Before the Subcommittee on Transportation and Related Agencies,
Committee on Appropriations

U.S. House of Representatives

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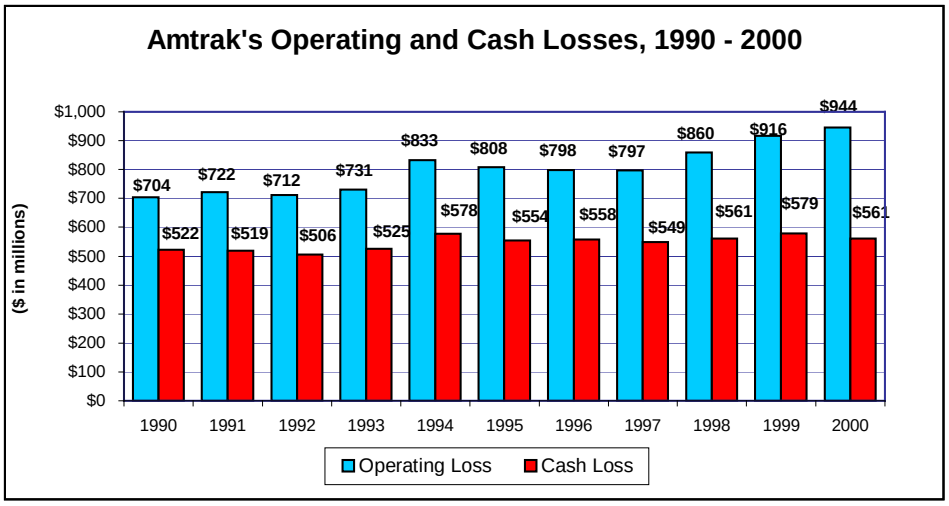
Amtrak's Financial Performance And Requirements

Statement of
The Honorable Kenneth M. Mead
Inspector General
U.S. Department of Transportation

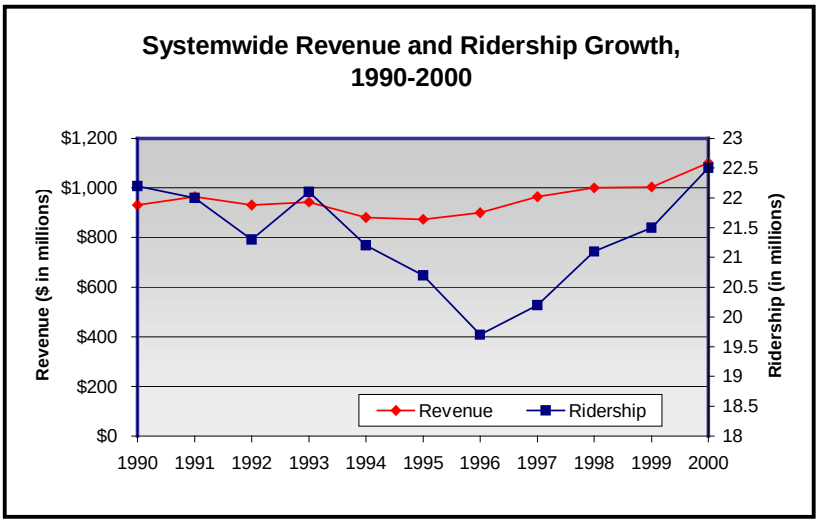
Mr. Chairman and Members of the Subcommittee:

Thank you for providing us the opportunity to comment on Amtrak's financial performance and its short and long-term capital funding needs.

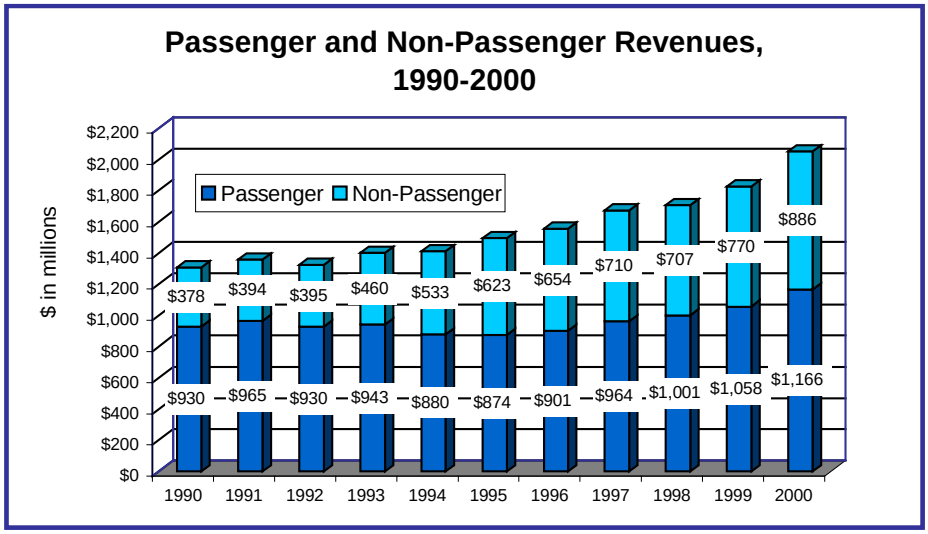
Amtrak's overall financial results have not improved significantly since 1999. Amtrak's 2000 operating loss of $944 million, including depreciation, was $28 million more than its 1999 loss and the largest in Amtrak's history. Amtrak's test for self-sufficiency, however, pivots on its cash losses rather than its operating losses. In 2000, the cash loss was $561 million, about $18 million better than 1999, but fell short of Amtrak's business plan goals by $120 million.



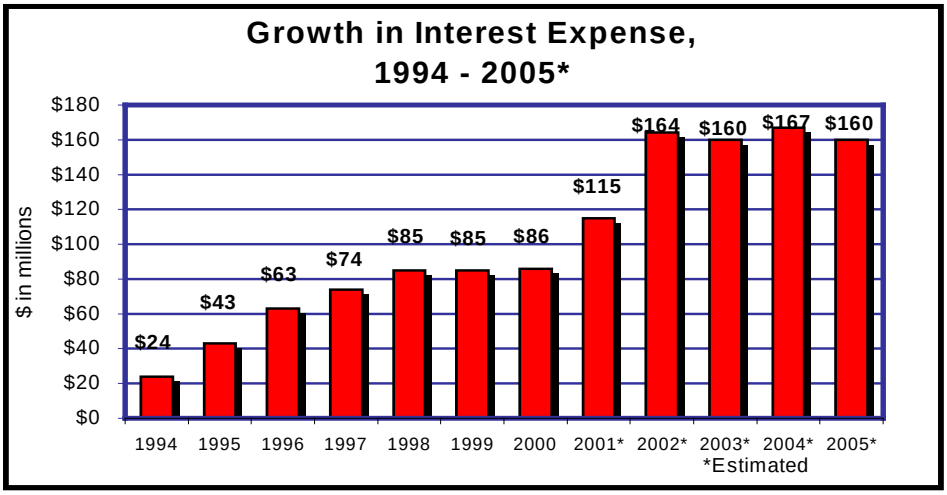
In 2000 and the first 4 months of 2001, Amtrak's revenue and ridership have continued to grow. Amtrak's passenger revenues in 2000 approached $1.2 billion, growing 10 percent over 1999 to set a new record. In the first 4 months of 2001, passenger revenues were up another 13 percent. Systemwide ridership grew by 5 percent in 2000, led by an 8 percent growth in Amtrak West.



Non-passenger revenues were up 15 percent in 2000 over 1999. Non-passenger revenues have become increasingly important to Amtrak and, totaling $886 million in 2000, they accounted for over 43 percent of Amtrak's total revenues. In 1990, non-passenger revenues totaled $378 million and accounted for less than 29 percent of total revenues. An important component of the non-passenger revenues is the mail and express business, which generated $122 million in total revenues in 2000, an increase of nearly 25 percent from 1999.



Unfortunately, Amtrak has not been successful in curbing expense growth. In 2000, cash operating expenses increased by 8.6 percent over 1999. One of the drivers behind the growth is the interest expense associated with the level of debt Amtrak has assumed in recent years to finance new equipment purchases. As of September 2000, Amtrak's long-term debt and capital lease obligations totaled $2.8 billion, an increase of $1 billion over 1999. In 1994, Amtrak's annual interest expenses on borrowing totaled $24 million; in 2000, that total was $86 million. The outlook for the future is worse – by 2002, interest expenses will total $164 million and will remain at that level until 2005.



Congress has mandated that Amtrak reach operating self-sufficiency by 2003. Our position on the deadline is that Amtrak must operate after December 2, 2002 without Federal operating subsidies in order to achieve its mandate. Last September, when we testified before the Senate Commerce Committee, we stated that time was running short for Amtrak to close the holes in its business plan and remain on track for reaching operating self-sufficiency by 2003. Today, there still appear to be significant gaps in Amtrak's business plan and Amtrak's time is almost up. Amtrak is in the 4th year of its 5-year glidepath, and even if Amtrak fills those gaps this year, there may not be enough time for the new plans to bear fruit even under the very best of circumstances. In our judgment, Amtrak's ability to reach operating self-sufficiency by 2003 is in serious jeopardy.

That said, it is still too early to say that Amtrak will not achieve operating self-sufficiency by its deadline. Amtrak *could* still achieve its mandate, but it will depend heavily on making three things happen.

- First, it must fully implement high-speed rail in the Northeast Corridor. When all 20 trainsets and 15 high-horsepower locomotives are in service, Amtrak estimates a net revenue contribution of close to $180 million each year.

- Second, it must fully ramp up its mail and express business. In its 2001 business plan, Amtrak projected total revenues from the mail and express business to reach $402 million by 2003.

- Third, it must make significant strides in curbing expense growth. Nearly all of the $737 million in undefined management actions in Amtrak's 2000 business plan relate to expense reductions. The first step will be identifying concrete plans to fill the gap in the business plan, but definition is not enough. Amtrak must make these plans deliver.

Amtrak has set these wheels in motion but must pursue them vigorously to realize the financial benefits necessary to support its glidepath to self-sufficiency.

If Amtrak is to succeed in achieving its mandate without starving the basic minimum infrastructure needs of the system, it will need additional capital funding in the short term. In the past few years, Amtrak has underspent on the kinds of projects that maintain the sustainable integrity of its infrastructure – namely operational reliability projects and life-safety needs – investing instead in capital projects designed to provide immediate revenues or cost savings.

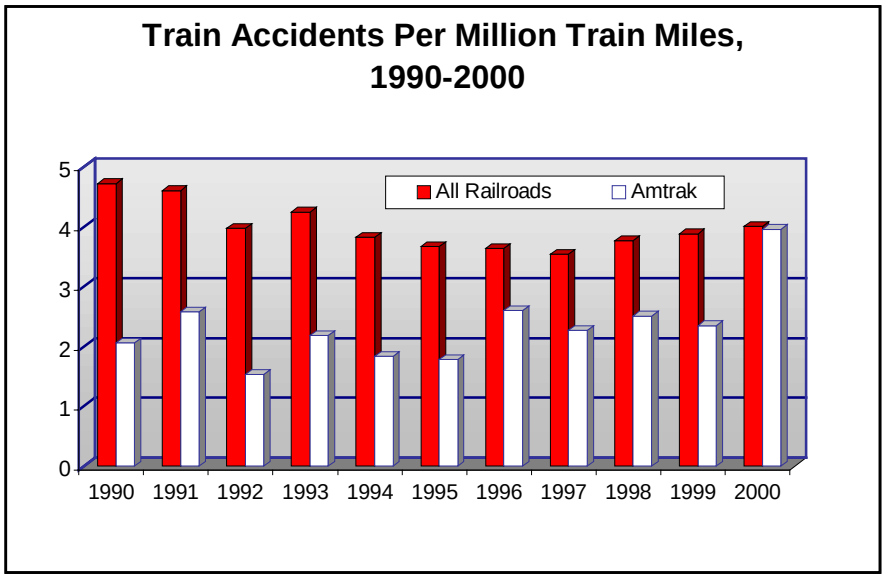
Amtrak estimates that it will need $973 million in capital funding in 2002 and 2003 to pursue a state-of-good-repair capital investment strategy.[1] Amtrak believes that this level of funding would be sufficient to ensure a quality national network for the provision of existing services; address the state-of-good repair needs for infrastructure, facilities and fleet; address life/safety needs, including investments required in the New York tunnels; and support a viable national system necessary for Amtrak to achieve and sustain operational self-sufficiency.

We have not verified Amtrak's estimates, although our own estimates of Amtrak's minimum capital needs for 2002 and 2003 are $370 million and $409 million, respectively. *This bare bones level of funding would not be sufficient for Amtrak to adequately invest in its system if it is to remain viable beyond 2003, and would likely make it impossible for Amtrak to achieve operating self-sufficiency in accordance with its mandate.* However, if Congress chooses to make additional funding available for Amtrak in the short term, we recommend that a portion of the funds be earmarked for expenditure on what we have identified as minimum capital needs.

Even if Amtrak succeeds in reaching operating self-sufficiency, it will continue to need significant and sustained capital funding beyond 2003. In the foreseeable future, we see no set of circumstances where passenger and other revenues will be sufficient to fund the level of capital investment necessary to keep the railroad operating on a national level in good condition. Amtrak estimates that its total annual capital requirement is about $1.5 billion for addressing general capital needs, beginning to address a backlog of needs in the Northeast Corridor, and paying its share of developing new high-speed corridors.

Finally, in light of events of the past weekend, we would like to comment on Amtrak's safety record. Despite several high-profile accidents in the past few years, Amtrak's safety record has been, overall, better than the combined average of all other railroads in the United States. The following figure illustrates Amtrak's accident rate per million train miles as they compare to the combined average of all other railroads in the United States between 1990 and 2000.

[1] This is exclusive of the $190 million and $196 million Amtrak estimates it will need in 2002 and 2003, respectively, to fund expenses associated with liabilities for Amtrak's railroad retirement taxes that exceed the amount needed for the benefits of Amtrak retirees or funds needed for eligible operating expenses until December 2, 2002, when Amtrak is required to operate without Federal operating assistance.



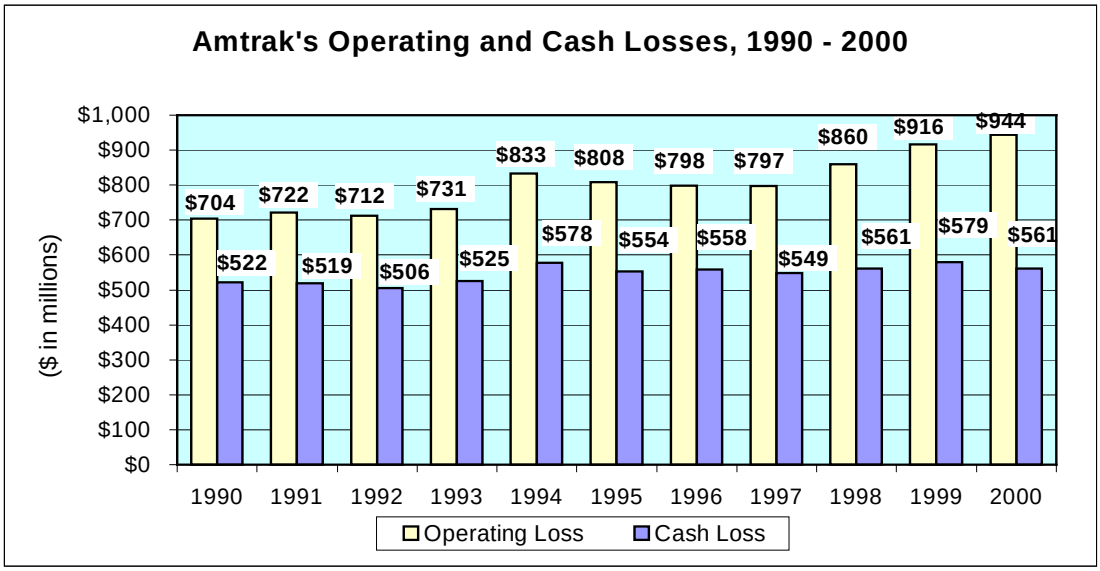
In the Northeast Corridor, Amtrak owns most of the infrastructure and is responsible for maintaining, inspecting, and otherwise ensuring the safety of the services operating over the Corridor. Of twelve notable derailments, collisions, and/or accidents involving Amtrak that have occurred since September 1993, only one – the November 1996 derailment of one Amtrak train and subsequent sideswiping of another Amtrak train in Secaucus, New Jersey – occurred in the Northeast Corridor.

Outside of the Northeast Corridor, Amtrak operates nearly all of its services over right of way owned and maintained by the major freight railroads, including Burlington Northern Santa Fe and CSXT. Concerns with several of the railroads' inspection programs, and the compliance agreement that the Federal Railroad Administration (FRA) entered into last year with CSXT to address systemwide track deficiencies, led us to initiate a review of FRA's Safety Assurance and Compliance Program (SACP). Of specific concern was the lack of follow-up remediation on deficiencies noted in SACP inspections. We will report on our findings this summer.

We have just begun what will be our fourth Congressionally-mandated annual assessment of Amtrak's financial performance and requirements. We will issue our final report this summer. Today, we would like to present our views on Amtrak's current financial performance, its outlook for operating self-sufficiency, delays in the Acela program, and Amtrak's short and long-term capital funding needs.

First, Amtrak's Financial Results Have Not Yet Turned The Corner. Amtrak's overall financial results have not improved significantly since 1999. Amtrak's 2000 operating loss of $944 million, including depreciation, was $28 million more than its 1999 loss and the largest in Amtrak's history.

Amtrak's test for operating self-sufficiency, however, pivots on its cash losses rather than its operating losses. In 2000, the cash loss was $561 million, about $18 million better than 1999, but fell short of Amtrak's business plan goals by $120 million. For the first 4 months of 2001, Amtrak's cash loss was $214 million, which was $4 million worse than the same period last year, but $5 million better than plan. The following graph shows Amtrak's operating and cash losses from 1990 to 2000.



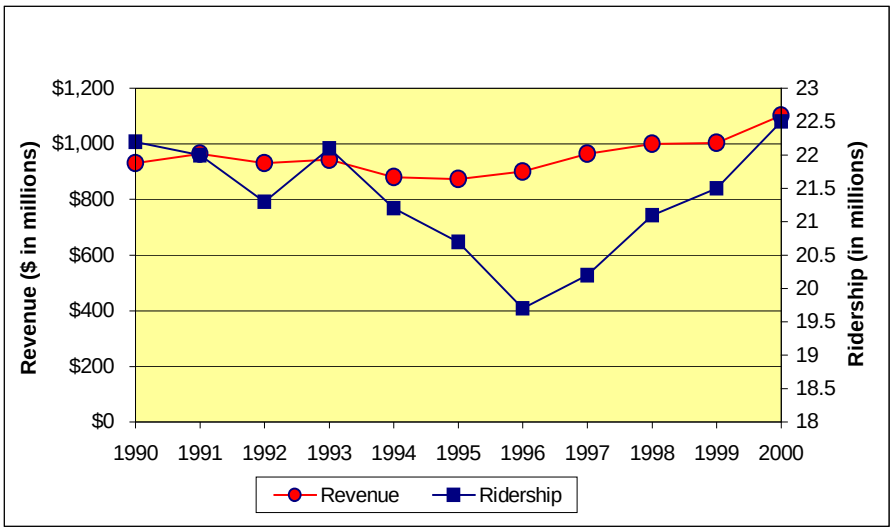
The good news is that Amtrak's revenue and ridership showed marked improvement in 2000 and through the first 4 months of 2001. The bad news is that expense growth has kept pace. For Amtrak to achieve operating self-sufficiency by 2003, it must restrict the growth in expenses.

- **Revenue and ridership show continued growth.** Amtrak continued the revenue growth trends that began in 1995 and reported record passenger related revenue levels in 2000 of nearly $1.2 billion, a 10 percent increase over 1999. For the first 4 months of 2001, passenger related revenue grew by more than 13 percent to $400 million.

  Systemwide ridership in 2000 increased by nearly 5 percent over 1999 to 22.5 million, led by growth of better than 8 percent in Amtrak West and 5 percent in the Northeast Corridor business units.[2] Intercity ridership increased by slightly over 1 percent. Consequently, the Intercity business unit fell short of its passenger revenue goals by $19 million. The graph on the following page illustrates Amtrak's systemwide passenger revenue and ridership trends for the period 1990 to 2000.

[2] Amtrak has three Strategic Business Units (SBUs): Northeast Corridor (NEC), Intercity, and Amtrak West, and a separate Corporate Business Unit that includes Business Service Centers. NEC includes all the routes in the Northeast between Virginia and Maine. Amtrak West incorporates the West Coast routes in California and the Pacific Northwest, extending to Vancouver, British Columbia, and the routes in between. Intercity is the rest of the system across the middle of the country, including most long-distance trains.

Systemwide Passenger Revenue and Ridership, 1990 to 2000

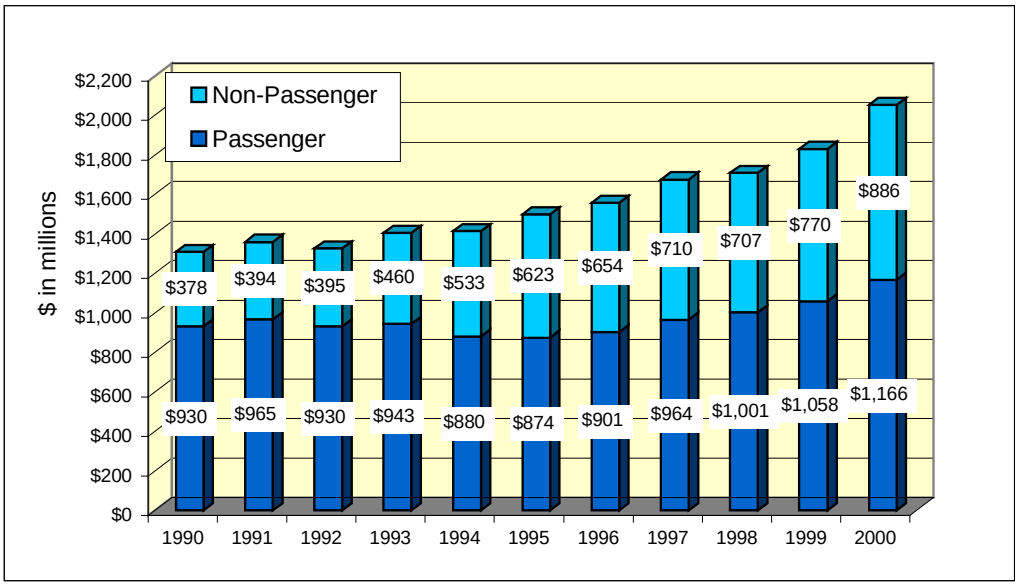


Overall operating revenues increased in 2000 by 12.3 percent over 1999 and grew by 15 percent for the first 4 months of 2001. Non-passenger revenues showed exceptional growth in 2000, increasing more than 15 percent over 1999. Non-passenger revenues comprised an increasing share of Amtrak's total revenues between 1990 and 2000. The overall increase in non-passenger revenues for the last 11 years has been 134 percent, going from $378 million in 1990 to $886 million in 2000.

The trend in non-passenger revenue is largely attributable to revenues generated through commuter and reimbursable maintenance-of-way contracts. An increasingly important source of non-passenger revenues is projected to come from the growth in Amtrak's mail and express business. In 2000, mail and express revenues increased by about 25 percent over 1999 to

$122 million. Non-passenger activities now account for over 43 percent of Amtrak's total operating revenues. [3]

Composition of Total Operating Revenue, 1990 to 2000



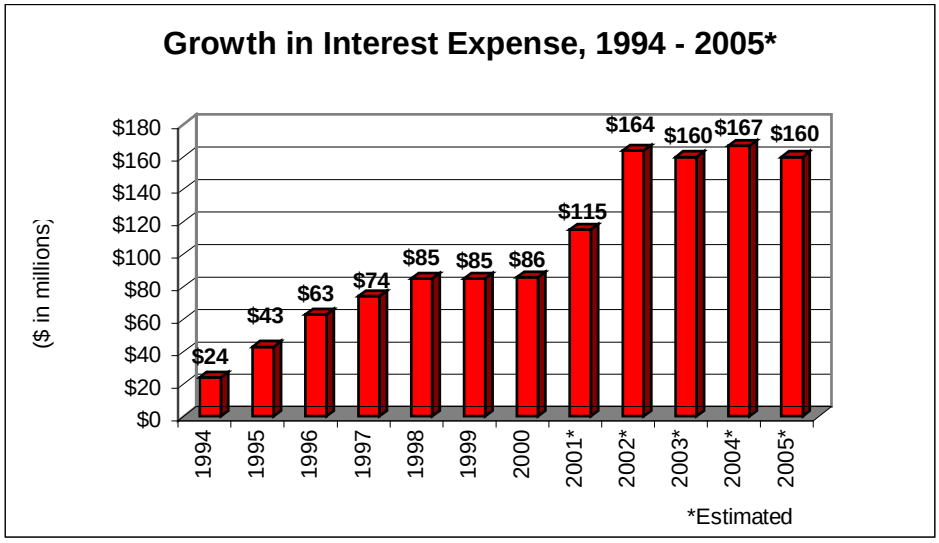
- **Expense growth has kept pace.** Although revenue and ridership trends have shown positive results, increases in labor costs, train operation expenses, depreciation, and maintenance-of-way expenses have fueled continued growth in operating expenses. In 2000, total operating expenses, including depreciation and other non-cash expenses, increased by 9.1 percent, or $250 million over 1999. On a cash basis, expenses increased 8.6 percent. For the first 4 months of 2001, operating expense growth accelerated by 13.2 percent – or 11.7 percent on a cash basis – over the same period in 2000.

[3] Non-passenger revenues include mail and express, commuter, reimbursable, commercial development, non-transportation, state reimbursement, and other transportation revenues.

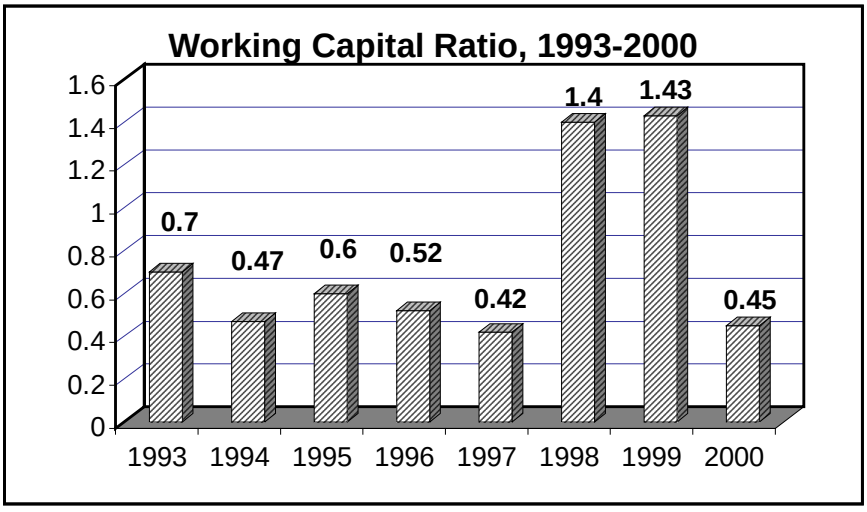
As we reported in our assessment of Amtrak's 2000 Strategic Business Plan,[4] reducing Amtrak's cash losses will depend heavily on limiting the growth in Amtrak's expenses. Cutting expense growth is critical to Amtrak's ability to achieve operating self-sufficiency because Amtrak's overall level of expenses of $3 billion far outstrips total operating revenues of about $2.1 billion. Restricting expense growth will be exceedingly difficult because Amtrak plans to expand passenger services as well as its mail and express business activity.

Furthermore, Amtrak has funded most of its recent refleeting efforts through external financing, which has resulted in significant growth in interest costs during the 1990's and is projected to increase substantially from the 2000 expense level. If Amtrak had sufficient capital available to purchase equipment outright, rather than seeking outside financing, its interest expenses in 2003, Amtrak's first year of operational self-sufficiency, would be approximately $75 million less. The following chart illustrates projected interest expense growth.[5]

[4] Report Number CR-2000-121, September 19, 2000. 2000 Assessment of Amtrak's Financial Performance and Requirements, Office of Inspector General, U.S. Department of Transportation.
[5] The interest expenses shown are on a cash interest basis, not on an accrual basis.



- **Amtrak's liquidity deteriorates and debt surges.** Amtrak faces a severely constrained cash flow in 2001. Current assets declined by almost $600 million between September 1999 and September 2000 while current liabilities increased over $94 million to $751 million. As a result, Amtrak's working capital ratio went from 1.43 in 1999 to .45 in 2000, its lowest level since 1997.



The working capital ratio, which is calculated by dividing the value of current assets by current liabilities, is a measure of an entity's ability to meet short-term liabilities. The decrease in working capital means that Amtrak may have to increase its short-term borrowing to enable it to meet its current obligations.

Amtrak's long-term debt and capital lease obligations totaled $2.8 billion as of September 2000, which was an increase of $1 billion over 1999. During 2000, Amtrak entered into four separate sale-leaseback transactions collectively involving 625 passenger cars. Amtrak set aside proceeds from the transactions that, combined with projected interest earnings on the proceeds, are expected to satisfy the future capital lease obligations. In addition, Amtrak received $124 million in net cash proceeds from the sale-leaseback transactions, which it used, in part, to cover revenue shortfalls in 2000 due to delays in implementing Acela Express and its mail and express business.

- **Key performance measures continue to fall short of goals.** Two key performance measures for Amtrak are the Customer Satisfaction Index (Index) and on-time performance. Amtrak's Index, which indicates the level of customer satisfaction with Amtrak's overall service delivery, dropped from 83 (out of 100) in 1999 to 82 in 2000. As the following table indicates, all three business units fell short of their goals for 2000.

Customer Satisfaction Index Results (Scale: 1 – 100)

Business Unit	1999 Actual	2000 Actual	2000 Goal	+/(-) 1999	+/(-) Goal
Systemwide	83	82	86	(1)	(4)
Intercity	78	79	84	1	(5)
Northeast Corridor	85	82	86	(3)	(4)
West	86	84	89	(2)	(5)

Amtrak reported systemwide on-time performance in 2000 of 78 percent, which was slightly below performance levels in 1999 and 1998. Similar to the performance in customer satisfaction, all three business units did not meet their goals in 2000. Amtrak cited scheduled and unscheduled track work, freight rail traffic interference, mechanical failures, and weather as the largest contributors to the poor performance.

On Time Performance (percentage)

Business Unit	1999 Actual	2000 Actual	2000 Goal	+/(-) 1999	+/(-) Goal
Systemwide	78	78	85	0	(7)
Intercity	67	68	75	1	(7)
Northeast Corridor	88	87	92	(1)	(5)
West	75	75	78	0	(3)

To further bolster ridership, passenger retention, and revenue, Amtrak instituted a Customer Service Guarantee in July 2000. The guarantee provides passengers who are not satisfied with Amtrak's service, for any reason, with vouchers for future travel equal to the value of the trip on which they were dissatisfied. Amtrak's goal for the Customer Service Guarantee is that no

more than 1 passenger in 1,000 (a 99.9 percent satisfaction rate) will request a voucher.

Between July 2000 and January 2001, Amtrak issued about 50,000 service guarantee vouchers with a total value of $4.5 million. Vouchers issued per 1,000 passengers was 3.7 systemwide, 9.7 in Intercity, 2.3 in Amtrak West, and 1.7 in the Northeast Corridor. Through January 2001, passengers redeemed nearly 2,900 vouchers at a value of about $350,000.

Second, Lacking Indications Of Substantial Progress, Amtrak's Ability To Reach Operating Self-Sufficiency By 2003 Is In Serious Jeopardy. Our assessment of Amtrak's 2000 business plan identified a number of elements that are unlikely to perform as Amtrak had expected. *If no corrective action were taken to compensate for them,* Amtrak's cash loss would be about $1.4 billion more than it projected over the 4-year period 2001 through 2004. Most critically, we projected that in 2003, the year of operational self-sufficiency, Amtrak would still require $351 million more in operating assistance than it can fund with its Federal appropriation.

About 87 percent of the total amount we determined to be at risk in Amtrak's 2000 business plan was concentrated in three elements of the plan: $737 million in undefined management actions, $304 million in Northeast Corridor passenger

revenues, and $144 million in Mail and Express net revenues. I would like to say a few words about each of these elements.

- **Undefined Management Actions.** Amtrak's FY 2000 business plan projected operating self-sufficiency largely on the back of the $737 million in undefined management actions. In essence, these undefined actions represent the gap between the total cash loss improvements Amtrak needs and what it expects to get from actions it has already identified. We have not examined the support for Amtrak's new 2001 business plan, however, a cursory review indicates that there still appear to be significant gaps in the business plan, particularly in the years 2002 and beyond. Nearly all of the undefined actions relate to expense savings and it will be critical for Amtrak to develop these actions as a means of curbing expense growth. The first step will be identifying concrete plans to fill the gap in the business plan, but definition is not enough. Amtrak must make these plans deliver.

  Some of the planned initiatives will require upfront capital investments and may involve a significant ramp up period while employees learn new processes and old ones are phased out. Actions of the magnitude necessary to fill these gaps do not translate into revenues or cost savings overnight. Time is running short and if Amtrak is not able to make significant progress in 2001 towards

initiating these actions, it is unlikely that it will meet its operating self-sufficiency mandate by 2003 as directed by Congress.

- **Northeast Corridor Passenger Revenues.** We are concerned that Amtrak's projections for Acela Express ridership assume a higher-than-likely diversion of passengers from air and automobile, and an underestimation of ridership on the slightly slower, but significantly less expensive Acela Regional service. However, if Amtrak were to make some fare and service adjustments – and Amtrak management has indicated a willingness to do so – revenues are likely to be closer to what Amtrak has projected.

  In addition, Amtrak may stand to benefit from the growing congestion facing our Nation's airways and highways. In 2000, more than 1 in 4 flights were delayed; canceled; or diverted, which affected approximately 163 million passengers. Four of the top ten airports with chronically delayed[6] and canceled flights are in the Northeast Corridor, and if relief is not found soon, Amtrak could provide a more palatable option for travelers.

  As part of our annual assessment of Amtrak's financial performance, we evaluate Amtrak's ridership and revenue projections in the Northeast Corridor.

[6] Our definition of chronically delayed and/or canceled flights are regularly scheduled flights that arrive at least 30 minutes later than scheduled and/or were canceled at least 40 percent of the time during a single calendar month.

To do so, we evaluate the likely impacts of variations in fares, frequencies, and trip times on passenger transportation mode choices. Over the next few months, we will look closely at what effect growing airline delays and lengthened airline schedules could have on the popularity of Amtrak's services.

- **Mail and Express.** In its 2001 business plan, Amtrak is projecting Mail and Express service revenues of $402 million by 2003. We have disagreed with Amtrak on how quickly the Mail and Express service revenues are likely to ramp up. For instance, in 2000, Amtrak projected Mail and Express revenues of $176 million, but its actual Mail and Express revenues only totaled $122 million. We understand that Amtrak is in the process of revising its projections and we will look closely at these numbers during our ongoing assessment.

The bottom line is that Amtrak must reduce its cash losses by almost $100 million each year in order to reach operating self-sufficiency by 2003. In order to do so, Amtrak must identify concrete plans for filling all $737 million in undefined management actions, fully ramp-up high-speed rail in the Northeast Corridor and mail and express business, and aggressively pursue actions to curb expense growth.

Third, Delays To Date In Bringing Acela Express On-Line And Their Related Revenue Impacts Should Not Have Long-Term Consequences, But Full Service Must Be Implemented Promptly.

The approximately 1 year of delays in the introduction high-speed rail service will have an estimated impact of $83 million on Amtrak's 2001 revenues. Amtrak expects to compensate for these lost revenues in 2001 through a combination of sale-leasebacks of equipment and other cost-cutting measures.

Acela delays have affected Amtrak's revenue projections and path toward self-sufficiency, delays of this nature are not uncommon in programs of this complexity. The new trainsets represent a significant adaptation of existing high-speed designs to meet more stringent safety requirements in the United States and to compensate for the unique track configurations on the Northeast Corridor. Problems identified in testing and design modifications are normal consequences of such new technology development programs.

If Amtrak experiences no more delays in the Acela program, the revenue shortfalls should be substantially limited to 2001. However, further delays will increase the burden Amtrak will face in closing the gaps in its business plan. High-speed rail is a cornerstone of Amtrak's plans for self-sufficiency and further delays will jeopardize Amtrak's ability to sustain its glidepath.

On December 11, 2000, Amtrak began operating the first Acela Express service in the Northeast Corridor. With a limited number of trainsets on hand, Amtrak's service was limited to one round trip daily between Washington, D.C. and Boston. Earlier this month, Amtrak introduced two additional daily roundtrip Acela Express frequencies and its current plans are to have all 20 trainsets in operation by October 2001. If it meets this schedule, Amtrak should essentially realize a full year of Express revenues in 2002.

The popularity of Acela Express has been slow to ignite – average load factors through January 2001 have ranged between 43 to 48 percent on the Northend, and 26 to 31 percent on the Southend of the Corridor. These low load factors most likely reflect the initial lack of service options, not the quality of the service itself. Until this month, the one Acela Express train left Washington at 5:00 a.m. and returned just before midnight. These load factors are most likely not an accurate indicator of how well the service will be embraced once it is fully implemented.

The revenues Amtrak projects from the Acela program reflect a combination of revenues from the premium Express service as well as significant contributions from the much-improved Acela Regional Service. Amtrak is purchasing 15 new high-horsepower locomotives to operate the Regional service and had originally planned to take delivery of all equipment by March 2000. But in order to expedite full implementation of Acela Express service, Amtrak delayed taking delivery of the equipment and to date, has only accepted 8 locomotives. Amtrak expects to

take delivery of all 15 locomotives by late this summer. Revenues from Acela Regional are expected to be significant and while it is important that Acela Express ramp up as quickly as possible, Amtrak should make every effort to minimize additional delays in the Acela Regional implementation schedule.

Fourth, Amtrak is Facing Severe Short-term Capital Funding Shortfalls. Last September, we reported that barring the availability of additional funding, Amtrak's available capital funds in 2001 would fall $91 million short of meeting what we estimated to be $431 million in minimum needs. We have defined minimum needs as the level of annual spending necessary to allow Amtrak to be able to operate the railroad in a steady-state as the corporation strives to become operationally self-sufficient by 2003. It is important to note, however, that this minimum level of investment is inadequate to sustain the infrastructure and assets of the railroad over the long term beyond 2003. If Amtrak is not able to invest at a significantly higher level, the reliability of Amtrak's services will suffer and its operating costs will increase, as more frequent unscheduled repairs become necessary.

Facing this $91 million shortfall, we recommended that Amtrak reprogram any uncommitted funds from prior year capital budgets and direct those towards minimum needs projects in 2001. According to Amtrak's recently released 2001 capital plan, it reprogrammed $92 million from earlier years, which would have

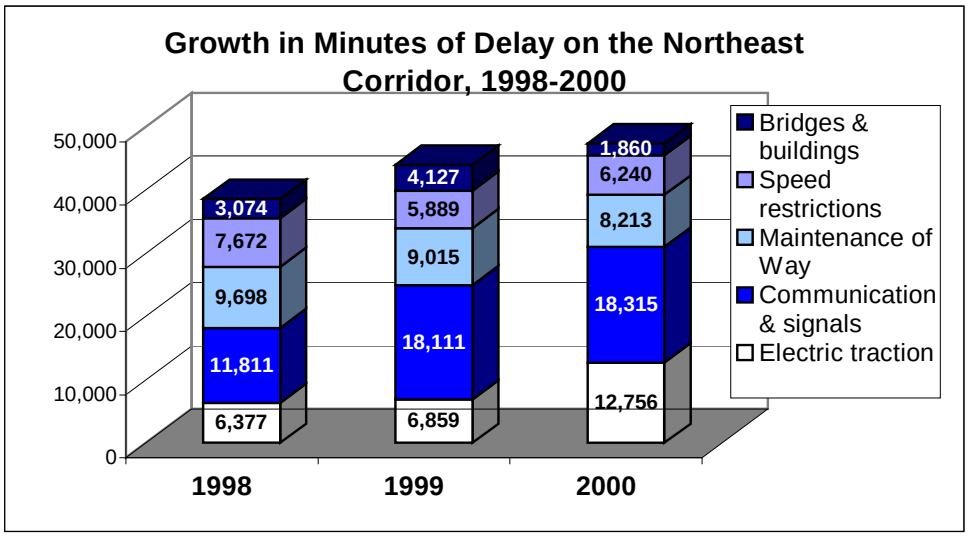
been sufficient to cover the shortfall. However, Amtrak has instead chosen to use much of the reprogrammed monies to help fund other non-minimum, higher-rate of return projects.

Examples of these projects include enhancements to Acela high-speed rail service in the Northeast ($30 million), new business development projects outside the Northeast Corridor ($17.4 million), and an expanded overhaul and refleeting program that was $58.5 million greater than our estimate of the investment needed for overhauls and refleeting in 2001.

Amtrak believes that if it does not make these investments, it will not be able to achieve and sustain operating self-sufficiency. Amtrak's position is that these capital investments will provide the revenues and cost savings that it will need to close the gap in its business plan. While we agree these types of capital projects have merit, we are concerned, however, that these investments are being made at the expense of operational reliability projects such as replacement of aging traction and signaling systems which are at or near the end of their useful lives. Amtrak's planned 2001 spending on operational reliability projects of $110 million is approximately $25 million less than we estimate is the *minimum* annual investment Amtrak needs to make. Similarly, Amtrak's planned spending on life-safety needs of $21 million is $9 million below our minimum needs estimate. Because these projects do not provide quick fixes or quick revenues, they have repeatedly been relegated to the back burner.

This is a risky strategy for Amtrak. The majority of Amtrak's operational reliability needs are in the Northeast Corridor where Amtrak is depending on the success of high-speed rail to not only significantly increase passenger revenues, but to generate support for similar corridors throughout the nation. If Amtrak continues to ignore these projects, in the very near term, electric traction and signal failures will worsen, which will negatively affect reliability and on-time performance, and subsequently undermine the perceived quality of the service.

The effects of underspending on minimum needs are already beginning to surface. Some sections of the Northeast Corridor Southend electric traction system are over 60 years old, and the system is comprised of many components that are prone to failure. Most often it is the overhead catenary wire that is unable to adjust to the extreme temperature swings in the region and the wire expands or contracts creating stresses that can cause it to break as trains run under it. Another reliability problem on the Northeast Corridor is communications and signaling. The Southend contains 8 million feet of cable. Age, electrical faults and weather affect the ability of this cable to perform adequately. The following figure illustrates growth in minutes of delay related to electric traction and communications and signaling problems.



Lastly, Long-Term Capital Funding Sources Must Be Identified.

Even if Amtrak makes its operating self-sufficiency mandate in 2003, it will still continue to need significant, sustained, funding. Amtrak estimates that its total annual capital requirement is about $1.5 billion for addressing general capital needs, beginning to address a backlog of needs in the Northeast Corridor, and for developing new high-speed corridors. Without a program for new corridor development, Amtrak estimates its annual need to be approximately $1 billion over the next 5 years and $750 million each year thereafter. Amtrak has prepared a 20-year comprehensive systemwide capital plan and we will be reviewing it closely as part of our ongoing assessment. We would like to briefly discuss a few of the many options for securing capital funding of this magnitude.

- **General Capital Appropriations.** Amtrak's needs have traditionally been funded through an annual appropriations process, although Congress has periodically provided separate capital grants including the $2.2 billion tax

rebate authorized under the Taxpayer Relief Act of 1997. Annual appropriations could continue to be the primary source of capital funds, but they would need to be substantially higher than recent years' appropriations if Amtrak is to be able to adequately invest in its capital needs.

- **Designated or Earmarked Appropriations.** Amtrak has significant needs in the Northeast Corridor that it has had difficulty addressing because of its large cash losses and the competing interest of investing in higher rate-of-return projects that support its efforts to achieve operating self-sufficiency. Consequently, Amtrak has not invested adequately in projects that sustain the integrity of the system, including life-safety needs.

  Amtrak's most pressing life-safety needs include the 15 miles of tunnels leading into Penn-Station New York where nearly $900 million is needed to bring them up to par with modern safety standards, including the replacement of narrow, winding, spiral staircases, installation of modern ventilation fans, and the rehabilitation of benchwalls. In 1998, Amtrak warned Congress that unless improvements were made rapidly, the age and condition of the tunnels, coupled with the projected growth in traffic, would raise the potential for a serious and consequential accident.

  Last fall, Amtrak, the Long Island Rail Road, and New Jersey Transit developed an accelerated schedule that would complete all work by 2010, and the most critical projects by 2005. But accelerating the schedule can

only be accomplished if adequate funding is made available and the three railroads agree on an equitable cost-sharing arrangement. An annual average investment of $90 million (in 2002 dollars) would be required to adhere to the accelerated 2010 schedule.

One option for funding could be an earmarked supplemental 2001 appropriation or 2002 appropriation equal to Amtrak's share of total project costs that would be available until expended (the last portion in 2010, or sooner if possible). The other users of the tunnels would need to find matches at the State or local level. The benefit of a full appropriation at the start – vs. annual appropriations – is the assurance of a steady stream of funds that will be available when needed to cover Amtrak's share of the costs. Because of the multi-year nature of many of the projects, uncertain or uneven levels of funding in the past has made it difficult to schedule project starts and coordinate matching funds. By appropriating the full amount up front and removing any uncertainty over funding, the safety projects should be able to proceed as quickly as operationally feasible.

- **Proceeds from Amtrak-issued Bonds.** Another funding option is an instrument similar to the High-Speed Rail Investment Act (HSRIA), which was introduced in the last Congress, but was not enacted. The current version introduced in the Senate (S. 250) would make $12 billion available over 10 years through the sale of bonds for development of high-speed

corridors around the country. It will be important that any proposed bill provide for sufficient Federal oversight of Amtrak's spending of the bond proceeds.

On a final note, even if Amtrak succeeds in reaching operating self-sufficiency, it will continue to need significant and sustained capital funding beyond 2003. In the foreseeable future, we see no set of circumstances where passenger and other revenues will be sufficient to fund the level of capital investment necessary to keep the railroad operating on a national level in good condition. Even with adequate short-term funding, Amtrak may not be able to achieve operating self-sufficiency by its mandated deadline, but without a significant, long-term source of capital funding, failure will be a certainty.

Mr. Chairman, this concludes our statement. I would be pleased to answer any questions.