STATEMENT OF
ALLAN RUTTER
FEDERAL RAILROAD ADMINISTRATOR
BEFORE THE
SUBCOMMITTEE ON RAILROADS
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTUR
U.S. HOUSE OF REPRESENTATIVES

April 30, 2003

Chairman Quinn, Congresswoman Brown, Members of the Subcommittee, I appreciate this opportunity to appear before you today to discuss Amtrak and the future of intercity passenger rail service in America.

I. AMTRAK'S RECURRENT CRISIS

I begin with the obvious: Amtrak is an organization with profound financial difficulties. Its current budget request to Congress acknowledges that "for over 30 years, Amtrak has lurched from one financial crisis to another."

Amtrak was created with the illusory expectation that it would soon achieve profitability. Instead, it became dependent upon ever-increasing and now unsustainably large Federal appropriations. This dependency on Federal funds is pegged by Amtrak to be up to $2 billion annually for the foreseeable future[1] -- with Amtrak's FY 2004 budget request up over 80 percent from the current fiscal year and over 250 percent above FY 2001.

The Department of Transportation (DOT) expects that each and every one of Amtrak's 17 long distance trains will this year lose money on a fully allocated cost basis, even excluding depreciation and interest. On a fully allocated cost basis including depreciation and interest (a more accurate measure of overall Federal investment), all of Amtrak's 43 regularly scheduled routes lose money. Ten of its 17 long distance train routes have a net loss of more than $40 million per year. On a per passenger basis, the loss for long distance trains ranges from $131 per passenger to $551 per passenger. Counting long distance and corridor trains together, Amtrak has 25 routes that DOT expects will this year require a subsidy of over 25 cents per passenger per mile of travel.

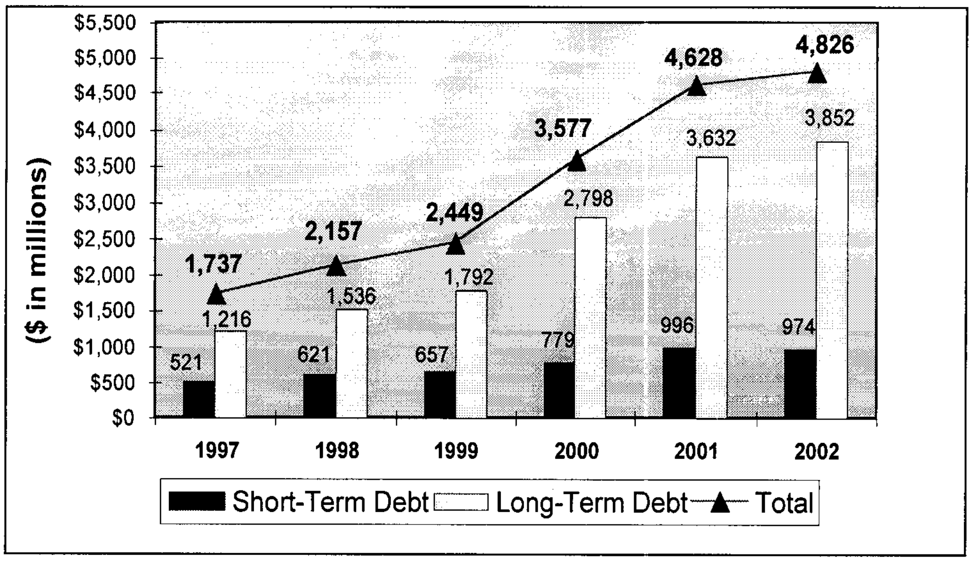
Appendix 1 provides DOT's FY2003 forecast of passenger revenue and expenses for all of Amtrak's routes, reflecting the most recent Amtrak business plan submitted to the Department. Appendix 2 provides more detail about the Department's implementation of our new statutory authority to require in FY 2003 that Amtrak live within its Congressional appropriation. We will continue to monitor Amtrak's performance and will provide updates to the Committee periodically throughout the remainder of the fiscal year.

[1] Amtrak has requested $1.812 billion for FY 2004.

If anything, these route subsidy figures underplay the true financial difficulty that faces Amtrak. In order simply to meet payroll, Amtrak has for years also deferred long-term investment work, the true cost of which is not fully known. The DOT Inspector General estimates Amtrak's deferred capital investment backlog to be $6 billion. Last week, Amtrak's Board of Directors received from management a first draft of staff's estimate of capital and operating needs for the next five years. The Board has requested that David Gunn provide additional detail about several considerable risks to the plan. The draft also identifies, but does not yet cost out, a need for large capital investments for replacement of old rolling stock within ten years. One thing is certain at this juncture: the present and future capital needs of Amtrak are another large potential liability.

In addition, and animated perhaps in part by an aversion to declaring its failure to meet the operational self-sufficiency mandate, Amtrak's total debt grew from $1.7 billion in 1997 to $4.8 billion in 2002. Figure 1 illustrates the growth in Amtrak's total debt.

Figure 1
Amtrak Short-Term and Long-Term Debt
(Source: U.S. DOT Inspector General)



Because of this increased debt, naturally Amtrak's annual debt service has grown substantially, adding a large up-front cost to its business plan. Annual debt service requirements (principal and interest) are forecasted to be $278 million in FY 2004 (up from $111 million in 1997). This means that debt service will consume over 15 percent of Amtrak's requested FY 2004 appropriation of $1.8 billion. In short, Amtrak has leveraged its assets very aggressively.

As you know, in each of the last two years, the Department of Transportation was obliged to take extraordinary measures to help Amtrak avert bankruptcy. We reluctantly allowed Amtrak to mortgage Penn Station in New York City in the summer of 2001 and provided Amtrak a $100 million loan under the Railroad Rehabilitation and Improvement Financing (RRIF) program in the summer of 2002. Last year's RRIF loan was further augmented by a $205 million emergency appropriation voted by Congress to prevent a fourth quarter shutdown at Amtrak.

That narrowly averted shutdown not only would have stranded Amtrak's customers, but also would have affected hundreds of thousands of commuter rail passengers who rely on Amtrak's commuter support services and infrastructure.

In what follows, I would like to outline the Administration's recommendations for passenger rail authorization.

II. AUTHORIZING INTERCITY PASSENGER RAIL ANEW

Before discussing the future of intercity passenger rail in more detail, I'd like to say a word about the team that is managing ongoing operations at Amtrak. Since arriving at Amtrak almost a year ago, David Gunn has worked with the Amtrak Board of Directors to reduce operating expenses, de-layer management, improve customer service, address the numerous material weaknesses identified by Amtrak's auditors, instill financial discipline, and provide Congress and the Administration with more accurate and timely financial data. David and his management team have achieved meaningful improvements.

Having served with Deputy Secretary Jackson as Secretary Mineta's representatives on the Amtrak Board for the past two years, we have been impressed with David's work and candor, even when we have occasionally and respectfully disagreed. David has a daunting task, but he and his team have made progress worthy of honest praise.

Recent management discipline and new oversight authority, however, will not alleviate the ongoing crisis of three decades at Amtrak. Nor will the problems at Amtrak simply go away with a more liberal application of dollars drawn from the Federal treasury. The *status quo* organization cannot stretch to resolve these and other inherent weaknesses with which Amtrak has struggled to live. Structural reform of intercity passenger rail is needed.

Principles of Reform. Last June, Secretary Mineta spelled out five principles that the Bush Administration argues should be part of any successful reform of intercity passenger rail service. He said we must:

- Create a system driven by sound economics.
- Establish a long-term partnership between the states and the Federal government to support intercity passenger rail service.
- Require that Amtrak transition to a pure operating company.
- Create an effective public partnership, after a reasonable transition, to manage the capital assets of the Northeast Corridor.
- Introduce carefully managed competition to provide higher quality rail services at reasonable prices.

Anticipating Congressional action on authorization later this year, the Administration proposed funding for Amtrak in FY 2004 at a level of $900 million. Today I repeat what DOT said when announcing the Administration's FY 2004 funding request for Amtrak. This is a funding level with a message: Amtrak must undergo significant reform.

Money Alone is Not the Answer. Many of the central questions of the authorization will be financial, beginning with consideration of the enormous annual Federal subsidies -- some $2 billion a year over the next five years -- proposed by Amtrak. But even this proposal does not liquidate Amtrak's capital backlog. Nor does Amtrak's request include money for the multi-billion dollar high speed rail projects advocated by others. In fact, as part of its loan to Amtrak last year, the Department prohibited further speculative outlays by Amtrak to support future high-speed rail projects. Amtrak agreed to these provisions.

The new authorizing legislation for intercity passenger rail service will presumably also address the Federal government's role and funding commitments -- if any -- relative to high-speed rail and Maglev. When the whole picture is laid on the table, the potential cost is stunningly large.

Some argue it is inevitable that the Federal Government must endlessly pay giant subsidies for passenger rail. Around the globe, they note, passenger rail typically loses money. Amtrak is today a giant passenger rail system spanning thousands of miles. Ergo, it is said, the Federal government surely must spend Brobdingnagian sized buckets of money for Amtrak.

This is flawed logic and counsel we can ill afford. It fails to recognize adequately that the vast size of our nation and its population distribution make for a passenger rail market in the United States unlike virtually all other nations.

In fact, Amtrak's core business design suffers from structural rot. For decades, the Federal government has embraced perverse incentives that consistently impel Amtrak to make irrational business decisions. Consider, for example, the failed experiment in the last authorization regarding the so-called "glide path." Rather than producing operational self-sufficiency, Amtrak instead delivered stratospheric debt and pervasive financial legerdemain. To look at Amtrak's dilemma more sympathetically, one could say that from the beginning Amtrak has tried to balance an ill-defined public service mandate with a clear statutory requirement to operate as a for-profit enterprise, never satisfying either.

Just take the issue of whether to modify or actually terminate long distance routes. Even though the evidence shows staggering subsidies for long-distance rail, Amtrak has not made even modest changes to its long distance route structure in over 30 years. Why? Because we are told that the labor protection costs would, for several years, be equivalent to the cost of continued operations. More importantly, even raising this issue begins to unravel the fragile political coalition that has supported Amtrak's ever-growing annual subsidies. Imagine the impact upon our nation's economy if other businesses faced similar structural and political impediments that prevented them from implementing any service changes.

So, more money alone is not the answer. What to do? In short: embrace a new business model for passenger rail. And because meaningful change will be difficult, we should be willing to implement needed reforms at a deliberate, but measured pace. In fairness, I believe that many Members who voted for the last authorization of Amtrak thought they were doing just that. In retrospect, that legislation was insufficiently bold and fundamentally flawed to the extent that it relied upon Amtrak to reform itself.

Passenger Rail Authorization. The Administration supports an authorization period of six years rather than four. This will give us time fully to implement needed restructuring in one authorization cycle. Perhaps it is useful to start first with a summary of where we hope to end up in those six years.

Intercity passenger rail would become an economically viable and strategically effective mode of transportation supporting numerous successful rail corridors nationwide. The Federal role in passenger rail would, however, be reformed and strengthened to mirror much more closely the current Federal program supporting mass transit.

The Federal government would continue to define rail safety standards and enforce them. The Department of Transportation would provide capital grants directly to states and interstate consortia of states operating passenger rail. State government agencies would determine the level of passenger services needed, the price for such service, and they would contract with third-party operators to provide long-distance and corridor trains. The same program would apply to legacy long distance routes, current and new corridor services -- at higher speeds or not. To the extent that states' service choices require operating subsidization, state governments would be required to provide that subsidization, no later than a specified date to be determined but within the new authorization cycle.

For a period of years, the Federal government would continue disproportionately to fund the capital backlog for certain passenger rail projects. By the end of the authorization cycle, however, state governments would provide at least 50 percent of needed capital investment for all intercity passenger rail service.

The Federal government would assume several new or expanded roles, particularly to support the formation of corridor-based rail services. The Administration will request continuation of the type of grant making discipline and oversight that was incorporated into the Omnibus Appropriations Act of FY2003. The Department, rather than Amtrak, would exercise statutory authority to assign passenger train operating rights to a single party to operate intercity rail in a given corridor. Of course, such rights would be allocated to Amtrak exclusively in the first year of the new authorization period, and presumably throughout much of this transition period.

We do not propose to eliminate Amtrak, but we do propose comprehensive structural changes to be implemented at a prudent pace spanning the entire six-year period of the next authorization cycle. Amtrak would be required to form a pure operating company -- one that does indeed make a profit by providing excellent service for its government customers. It would be irresponsible to eliminate Amtrak altogether, but it would be an equal folly not to reform a corporation suffering such a persistent and thoroughgoing crisis.

One cornerstone objective is to continue vital rail services while implementing fundamental reform. The future of the Northeast Corridor (NEC) should be preserved and nurtured by a new governance structure that can be sustained for the long haul. The Administration will have very specific proposals about a process to create this new governance structure, and its ultimate performance characteristics. But we start from the conviction that, because of the complexity of this matter, the pending authorization should specify only the *process* for creating such a new institution or compact, rather than attempting to impose at the outset a specific organizational structure. An appropriate mechanism would then be included within the Congressional legislation that will, in turn, yield the new governance structure prior to expiration of the authorization cycle.

We must balance carefully the interests of each of the states served by intercity passenger rail. The needs of commuter rail systems and the freight railroads are also essential equities that must be served fairly by the new partnership formed by the states and the Federal government to own and operate intercity passenger rail.

When this model is embraced, I personally think that the nation will likely see *more* rather than *less* passenger rail service. Effective reform need not eliminate protections afforded by the Railway Labor Act, the Federal Employer's Liability Act (FELA) and railroad retirement. I also think the transition can be structured to make supporters of Amtrak's employees, ensuring that the reformed businesses retain good jobs that are more secure.

This is a very brief sketch of what the Administration thinks is achievable for reforming Amtrak by the end of FY2009. Without summarizing all details of the transition path that would yield these results, it is important to say a bit more about several key institutions that would make this happen.

The NEC Federal-State Compact. The Administration's proposal would create a new legal entity, a Federal-state compact to operate the NEC spine infrastructure under a 99-year lease from the Department of Transportation. It would likely take at least two years to put the new organization into place, during which period Amtrak would be required to begin its own transformation. The new NEC Compact would annually apply for and receive capital grants from the Department for corridor investment.

It would have the authority to enter private debt markets to finance NEC improvements. The NEC Compact would, with the Department of Transportation, develop a business plan to alleviate the capital backlog of projects needed to place the NEC in reasonable shape.

For most, if not all of the period of the pending authorization, the NEC Compact would contract with the NEC Infrastructure Corporation, an offshoot of the current Amtrak organization (see below) to maintain and operate the NEC in support of intercity passenger rail and commuter rail services on the corridor. At the same time, the NEC Compact would contract with Amtrak Operations to run the corridor trains.

By the end of the authorization cycle, and periodically thereafter as determined by the new organization, the NEC Compact would be required to solicit competitive bids to operate the infrastructure and to operate its intercity passenger trains. Because the Federal government would continue to own the corridor infrastructure, it would continue to play a role in the governance of the compact for the life of the lease.

State and Regional Rail Operating Companies. The Administration's proposal would authorize multi-state interstate compacts to operate intercity rail in areas served by access to freight railroad tracks. Either individual states or Regional Rail Operating Companies (RROCs) formed for this purpose could apply for and receive capital grants from the Department for corridor modernization. They would also have the authority to enter private debt markets to finance capital improvements.

The states and RROCs would contract initially with Amtrak Operations for corridor and long distance rail services. After a transitional period to be determined, such entities would be required to solicit competitive bids to operate intercity passenger trains supported by Federal funds. The Federal role relative to these entities would ultimately be similar to the Federal Transit Administration's relationship with local transit authorities. In the transitional period, the Federal government would have an additional role of facilitating the formation of such entities.

Restructuring Amtrak. The initial year of the new authorization cycle would, in the Administration's proposal, continue the existing basic legal and operating structure of the National Passenger Rail Corporation (Amtrak). The Administration advocates immediately increasing the size of Amtrak's Board by six persons to improve corporate governance and allow the Board adequately to staff the committee structure needed to provide appropriate management oversight.

Some functions, such as management of certain existing principal and interest payments on Amtrak's legacy debt, would, after a transition period of at least one year, be assigned to newly created structures that facilitate the statutory reform. For purposes of this testimony, I would like to highlight the Administration's recommendation to create two new organizations from within Amtrak as currently structured.

> **NEC Infrastructure.** The NEC Infrastructure Company would be a private company under contract to the NEC Compact to perform maintenance and manage the capital investment backlog program on the NEC. Both maintenance and capital work are performed with its own workforce as well as through the selection and oversight of contractors. It would be composed largely of the Chief Engineer's functions and workforce from the old Amtrak.
>
> **Amtrak Operations.** Amtrak Operations would be a private company that operates long-distance and corridor passenger service and maintains passenger equipment under contract to the states. Service provided is determined solely by the states and all operating equipment is either provided by the states or by Amtrak Operations, as negotiated in agreements between Amtrak Operations and its customers. It would be composed largely of the intercity train operations and equipment maintenance staff of the old Amtrak.

As with the NEC Infrastructure functions, Amtrak Operations would, for a period, still enjoy its current monopoly status to operate intercity passenger rail service. In time, however, Amtrak Operations would compete in the marketplace to provide such services. AS such, it ultimately should be entirely independent of direct Federal Government grants. States or RROCs operating intercity passenger rail with Federal assistance would be required to seek competitive bids of appropriate duration for rail operations.

Having announced today these broad details of the Administration's approach to the pending authorization of passenger rail, the Administration looks forward to further near-term dialogue with Congress and other key parties prior to finalizing details of our intercity passenger rail legislative proposal in the coming weeks.

Conclusion. Passenger rail is an important component of our nation's transportation infrastructure. We stand ready to work with Congress and the states in the upcoming authorization to create an intercity passenger rail system that is driven by sound economics, fosters competition, and establishes a long-term partnership between states and the Federal government to sustain an economically viable system.

Today there are at least two competing approaches to dealing with the Amtrak problem. On the one hand, serious colleagues believe that the best way to save intercity rail is to drop back, and spend the next four years stabilizing Amtrak as it currently exists in the hope that it can somehow gather enough political support for the substantially larger investment Amtrak would need to survive. On the other hand, the Bush Administration, the Amtrak Reform Council and numerous others have concluded that true structural reforms are needed, and needed now.

Members of Congress committed to passenger rail need not mistake or fear this latter conviction. It is not advocated by this Administration as a Trojan horse aimed at abolishing passenger rail. Instead, it is animated by a fair desire to make some form of passenger rail service viable for the long term.

Some will disparage the call for root and branch reform in part because it is so difficult. The Bush Administration does not propose a quick fix. Indeed, not even a simple fix. But securing true structural reform is the only worthy solution for addressing such a persistent and important public policy dilemma.

There is, then, much work ahead as Congress digs deep into these issues. Secretary Mineta and his team also look forward to working with Congress to assess and implement long-term solutions to the recurrent crises that plagues intercity passenger rail. I would be pleased to respond to any questions you may have.

# # #

Appendix 1

FY 2003 Amtrak Revenue, Expense and
Contribution/(Loss) Allocations

Appendix 1

FY 2003 Amtrak Revenue, Expense and
Contribution/(Loss) Allocations

Appendix 1

FY 2003 AMTRAK REVENUE, EXPENSE AND
CONTRIBUTION/(LOSS) ALLOCATIONS

Appendix 1 *(continued)*

Footnotes

(1) Source: Amtrak

(2) Includes a route's allocated expenses (as determined by Amtrak's Route Profitability System) falling into those cost categories that have been determined to be at least 50% variable at the individual route level (e.g. Fuel, Train Crew Labor, Equipment maintenance).

(3) Includes all expenses allocated to the route, except depreciation and interest expense, that are not determined to be avoidable.

(4) Non-capitalizable interest expense allocated to route.

(5) Depreciation expense (matching past capital expenditures to the current accounting period) allocated to route.

(6) = Total Revenue - (Avoidable Expenses + Remaining Expenses)

(7) = Total Revenue - (Avoidable Expenses + Remaining Expenses + Non-Capitalized Interest Expense + Depreciation Expense)

Appendix 1 *(continued)*

Amtrak Long-Distance Trains
FY03 Projected Revenue, Ridership, and Passenger-Miles (1)

	Route Name	Passenger-Related Revenue	Mail & Express Revenue	Other Revenue	State Support Revenue	Total Revenue	Ridership	Passenger-Miles
1	Silver Star	$ 24,266,292	$ 3,559,032	$ 33,061	$ 2,178	$ 27,860,563	252,222	176,802,411
2	Three Rivers	9,767,017	9,431,395	20,968	1,384	19,220,764	130,736	71,472,217
3	Cardinal	3,631,780	14,821	8,316	584	3,655,500	73,925	28,338,156
4	Silver Meteor	28,508,783	1,701,073	30,146	2,112	30,242,114	251,446	184,283,978
5	Empire Builder	39,835,736	6,511,175	54,344	-	46,401,255	354,307	298,352,416
6	Capitol Limited	12,022,819	5,664,242	16,333	1,160	17,704,554	164,608	89,797,068
7	California Zephyr	36,176,278	5,279,117	58,242	-	41,513,636	323,097	285,614,035
8	Southwest Chief	36,291,627	18,658,660	52,539	-	55,002,826	262,309	311,424,088
9	City of New Orleans	11,679,953	774,775	20,930	-	12,475,658	161,056	68,185,461
10	Texas Eagle	14,528,257	2,553,689	23,157	-	17,105,103	138,685	130,298,882
11	Sunset Limited	14,586,421	1,249,787	25,476	-	15,861,683	99,109	118,177,462
12	Coast Starlight	34,858,519	81,592	32,330	-	34,972,441	451,858	247,654,761
13	Lake Shore Limited	24,144,340	3,108,486	29,439	1,758	27,284,023	303,953	187,114,174
14	Palmetto	15,351,345	5,617,028	31,753	2,206	21,002,333	198,759	124,329,133
15	Crescent	24,729,643	2,967,712	36,269	-	27,733,624	245,761	146,280,347
16	Pennsylvanian	2,929,108	4,441,297	739	-	7,371,144	62,073	18,063,488
17	Auto Train	47,200,603	-	-	-	47,200,603	190,089	163,666,629
Total Long-Distance Trains		**$ 380,508,521**	**$ 71,613,879**	**$ 474,043**	**$ 11,382**	**$ 452,607,825**	**3,663,993**	**2,649,854,706**

Appendix 1 *(continued)*

Amtrak Corridor Trains
FY03 Projected Revenue, Ridership, and Passenger-Miles (1)

	Route Name	Passenger-Related Revenue	Mail & Express Revenue	Other Revenue	State Support Revenue	Total Revenue	Ridership	Passenger-Miles
18	Acela Express / Metroliner	$ 357,288,130	$ 42	$ 1,009	$ -	$ 357,289,181	3,049,672	535,017,563
19	Ethan Allen Express	1,672,681	6,686	4,462	659,863	2,343,693	36,150	6,783,247
20	Acela Regional/NED/Vermonter	335,191,135	3,789,449	28,891	956,885	339,966,360	5,949,464	995,212,678
21	Twilight Shoreliner	13,404,710	701,576	20,413	-	14,126,699	208,523	53,114,899
22	Maple Leaf	9,680,490	35	21	-	9,680,547	190,985	56,817,988
23	The Downeaster	4,608,938	497	426	941,713	5,551,574	287,256	26,765,687
24	Clocker Service	19,067,618	-	-	-	19,067,618	1,921,749	92,332,379
25	Keystone Service	21,800,183	544	-	4,778,305	26,579,032	899,414	75,998,943
26	Empire Service	39,072,447	13,076	8,641	-	39,094,165	1,003,106	152,053,080
27	State House	5,718,484	302,216	2,240	4,084,840	10,107,781	220,299	41,640,778
28	Hiawathas	6,551,437	47,348	1,517	5,507,615	12,107,917	381,156	31,503,521
29	Wolverine	9,813,014	11,017	5,739	-	9,829,771	286,092	61,620,187
30	Illini	2,904,430	-	-	2,759,835	5,664,265	90,222	18,373,802
31	Illinois Zephyr	2,352,440	-	-	2,979,389	5,331,829	90,905	15,967,648
32	Heartland Flyer	883,432	-	-	5,262,400	6,145,832	49,096	7,505,412
33	Pacific Surfliner	30,310,830	9,620	6,265	21,561,447	51,888,161	1,811,150	167,140,557
34	Cascades	13,730,382	45,263	29,145	17,728,882	31,533,672	593,327	87,491,079
35	Capitols	11,571,382	640	-	22,051,327	33,623,349	1,112,304	75,060,073
36	San Joaquins	18,196,687	6,616	1,582	29,053,490	47,258,375	736,044	115,129,636
37	Adirondack	4,377,233	11,256	7,386	879,152	5,275,027	93,781	28,299,370
38	International	2,693,290	-	-	3,964,937	6,658,227	85,274	18,687,678
39	Kentucky Cardinal	389,898	465,900	-	-	855,798	23,070	5,060,262
40	Mules	3,111,265	3,720	-	6,478,653	9,593,638	135,040	25,723,491
41	Pere Marquette	1,650,536	-	-	2,410,270	4,060,806	63,006	9,621,371
42	Carolinian	11,432,706	938,011	16,661	3,000,043	15,387,421	209,204	67,991,948
43	Piedmont	563,259	4,525	3,412	2,746,670	3,317,867	41,209	5,090,135
Total Corridor Trains		**$ 928,037,039**	**$ 6,358,042**	**$ 137,810**	**$ 137,805,716**	**$ 1,072,338,608**	**19,567,498**	**2,776,003,412**

Appendix 1 *(continued)*

Amtrak Long-Distance Trains
FY03 Projected Expenses

	Route Name	Avoidable Expense (2)	Remaining Expense (3)	Interest Expense (4)	Depreciation Expense (5)	Total Expenses
1	Silver Star	$ 28,274,298	$ 29,691,828	$ 3,418,721	$ 16,895,725	$ 78,280,573
2	Three Rivers	19,925,787	33,179,438	3,281,934	11,316,106	67,703,264
3	Cardinal	9,355,148	7,090,427	1,013,738	2,879,887	20,339,200
4	Silver Meteor	24,230,415	26,582,184	2,983,521	15,855,042	69,651,161
5	Empire Builder	53,877,541	37,925,901	8,129,709	13,872,394	113,805,545
6	Capitol Limited	19,816,711	21,384,923	3,628,433	5,486,973	50,317,040
7	California Zephyr	54,016,152	40,420,260	8,223,544	14,760,451	117,420,408
8	Southwest Chief	63,208,506	60,130,842	11,395,569	18,695,880	153,430,798
9	City of New Orleans	16,956,937	13,186,930	2,437,753	4,726,803	37,308,424
10	Texas Eagle	27,975,425	18,082,706	3,450,721	6,135,790	55,644,642
11	Sunset Limited	29,200,740	21,111,577	7,665,440	10,745,327	68,723,084
12	Coast Starlight	41,750,008	30,782,142	9,481,122	12,050,870	94,064,142
13	Lake Shore Limited	30,256,115	37,630,418	4,267,291	12,099,953	84,253,777
14	Palmetto	23,012,590	27,689,275	2,792,916	12,338,574	65,833,355
15	Crescent	30,354,205	30,211,508	3,558,028	15,934,518	80,058,259
16	Pennsylvanian	11,962,541	20,326,783	2,438,327	6,825,699	41,553,350
17	Auto Train	36,402,693	23,178,046	9,759,964	10,977,404	80,318,107
Total Long-Distance Trains		**$ 520,575,814**	**$ 478,605,187**	**$ 87,926,732**	**$ 191,597,397**	**$ 1,278,705,130**

Appendix 1 *(continued)*

Amtrak Corridor Trains
FY03 Projected Expenses

	Route Name	Avoidable Expense (2)	Remaining Expense (3)	Interest Expense (4)	Depreciation Expense (5)	Total Expenses
18	Acela Express / Metroliner	$ 139,749,617	$ 147,810,290	$ 30,551,801	$ 114,363,767	$ 432,475,475
19	Ethan Allen Express	2,363,375	2,718,515	231,092	607,239	5,920,221
20	Acela Regional/NED/Vermonter	189,460,775	200,517,365	12,247,142	154,264,966	556,490,248
21	Twilight Shoreliner	14,164,284	15,162,404	1,446,732	10,493,008	41,266,428
22	Maple Leaf	6,754,663	7,510,604	610,923	3,306,395	18,182,585
23	The Downeaster	5,059,280	5,612,324	307,415	2,556,302	13,535,321
24	Clocker Service	12,367,011	12,969,282	630,864	10,793,872	36,761,029
25	Keystone Service	21,732,220	22,711,557	2,294,919	19,446,901	66,185,597
26	Empire Service	34,932,568	39,414,662	3,620,885	13,627,135	91,595,249
27	State House	10,801,193	12,324,651	1,626,460	3,379,256	28,131,559
28	Hiawathas	10,715,286	12,356,604	1,303,090	2,564,265	26,939,246
29	Wolverine	12,830,638	14,608,591	2,199,154	4,206,701	33,845,084
30	Illini	3,457,970	3,893,113	639,596	1,400,728	9,391,407
31	Illinois Zephyr	3,535,533	4,000,408	668,691	1,311,046	9,515,678
32	Heartland Flyer	2,264,181	2,495,373	298,299	1,242,929	6,300,783
33	Pacific Surfliner	33,038,035	37,237,903	8,659,592	13,125,435	92,060,965
34	Cascades	19,358,847	22,556,184	1,093,586	3,225,803	46,234,420
35	Capitols	18,259,691	21,640,291	386,018	830,671	41,116,671
36	San Joaquins	26,679,236	31,605,319	607,287	1,294,425	60,186,267
37	Adirondack	4,013,402	4,548,211	209,883	1,445,193	10,216,689
38	International	4,127,559	4,604,900	808,015	1,927,000	11,467,474
39	Kentucky Cardinal	3,971,926	4,341,010	1,106,702	2,401,614	11,821,251
40	Mules	4,962,306	5,625,934	850,413	1,772,506	13,211,159
41	Pere Marquette	2,551,080	2,891,763	479,731	914,153	6,836,727
42	Carolinian	8,885,256	9,812,051	817,315	4,759,133	24,273,755
43	Piedmont	1,740,022	2,065,797	30,920	57,160	3,893,899
Total Corridor Trains		**$ 597,775,955**	**$ 651,035,104**	**$ 73,726,525**	**$ 375,317,603**	**$ 1,697,855,187**

Appendix 1 *(continued)*

Amtrak Long-Distance Trains
FY03 Projected Contribution/(Loss)

		Fully Allocated Contribution/(Loss) Excluding Depreciation and Interest (6)			Fully Allocated Contribution/(Loss) (7)		
	Route Name	Net Loss	Per Passenger	Per Passenger-Mile	Net Loss	Per Passenger	Per Passenger-Mile
1	Silver Star	$ (30,105,564)	$ (119)	$ (0.170)	$ (50,420,011)	$ (200)	$ (0.285)
2	Three Rivers	(33,884,461)	(259)	(0.474)	(48,482,501)	(371)	(0.678)
3	Cardinal	(12,790,075)	(173)	(0.451)	(16,683,700)	(226)	(0.589)
4	Silver Meteor	(20,570,485)	(82)	(0.112)	(39,409,048)	(157)	(0.214)
5	Empire Builder	(45,402,187)	(128)	(0.152)	(67,404,290)	(190)	(0.226)
6	Capitol Limited	(23,497,080)	(143)	(0.262)	(32,612,486)	(198)	(0.363)
7	California Zephyr	(52,922,776)	(164)	(0.185)	(75,906,772)	(235)	(0.266)
8	Southwest Chief	(68,336,522)	(261)	(0.219)	(98,427,972)	(375)	(0.316)
9	City of New Orleans	(17,668,210)	(110)	(0.259)	(24,832,766)	(154)	(0.364)
10	Texas Eagle	(28,953,027)	(209)	(0.222)	(38,539,539)	(278)	(0.296)
11	Sunset Limited	(34,450,634)	(348)	(0.292)	(52,861,401)	(533)	(0.447)
12	Coast Starlight	(37,559,708)	(83)	(0.152)	(59,091,701)	(131)	(0.239)
13	Lake Shore Limited	(40,602,510)	(134)	(0.217)	(56,969,753)	(187)	(0.304)
14	Palmetto	(29,699,532)	(149)	(0.239)	(44,831,023)	(226)	(0.361)
15	Crescent	(32,832,089)	(134)	(0.224)	(52,324,635)	(213)	(0.358)
16	Pennsylvanian	(24,918,180)	(401)	(1.379)	(34,182,206)	(551)	(1.892)
17	Auto Train	(12,380,136)	(65)	(0.076)	(33,117,503)	(174)	(0.202)
Total Long-Distance Trains		**$ (546,573,177)**	**$ (149)**	**$ (0.206)**	**$ (826,097,305)**	**$ (225)**	**$ (0.312)**

Appendix 2
MANAGING AMTRAK'S FINANCIAL PERFORMANCE IN FY 2003

In February 2003, the Congress passed the Omnibus Appropriations Act, which put in place tools aimed at yielding greater financial accountability at Amtrak. Past Congresses have by law directed that the Federal Railroad Administration (FRA) provide funds appropriated for the benefit of Amtrak to the corporation ***without*** the oversight and controls that accompany other such grants made by the Department. The Omnibus Appropriations Act for FY 2003 provides for oversight with teeth, placing the relationship between DOT and Amtrak on a footing similar to the oversight DOT exercises with respect to other transportation modes.

The Omnibus Appropriations Act provided a total of $1.043 billion in funds for Amtrak in FY 2003. The law directed the Secretary of Transportation to disburse Amtrak's appropriated funds in quarterly grants. Amtrak is to receive a total of $519 million for operating expenses, $293 million for capital expenses along the Northeast Corridor Mainline, and $231 million for general capital improvements.

For the first time, however, the law gives the Secretary both the responsibility and the authority to review and approve Amtrak's requests for funding. Amtrak must provide a detailed financial analysis and revenue projections for each of its long distance train routes. We have gone further and obtained this data for all routes. Additionally, the law requires Amtrak to provide the Secretary with a detailed business plan for the entire fiscal year, explaining how it will live within its appropriation.

I am pleased to report that on April 9, 2003, the Department approved Amtrak's business plan for the remainder of FY 2003 and executed the Amtrak grant agreements contemplated by the Omnibus Appropriations Act. In doing so, DOT unambiguously communicated to Amtrak and its Board the following requirements: this year there will be no Federal loans or loan guarantees, no "creative financing" by Amtrak, no gimmicks, no shutdown drama, no threat against commuter operations, and no kidding -- Amtrak will live within the budget that Congress appropriated. Any financial upside must be allocated to bolster what will be an anemic year-end cash reserve. Any revenue loss or additional expense must be offset within budget by requiring Amtrak's management to make decisions about which expenses to cut or which capital projects to defer.

We have read the law, and listened carefully to those Members who have spoken on the new Amtrak appropriation language, and this is what we understand Congress wants. DOT wants the same. To that end, we will monitor Amtrak's condition monthly, and will be working with Amtrak to help it meet the targets laid out in its business plan. DOT will provide monthly reports to Congress on Amtrak's progress. We expect to provide Amtrak's fourth quarter grant in early July, but if necessary at that point we can gate disbursements on a monthly basis to ensure fidelity to the bottom line of Amtrak's business plan. Let me be clear about DOT's role under the law. Amtrak itself retains its daily management responsibilities; DOT will provide oversight and enforce accountability.

Of course, no plan is perfect, and we fully expect that Amtrak may need to make minor adjustments along the way. While we think the business plan is flexible enough to withstand normal business-related fluctuations in revenue and expenses, in these times it certainly does not accommodate the effects of any catastrophic terrorist events. At this time, the Department is not aware of any such credible and specific threat regarding Amtrak. Barring such an event, we believe it is possible that, with Amtrak's cooperation, we can accomplish the objectives you set out in the law.

The following provides more detail about part of this year's Amtrak grant process.

The Omnibus Appropriations Act for FY 2003. Amtrak's appropriation, $1.043 billion, is divided into the three categories shown in Table 1. Acting through the Federal Railroad Administration (FRA), the Department had already transferred to Amtrak thus far in FY 2003 just over $407 million in funds that were appropriated under a series of FY 2003 continuing resolutions. Amtrak has allocated those funds to operations, capital expenses along the Northeast Corridor Mainline and for general capital expenses. Those funds must be credited against grant amounts specified in the Act to compute the net amounts remaining to be obligated this year. That calculation is shown below.

TABLE 1
AMTRAK'S FY 2003 APPROPRIATION

Purpose	Total FY 03 Appropriation	Funding Provided Through CRs	Net Grant
Operations	$518,607,000	$256,494,000	$262,113,000
NE Corridor Capital	293,082,500	73,285,000	219,797,500
General Capital	231,485,500	77,355,000	154,130,500
Total =	**1,043,175,000**	**407,134,000**	**636,041,000**

As mentioned previously, the Omnibus Appropriations Act for FY 2003 also established a number of specific requirements, in addition to those normally associated with the making of a DOT grant. Following preliminary staff discussions with Amtrak, the Department began to implement the statutory requirements with a letter from FRA Administrator Allan Rutter to Amtrak dated March 10, 2003, specifying how we interpreted the new law and detailing the financial and operating information we would expect to receive from Amtrak. On March 14, 2003, Amtrak submitted its initial Grant Application, which included its proposed business plan.

FRA staff reviewed the specifics of this plan with Amtrak in several meetings, both in Washington and in Philadelphia. After these meetings, Amtrak submitted to FRA a revised grant application and business plan on March 27, which was subsequently modified slightly and approved by Amtrak's Board. This revised business plan has been reviewed by FRA staff as well as staff of the Department's Office of Inspector General, Office of General Counsel, and Office of Budget and Programs.

DOT will shortly compile and deliver to this Committee a full package containing the approved Amtrak business plan, the approved grant agreements, associated documentation and required certifications by Amtrak and the Secretary of Transportation.

Amtrak's FY 2003 Business Plan. Amtrak's business plan provides Amtrak's estimates of the revenue and expenses related to its operations during FY 2003 and the assumptions on which the estimates are based. The business plan also provides a project-by-project description of Amtrak's planned FY 2003 capital program, with a description of each project's goal, the work to be accomplished with FY 2003 funding, schedules and cost estimates.

Compared to Amtrak's initial FY 2003 budget, the current business plan reflects more conservative assumptions of revenue, lower capital expenditures, and, most importantly, a contingency fund. Under this business plan, Amtrak forecasts cash operating expenses (including interest expense but excluding depreciation and other post-retirement benefits) of $2.875 billion, of which a portion would be funded by the Federal grants provided under the Act. The plan also details the application of the funds designated in the Act to be expended on capital projects meeting the Generally Accepted Accounting Principles (GAAP) definition of capital. Finally the plan provides for unforeseen contingencies by identifying projects that could be deferred if necessary to conserve funds.

Long Distance Trains. The Omnibus Appropriations Act for FY 2003 requires that the Secretary shall approve funding to cover operating losses on Amtrak's long distance trains only after receiving and reviewing grant requests for each specific long distance train route, and that each such grant request must be accompanied by a detailed financial analysis and revenue projection justifying Federal support. As mentioned above, we required such data for all routes and the core data are aggregated in Appendix 1.

In approving third quarter funding for the current system of long distance trains, the Department did not endorse, either explicitly or implicitly, the notion that any particular route is necessary or should be preserved for the long term. We believe that subject should be assessed more comprehensively in the coming Amtrak authorization process. For now, it should be pointed out that the current Amtrak route structure is largely an historical artifact left over from the operating decisions made by individual private railroad lines long before Amtrak existed. We believe that some of those business decisions of well more than 30 years ago may no longer be relevant or sustainable, and that decisions on service levels should be made in the context of a comprehensive strategy for the future of passenger rail service in this country.

Reserve for Commuter and State-Contracted Service. The Omnibus Appropriations Act for FY 2003 requires that the Secretary and the Amtrak Board of Directors shall ensure that sufficient funds are reserved to satisfy Amtrak's contractual obligations for commuter and intercity passenger rail service. We have interpreted that requirement as a direction from Congress that, in the event of budget shortfalls, Amtrak's commuter and state-supported operations take precedence over providing other service. We understand that this provision was included specifically to prevent Amtrak from threatening a shutdown of commuter and state-supported services, as it did last year.

In the short term, we have determined that the best means to assure that Amtrak continues to provide these services is to see that Amtrak has sufficient funds to operate through the end of the fiscal year. To that end, we have requested and received from Amtrak a commitment to achieve monthly cash balance requirements that should assure sufficient liquidity to the end of the fiscal year. If business plan targets are not met, however, Amtrak has formally certified that it is responsible to devise and implement alternate actions that will meet these requirements. There is little margin for error in the months ahead for Amtrak and its cash balance at the beginning of the next fiscal year will be low.

Reporting. The Omnibus Appropriations Act provides that no later than June 1, 2003, and each month thereafter, Amtrak shall submit to the Secretary of Transportation and the House and Senate Committees on Appropriations a supplemental report regarding the business plan, which shall describe the work completed to date, any changes to the business plan, and the reasons for such changes. We have implemented that requirement in the grant agreements by providing that Amtrak will report its actual results in comparison with the revised business plan on a monthly basis to FRA, using standard reporting templates that FRA requires for all other recipients of Federal funds.

The grant agreements also provide that Amtrak will notify FRA as soon as it becomes aware of significant variances from the business plan for long distance trains, other operating expenses, and various capital expenses. Amtrak must obtain FRA's prior written approval to exceed the approved budget for individual projects, and will be required to provide detailed justification for proposed revisions, identify the implications of non-approval on operations, and identify a funding source for the proposed change.