never broken even on food and beverage operations, and instead has seen a steady net loss of an average of $83 million per year over the last 10 years. Currently, Amtrak is spending $1.70 to provide food and beverage services for every $1 in food and beverage revenue.

<u>Requirement to "Break Even" and Authority to Contract Out Food and Beverage Services</u>

Under Amtrak's general authorities listed in section 24305 of title 49, United States Code, "Amtrak may...provide food and beverage services on its trains only if revenues from the services each year at least equal the cost of providing the services." (49 U.S.C. §24305(c)(4)) This provision was first added to the code as part of the Amtrak Improvement Act of 1981 to eliminate the deficit in Amtrak's onboard food and beverage operations by September 30, 1982. Therefore, for nearly 30 years, Amtrak has been statutorily banned from providing food and beverage services unless its costs at least equal its revenues of providing the services.

Amtrak 10-Year Food and Beverage Operations Financial Performance
In millions of nominal dollars

FY	Total Revenue	Total Expenses	Net F&B Loss	Labor Expenses	Labor Expenses as a % of Total Expenses
2002	84.1	164.5	80.4	83.8	50.9%
2003	78.4	158.8	80.4	83.3	52.5%
2004	80.4	164.2	83.8	89.2	54.3%
2005	90.9	181.4	90.5	98.3	54.2%
2006	88.3	180.7	92.4	96.3	53.3%
2007	94.5	177.6	83.1	92.1	51.9%
2008	102.6	184.0	81.4	97.0	52.7%
2009	106.4	181.3	74.9	100.0	55.2%
2010	109.3	191.7	82.4	108.0	56.3%
2011	121.5	206.0	84.5	117.0	56.8%

Source: 2002-2005 Government Accountability Office unaudited estimates, 2006-2011 Amtrak

Amtrak's Control of Overtime Expenses

Amtrak agreement-covered employees are eligible for overtime and are required to have field supervisors approve all incurred overtime hours. Over the past two years Amtrak has averaged more than $200 million annually in overtime costs despite being forced to report monthly on employees nearing or exceeding the $35,000 overtime cap. In CY 2011, 1,123 employees earned more than $35,000 in overtime.

The Amtrak OIG has cited Amtrak for control deficiencies related to timekeeping and payroll processes that would limit the risk of fraud for overtime charges. A September 2012, report from the Inspector General (Report No. OIG-I-2012-018) found that one Amtrak employee claimed overtime pay for hours he spent officiating high school sporting events, while another worker may have received more than $100,000 in bogus overtime.

In 2008, the Amtrak OIG issued a memo (Project# 105-2007) on an investigation that analyzed the overtime wages of 1,252 agreement-employees that made more than $100,000 during calendar year 2006. The investigation highlighted 167 employees that earned more than $100,000 in regular wages and more than $100,000 in overtime wages. The memo also stated that 97 of the 1,252 employees earned more in overtime wages than in regular wages.

WITNESSES

Mr. Joseph Boardman
President
Amtrak

Mr. Ted Alves
Inspector General
Amtrak Office of Inspector General

Mr. Peter Pantuso
President and CEO
American Bus Association

Mr. Randal O'Toole
Senior Fellow
Cato Institute

Mr. Ross Capon
Executive Director
National Association of Railroad Passengers