Statement of
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Before the
Subcommittee on Transportation, Treasury, HUD, the Judiciary and the District of Columbia
Committee on Appropriations
House of Representatives
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Mr. Chairman, Congressman Olver, and members of the Subcommittee, I appreciate the opportunity to appear before you today to address the urgent need for reform of intercity passenger rail service before further appropriations are provided to Amtrak.

By now, everyone is of course aware of the President's budget proposal for Amtrak. That budget proposal was meant as a call to action. If my testimony today accomplishes one thing, I hope it is to convince you that fundamental change in the way we support intercity passenger rail service is not only necessary but inevitable. And that change needs to happen this year, before we appropriate one more taxpayer dollar to prop up a fundamentally broken system. As you are aware, the Administration's Passenger Rail Investment Reform Act (PRIRA) has now been introduced in the House, and we hope Congress will move quickly to enact needed reforms.

Last week Amtrak itself acknowledged the urgent need for reform, and that the 1970's model of passenger rail could not continue. Amtrak released its own strategic plan, which states "Business as usual for Amtrak and intercity passenger rail is not sustainable as currently structured or funded." While it is the responsibility of the Transportation and Infrastructure Committee to consider the reform legislation, the subsidy questions are closely related to the reform issues, so I would like to set forth some of the facts and analysis that underlie the Administration's reform proposal to assist in the appropriations process for FY 2006.

First and foremost, it is essential to recognize that the passenger rail service model created by the Federal government in 1970 is not viable in 2005. The model created in 1970 was a single national monopoly set up to be a private corporation but it has instead become like a government agency relying on federal support to survive, with a legacy system of routes incapable of adapting to market forces and demographic changes (but with less accountability than a government agency would have). It has little in common with our other modes of transportation and the deregulatory and market-oriented changes other modes have experienced in the last three decades. America's transportation system as a whole—our system of roads, airports, waterways, transit lines, and the mostly private operators who use them—provides excellent mobility, connectivity, and efficiency that have undergirded our economic growth. Sadly, intercity passenger rail has been a different story. The supposedly private for-profit corporation set up in 1970 to provide all intercity passenger rail nationally has never once covered its own costs, much less made a profit. And the federal taxpayers have infused more than $29 billion into Amtrak during the last 34 years as it has lurched from crisis to crisis without ever achieving a stable and viable business model. Whatever one thinks of Amtrak or passenger rail more generally, this situation has been good for no one.

To some, perhaps this is old news. Congress directed change in the Amtrak Reform and Accountability Act of 1997, and actually required that "Federal financial assistance to cover operating losses incurred by Amtrak should be eliminated by the year 2002." In fact, the notion that Amtrak should operate free from Federal operating subsidies is codified as law in the United States Code: 49 U.S.C. §24101(d) states that "Commencing no later than the fiscal year following the fifth anniversary of the Amtrak Reform and Accountability Act of 1997, Amtrak shall operate without Federal operating grant funds appropriated for its benefit."

In the 1997 Act, Amtrak was afforded new flexibility to get its house in order. But by 2002, Amtrak's situation was no better; to the contrary, it had grown worse, with massive increases in Amtrak's debt, continuing operating problems, and financial crises in both 2001 and 2002. Amtrak's response once again was to turn to the Federal government for even greater federal financial assistance, simply ignoring 49 U.S.C. §24101(d) as well as §§ 204 and 205 of the Amtrak Reform and Accountability Act of 1997. In no other functioning service market would rising costs and declining revenues be defined as a "success" if this produced a small increase in the number of customers. Yet, that is exactly what the defenders of the 1970 approach now say, as if the loss for each rider were "made up in volume". In 2004, Amtrak increased its ridership by approximately 4 percent to a record 25 million passengers, asked for a record $1.8 billion Federal subsidy, and recorded a financial loss of more than $1.3 billion, of which approximately $635 million was a cash loss.[1] This year again, Amtrak indicates that it may have less than $75 million in cash remaining at the end of FY 2005.

Things do not have to be this way. It is simply untrue that all passenger rail everywhere must have operating subsidies from government. It is simply untrue that there is no alternative to passenger rail remaining the most heavily subsidized form of transportation on a per passenger basis. The Administration has made clear that there is an important role for intercity passenger rail in our transportation system, but only with a new model that will be responsive to the needs of the traveling public. We can only get there by reforming the failed model of 1970, and committing to a new approach. That is the point of the President's budget request.

I. RIDING THE RAILS: AMTRAK'S PAST AND PRESENT.

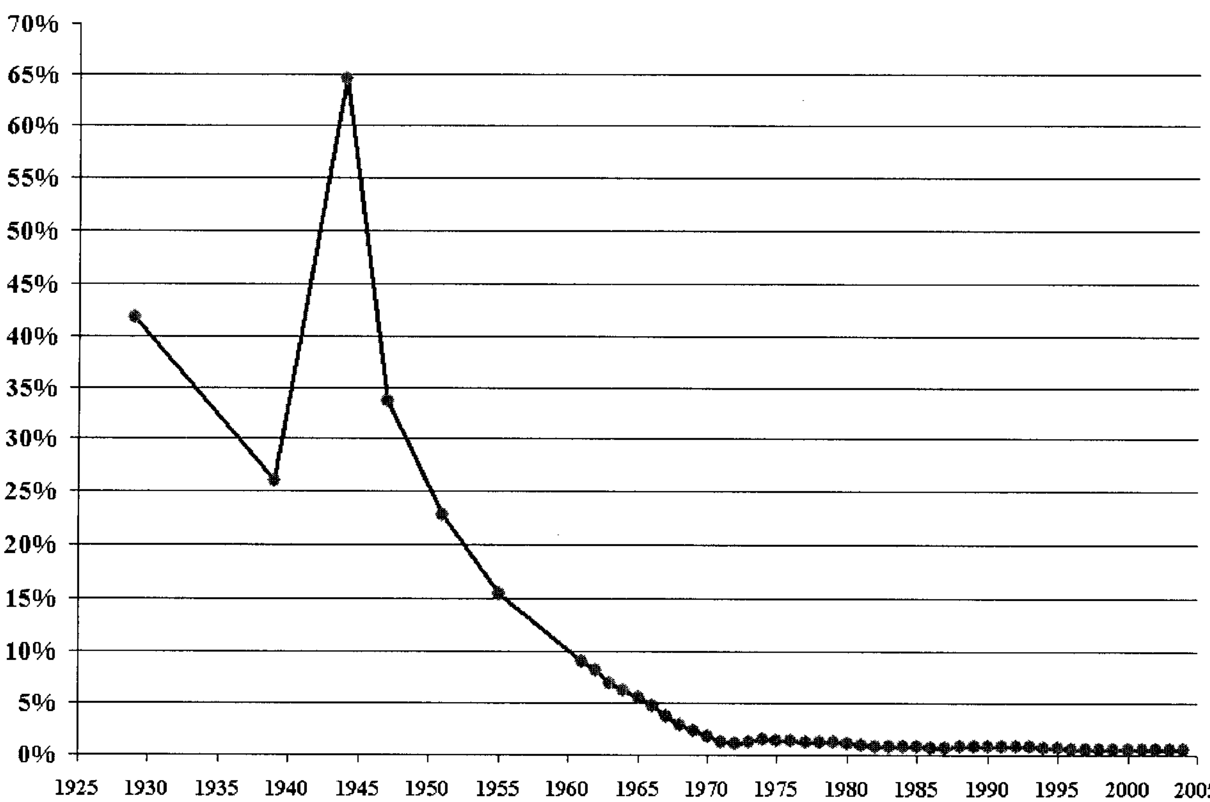
Amtrak was created in 1970 as a private corporation in a restructuring of the larger rail industry, which was in a state of major financial distress. In that restructuring, freight railroads ceased providing passenger service altogether. Instead, for the first time, there would be a single national provider of intercity passenger rail service to replace the multiple regional systems that reflected the areas covered by each of the freight railroads' route systems. The intent was that the national monopoly would reinvigorate passenger rail by permitting Amtrak to consolidate operations and achieve efficiencies that, after a very brief period of Federal assistance, would preserve and expand intercity passenger rail service as a for-profit company.

By now we know that the hopes of Amtrak's creators have never been realized. Intercity passenger rail service has not been reinvigorated. The Department of Transportation (DOT) expects that each and every one of Amtrak's 15 long-distance trains will this year lose money on a fully allocated cost basis, even excluding depreciation and interest. On a per passenger basis, with depreciation

[1] These are unaudited numbers.

and interest, the loss for long-distance trains ranges from $47 per passenger to $466 per passenger. But the long-distance trains are not alone: with depreciation and interest included, *every one* of Amtrak's 43 regularly scheduled routes loses money. See Appendix A, attached. After 34 years and $29 billion in Federal subsidies, intercity passenger rail's financial performance has not improved, service and on-time performance are below expectations, and passenger rail's market share relative to other modes has continued to erode. Last year's so-called "record" Amtrak ridership amounted to a one-half of one percent share of the total intercity passenger transportation market. Airlines alone carry more U.S. passengers in three weeks than Amtrak does in a year.

Rail as Percent of Estimated Total Intercity Passenger Travel, 1929-2004



Sources: Rail travel: Association of American Railroads, *Yearbook of Railroad Facts*; Amtrak. Total intercity passenger travel is an FRA estimate synthesized from data provided by the Federal Highway Administration, Federal Aviation Administration, Bureau of Transportation Statistics (including travel behavior characteristics the 1995 American Travel Survey), the AAR, and Amtrak. For rail, "intercity" passenger-miles are an approximation as they include all passenger-miles generated on intercity trains, regardless of the length or purpose of individual trips. All air travel is deemed "intercity." For highway modes (privately-owned vehicles and buses), the synthesis approximates intercity travel as trips of 100 miles or more one-way.

That also belies one of the frequent arguments of today's defenders of the 1970 model– that the Federal government supposedly subsidizes other modes of transportation at a greater rate than Amtrak. In fact, FY 2005's appropriated subsidy of $1.207 billion represented approximately 9 percent of the total discretionary Federal funds for the Department – 9 percent of Department funds go for one-half of one percent of the market. The argument also passes quickly over another important fact: highways, transit and aviation are, unlike rail, funded substantially by true user fees and also by state investments. (Even the most ardent rail proponents evince little interest in a new Federal passenger rail ticket tax.) Perhaps most importantly, however, the argument overlooks that federal financial support for roads, airports, and transit goes to **infrastructure** and not to operations. In other modes of transportation, federal aid goes to highway and airport infrastructure, for example, but federal taxpayers are not regularly asked to write annual billion dollar checks to private trucking companies, private bus companies, private automobile commuters and vacationers, nor even to private airlines, although the taxpayers have regularly done so with regard to Amtrak.

In considering where we are with Amtrak, it is useful to consider the varied things that Amtrak presently does to understand that recent appropriations to this private company have not been limited to rail infrastructure, but also go into actual train operations. Generally, Amtrak's business can be grouped into activities relating to (1) rail infrastructure, (2) corridor train operations, and (3) long-distance train service.

Rail Infrastructure

Amtrak owns its own right of way and rail infrastructure along most of the Northeast Corridor (NEC), except in Massachusetts and part of Connecticut, where the infrastructure is owned by those States. Amtrak also owns some infrastructure in Michigan, as well as train stations in a number of states. Otherwise, Amtrak mostly operates trains on rail infrastructure owned by others.

Within the Northeast Corridor, Amtrak controls the infrastructure not only for its own use, but for use by numerous other railroads and transit agencies.

List of Users of the NEC Other than Amtrak

CSX	New Jersey Transit
Long Island Rail Road	Norfolk Southern
Maryland Rail Commuter Service	Providence and Worcester Railroad
Massachusetts Bay Transportation Authority	Shore Line East (Connecticut)
Metro-North Commuter Railroad	Southeastern Pennsylvania Transportation Authority
Delaware DOT	Virginia Railway Express
Rhode Island DOT	Consolidated Rail Corporation
Canadian Pacific	

These other users of the NEC pay Amtrak for access and associated services, such as train dispatching. In total, trains operated by other users on the NEC actually exceed the number of trains operated by Amtrak itself on the NEC.

Because of the way the 1970 model of intercity passenger rail was organized, maintenance and development of infrastructure in the NEC has been left to Amtrak.

In FY 2005, Amtrak has budgeted $215 million on fixed facility infrastructure projects, and a total of $587.2 million for capital expenses, most of which will come from the $1.2 billion of federal appropriations made available by this Subcommittee. None of those funds will be allocated to States, or to infrastructure in locations where Amtrak does not presently operate. Federal infrastructure dollars are allocated by a private corporation, Amtrak, instead of by state, local, and even federal transportation planning officials.

Corridor Services

When viewed from the perspective of moving passengers, and the distance they are moved (passenger-miles), Amtrak can be seen as providing two types of services: "corridor services" of approximately 100-500 miles and frequently under contract to States in which these corridors are located; and "long-distance", primarily leisure travel services. Within the category of corridor services, there are two different types: services on the NE corridor, where Amtrak operates on its own track and infrastructure, and services on other state corridors, where Amtrak operates on track and infrastructure owned and controlled by others.

NORTHEAST CORRIDOR. Approximately twenty million people, or 80 percent of all Amtrak riders in 2004, traveled on a corridor service. The largest portion of Amtrak corridor trips are on the Washington—New York City – Boston Northeast Corridor (NEC). If one looks at NEC train operations, separate from the NEC infrastructure, this is the one area where Amtrak operates at something close to a breakeven basis.

OTHER CORRIDORS. In addition to the NEC main line, Amtrak operates trains for corridor service in fifteen other states.

List of States with Corridor Service Note: States listed are the primary states served by each corridor.	
CALIFORNIA Pacific Surfliner Capitols San Joaquins	**NEW YORK** Empire/Maple Leaf Adirondack
CONNECTICUT/MASSACHUSETTS Inland Route (New Haven-Springfield)	**NORTH CAROLINA** Carolinian (Extended corridor) Piedmont
ILLINOIS Chicago-St.Louis Illini Illinois Zephyr Hiawatha (with Wisconsin)	**OKLAHOMA** Heartland Flyer
	OREGON Cascades (with Washington)
MAINE The Downeaster	**PENNSYLVANIA** Keystone Service Pennsylvanian (Extended corridor)
MICHIGAN Wolverines Blue Water	**WASHINGTON** Cascades (with Oregon)

Pere Marquette **MISSOURI** Kansas City-St.Louis	**WISCONSIN** Hiawathas (with Illinois) **VERMONT** Ethan Allen Express Vermonter (Extended corridor)

In 2004, a total of approximately eight million people (i.e., approximately one-third of the total Amtrak ridership) traveled on these additional corridor routes. In many instances, these corridors are subsidized in part by States. State operating subsidies for these trains totaled ten percent of the combined Federal and State funding of Amtrak. However, States have not borne the full cost of these routes, and some States that have corridor trains have not paid anything at all, thereby producing issues of equity among the States, as well as market uncertainties about how travelers value the services. In the aggregate, on a fully-allocated basis, the non-NEC corridor trains (including both corridor and extended corridor service) had an average operating subsidy of $28 per passenger in FY 2004.

Long-Distance Services

Amtrak's fifteen long-distance trains have seen declining revenues and ridership--and increasing costs--over the last ten years. DOT refers to these services as Transcontinental (more than one night), Overnight (one night) or extended corridor (greater than 500 miles, but with no sleeping accommodations). Amtrak presently operates fifteen such trains.[2] Amtrak has continued to lose long-distance trip customers to an airline industry that is offering a low cost, high quality service, and to automobile drivers who choose to use highways rather than rail. Amtrak has had little or no success responding to this competition. As Amtrak's presence in this segment of the intercity transportation market has dwindled, Federal subsidies per passenger have continued to grow. In FY 2004, the average passenger on a long-distance train received a subsidy of approximately $214 per trip on a fully-allocated basis, [3] up from $158 in the year 2000 – a 35 percent increase quintupling the 7-percent inflation over the same period.

[2] The long-distance routes are as follows: Vermonter, Silver Service, Cardinal, Empire Builder, Capitol Limited, California Zephyr, Southwest Chief, City of New Orleans, Texas Eagle, Sunset Limited, Coast Starlight, Lake Shore Limited, Crescent, Pennsylvanian, Carolinian. The Auto-Train, a specialized service, also operates over a long-distance route but with completely different characteristics. The Three Rivers (New York–Pittsburgh–Akron–Chicago) was discontinued in March 2005.
[3] Fully allocated costs include depreciation and interest.

Fully Allocated Losses of Long-Distance Passenger Trains, FY 2004
(Source: Amtrak Route Profitability System)

Service Type	Route	Route No.	Subsidy Status: Unsubsidized by a State	Subsidy Status: Subsidized by a State	Fully Allocated Loss (Fully Loaded with Depreciation, Interest, and All Overheads)	Fully Allocated (Loss) Per Passenger	Fully Allocated (Loss) Per Passenger-Mile
EXTENDED CORRIDORS	Pennsylvanian	RT57	x		($11,911,500)	($69)	($0.337)
	Vermonter	RT04		x	($11,793,249)	($47)	($0.254)
	Carolinian	RT66		x	($16,723,244)	($55)	($0.197)
OVERNIGHT	Silver Service	RT16A	x		($173,078,522)	($234)	($0.374)
	Three Rivers *(discontinued)*	RT17	x		($75,173,377)	($492)	($0.990)
	Cardinal	RT18	x		($18,602,874)	($209)	($0.497)
	Capitol Limited	RT26	x		($43,784,083)	($242)	($0.486)
	City of New Orleans	RT30	x		($30,429,407)	($160)	($0.335)
	Texas Eagle	RT32	x		($42,914,712)	($183)	($0.282)
	Coast Starlight	RT34	x		($63,002,725)	($152)	($0.271)
	Lake Shore Limited	RT45	x		($63,803,165)	($228)	($0.387)
	Crescent	RT52	x		($64,761,043)	($252)	($0.445)
TRANS-CONTINENTAL	Empire Builder	RT25	x		($75,338,574)	($172)	($0.223)
	California Zephyr	RT27	x		($89,696,739)	($267)	($0.320)
	Southwest Chief	RT28	x		($121,849,944)	($420)	($0.390)
	Sunset Limited	RT33	x		($44,953,841)	($466)	($0.406)

See Appendix A for a more detailed account.

Moreover, these long-distance trains have had considerable difficulty with regard to on-time departures and arrivals:

On-Time Performance of Long-Distance Trains, FY 2004

Train Name	Service type	Between	—And	Percent On-Time (Zero Tolerance)	Average Minutes Late per Train (All Trains)	Average Minutes Late per Late Train
California Zephyr	Transcon	Chicago	Bay Area	14.2%	136	159

Capitol Ltd.	Overnight	Chicago	Washington	13.8%	101	118
Cardinal	Overnight	Chicago	New York via Cincinnati	33.1%	48	74
Carolinian	Extended Corridor	New York	Charlotte	26.9%	38	51
City of New Orleans	Overnight	Chicago	New Orleans	47.7%	26	50
Coast Starlight	Overnight	Seattle	Los Angeles	10.8%	139	157
Crescent	Overnight	New York	New Orleans	41.6%	34	58
Empire Builder	Transcon	Chicago	Seattle	68.3%	11	36
Lake Shore Ltd.	Overnight	Chicago	New York	8.2%	123	134
Pennsylvanian	Extended Corridor	New York	Pittsburgh	17.2%	32	39
Silver Meteor	Overnight	New York	Miami	25.6%	84	113
Southwest Chief	Transcon	Chicago	Los Angeles	28.5%	68	96
Sunset Limited	Transcon	Orlando	Los Angeles	1.6%	359	366
Texas Eagle	Overnight	Chicago	San Antonio	41.9%	57	98
Vermonter	Extended Corridor	Washington	St. Albans VT	32.1%	21	30

Overall, the picture of where things stand in intercity passenger rail service is far from what was hoped for when Amtrak was created in 1970. In short, while service and ridership erode, Amtrak continues to require extraordinary and ever-increasing subsidies from the federal taxpayer despite the original model's intent and Congress' clear call for an end to operating subsidies in the 1997 Amtrak Reform Act.

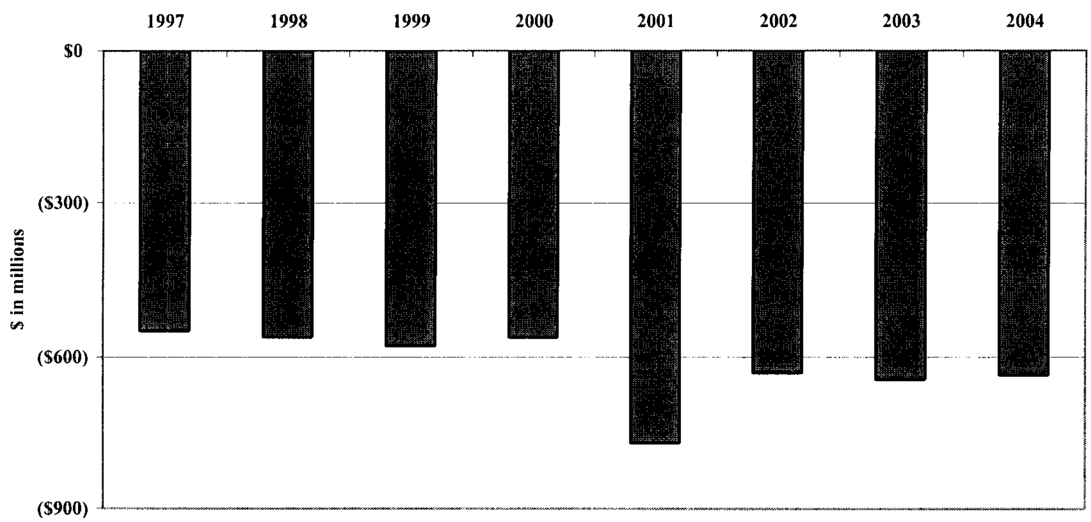
COMMUTER RAIL. In addition, Amtrak has contracts to operate trains for certain transit agencies and state governments. These are: Connecticut Department of Transportation Shore Line East (SLE/CONNDOT), Long Island Rail Road (LIRR), New Jersey Transit (NJT), Southeastern Pennsylvania Transportation Authority (SEPTA), Delaware Transit Corporation (DELDOT), Maryland Transit Administration (MARC), Virginia Railway Express (VRE), Northeast Illinois Regional Commuter Railroad Corporation (METRA), Southern California Regional Rail Authority (SCRRA) Metrolink, North San Diego County Transit District Coaster Commuter Rail Service, Peninsula Corridor Joint Powers Board (CALTRAIN), Central Puget Sound Regional Transit Authority (Sound Transit), and Altamont Commuter Express Authority (ACE). In the event of a business failure by Amtrak, the President's budget calls for $360 million to be appropriated to fund directed service of these trains (as well as those of the NEC). Such funding would protect commuter service affecting approximately 2,342 trains and 1,187,860 passengers each weekday for the relevant transit agencies, so that they would not be impacted by Amtrak's problems involving intercity service.

II. RECENT HISTORY AND THE CALL TO CHANGE.

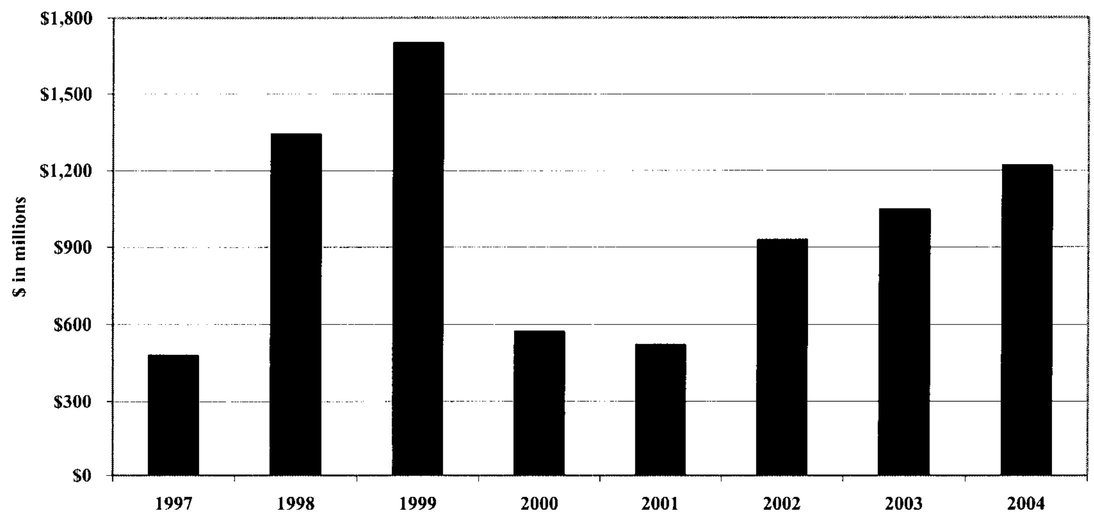
During the 1990's, there was an increasing recognition that the 1970 model of intercity passenger rail had developed some very serious problems. Congress sought to redress some of those in the 1997 Amtrak Reform Act. Unfortunately, the reforms embodied in the 1997 Act did not prove sufficient to solve the problems.

Many of the reforms in the 1997 Act empowered Amtrak to improve its own performance and removed impediments to its doing so. After passage of the 1997 Act, Amtrak's then-management repeatedly reported that it was it on a "glide path" to self-sufficiency by 2002. That did not happen. The problems worsened, and it became increasingly clear that they were not solely the result of business misjudgments, but also involved inherent flaws in the 1970 model.

Amtrak Cash Losses - 1997 Through 2004



Amtrak Federal Appropriations - 1997 Through 2004



Instead of a successful "glide path", Secretary Mineta was greeted with some unwelcome surprises in his initial experiences with Amtrak during the current Administration. Early in 2001, instead of Amtrak being months from self-sufficiency as reported, Amtrak's then-management advised that Amtrak would be insolvent within two weeks unless the DOT subordinated the interest of U.S. taxpayers to a foreign bank so that Amtrak could mortgage its rights to use Pennsylvania Station in New York City. Within a year, Amtrak had lurched to yet another financial crisis, informing the Secretary that if the Department and Congress did not provide the company another $300 million, it would be insolvent within two weeks and would shut down commuter and intercity services. In response, to obtain time to assess and identify more long term reforms, DOT provided Amtrak a $100 million loan under the Railroad Rehabilitation and Improvement Financing Program, and Congress provided the remaining $205 million through a supplemental appropriation.

These crises highlighted fundamental problems, some of which needed immediate action by Amtrak, and some of which were revealed to be inherent to the 1970 business model and in need of legislative change. Among the most urgent for Amtrak itself was the state of its financial books and records. Indeed, it took independent auditors almost all of FY 2002 to close their audit of Amtrak's FY 2001 financial performance. That audit required $200 million in net audit adjustments and found 5 material weaknesses and 12 reportable conditions that needed to be addressed to fix the problems with Amtrak's accounting practices. It also revealed that Amtrak had taken on almost $3 billion in new debt in order to pay for (1) costly overruns of poorly managed capital improvements, (2) an unsuccessful foray into the express package business, and (3) day-to-day operational expenses.

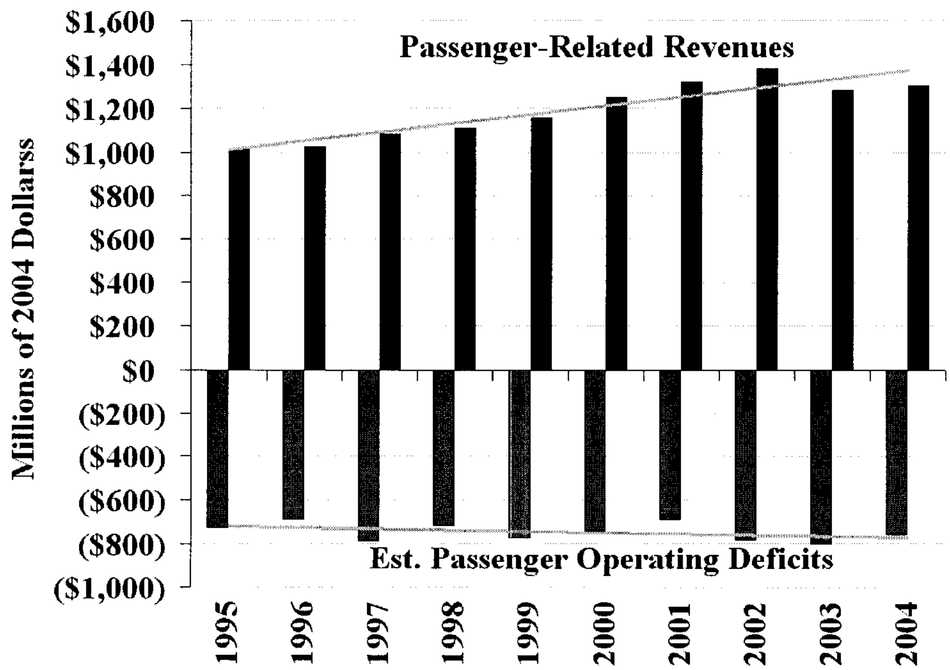
Since 2002, Amtrak's record-keeping has improved. In 2005, the independent audit was completed in March instead of September and no material weaknesses were found. While Amtrak's auditors still find significant areas for improvement, they comment favorably on developments over the last three years.

Through participation on the Amtrak Board, and through changes to the appropriations process that enabled stronger FRA oversight of the grant process to Amtrak, Secretary Mineta and DOT have sought a variety of improvements that Amtrak could make on its own. That process continues and is ongoing. Happily, Amtrak operates in a more efficient and better way than it did three years ago, and the new requirements imposed by recent appropriations bills have produced significant improvements, and need to remain in place.

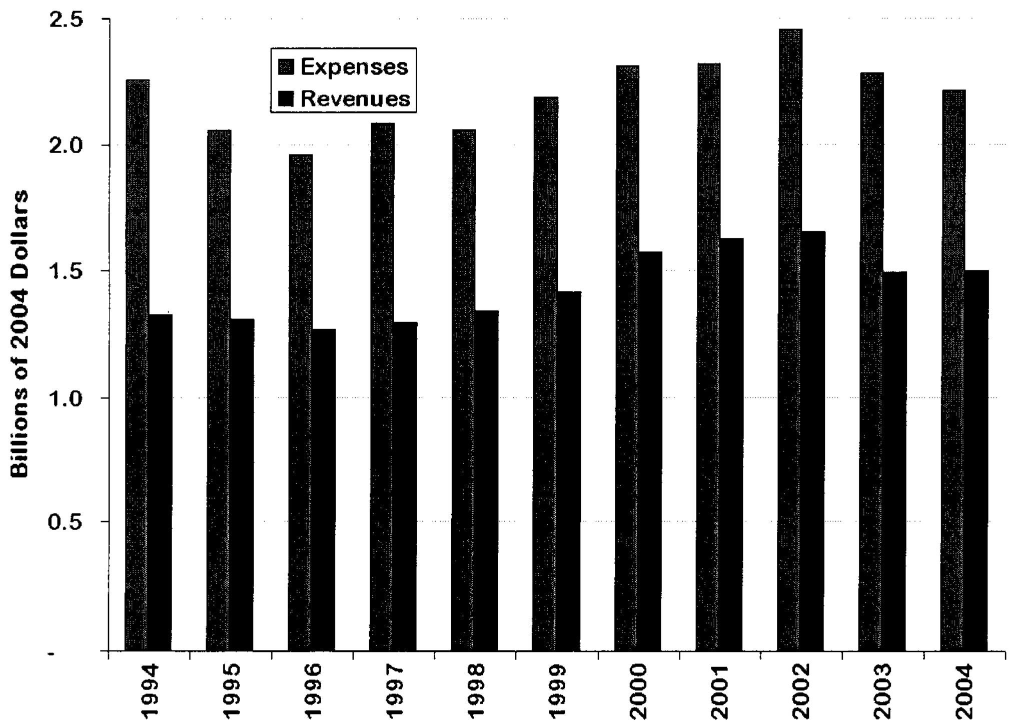
But notwithstanding the very significant management improvements and a much-enhanced and valuable involvement of the Amtrak Board, fundamental difficulties continue to confront Amtrak, because the 1970 model of intercity passenger rail is a framework that is flawed. Amtrak continues to spend dramatically more money than the revenues it generates, and this year is spending at a pace greater than the appropriation from Congress. Amtrak has estimated that by the end of FY 2005 it will have less than $75 to $100 million of cash remaining, with its costs continuing to far exceed its ticket sales.

As shown by the two charts below, the structural problem in Amtrak's condition is long-term, and is getting worse, not better.

Amtrak's Constant-Dollar Passenger Revenues and Estimated Passenger Deficits



Amtrak's Constant-Dollar Gap Between Core Expenses and Revenues



Further adding to Amtrak's deterioration is that the company's debt increased massively in the late 1990's, from $1.7 billion in 1997 to $4.8 billion in 2002 (with $3.8 billion non-defeased), without adequately increased passenger revenues to pay the debt service. Because of this increased debt, Amtrak's repayment requirements (principal and interest) are forecasted to be approximately $273 million in FY 2005 (up from $111 million in 1997). Amtrak has recently suggested that the company be absolved from this $3.8 billion debt by the federal taxpayers' assumption of all of it, as compared with the federal appropriation covering approximately 40 percent of all Amtrak expenses the last two fiscal years. Amtrak would give the federal government nothing in return. That is unacceptable to the Administration.

The FY 2005 appropriation for Amtrak of $1.2 billion itself represents a 134 percent increase over the appropriation for FY 2001. Amtrak's President has said that as presently configured, Amtrak cannot successfully operate through FY 2006 without *much larger* amounts of taxpayer funds being allocated to this private company. Indeed, the increase sought by Amtrak -- 256 percent above the 2001 appropriation -- would far outstrip the 22 percent increase in domestic discretionary spending over the same time period. For the federal taxpayers, that is a spiral in the wrong direction.

Passenger rail is already by far the most heavily subsidized form of intercity passenger transportation. When viewed on a per passenger-mile basis, analysis by the Bureau of Transportation Statistics indicates that the aggregate Federal expenditure for intercity passenger rail is 30 times greater than for commercial aviation. Likewise, the intercity bus industry, where there are no comprehensive or dedicated Federal operating subsidies, carries as many as 350 million passengers annually (according to Eno Foundation estimates)—fourteen times Amtrak's ridership.

(Although not comprehensive or directed, FTA, under 49 U.S.C. §5311(f) provides for grants supporting *rural* intercity bus service. This grant program amounted to approximately $22 million in FY 2004, which is a minor amount relative to the taxpayer burden for Amtrak each year.) So continually increased operating subsidies is not the right answer.

What is more clear now than ever is that the basic business model through which we provide intercity passenger rail service in this country--a single national entity called Amtrak--is unworkable and is not adequately positioned to respond to the changing transportation needs of this country. Massive increases in funding to merely slow a downward spiral are neither sustainable nor justifiable. At the same time, doing nothing at all will eventually result in a business failure and a lost opportunity for intercity passenger rail for this country. A change is needed.

The Administration's budget request reflects the importance of reform for America's intercity passenger rail system, which Amtrak has been operating at a loss for 34 years. As noted above, Amtrak has received more than $29 billion in taxpayer subsidies, including more than $1 billion in each of the last two years, despite the contradicting requirements of the 1997 Amtrak Reform Act. In 2003 and again this year, the Administration sent to Congress, the President's Passenger Rail Investment Reform Act. This proposal would align passenger rail programs with other transportation modes, under which States work in partnership with the Federal government in owning, operating, and maintaining transportation facilities and services.

Deteriorating infrastructure and declining service further the case that, without congressional action on the Administration's reform proposals, continued taxpayer subsidies cannot be justified. Consequently, no funding is included in the 2006 budget for Amtrak. Rather, $360 million is budgeted to allow the Surface Transportation Board to support existing commuter rail service along the NEC and elsewhere should Amtrak cease commuter rail operations in the absence of federal subsidies. The President's budget is a call to action: The time for reform is now. If the Administration's management and financial reforms are enacted, the Administration is prepared to commit additional resources for Amtrak – but if, and only if, reforms are underway. Today is too soon to know if funding will be appropriate, or what the right amounts should be under a new model of intercity passenger rail service.

III. THE ADMINISTRATION'S PLAN FOR REFORM AND PRESERVATION OF INTERCITY PASSENGER RAIL .

As a matter of transportation policy, the Administration supports the availability of intercity passenger rail, but with a very different vision than the failed model of the past. Secretary Mineta has repeatedly set out the fundamental principles needed to reform intercity passenger rail and place this form of transportation on a sound footing. These principles are:

- ***Establish a long–term partnership between States and the Federal Government to support intercity passenger rail***: Partnerships between the States and the Federal Government for the planning, decision-making and capital investment in transportation have been one valuable element in the success of Federal programs for highways and transit to date. The States, through their multi-modal planning mechanisms, are in a much better position to determine their intercity mobility needs and which form of investment makes the most sense in meeting these needs than a sole supplier company in Washington, D.C. State-supported intercity passenger rail services in places like the states of Washington, North Carolina, California, and Wisconsin have been one of the bright spots for intercity passenger rail ridership. The Administration wants to build upon these successes through a new program of Federal/State capital funding partnerships in which the federal government would provide matching grants.

- ***Require that Amtrak transition to a pure operating company***: Amtrak today is both an operating company and the owner and maintainer of significant infrastructure that forms a key component of the intercity and commuter transportation systems of eight states in the Northeast, as well as many stations and other facilities that have local or regional transportation importance. These are two very different functions. By having them both reside in the same entity, the company is faced with conflicting priorities, which the company has found difficult, if not impossible, to balance. Infrastructure decisions have depended on Amtrak decisions, rather than those of the States and localities who are largely responsible for such planning in other transportation modes such as highways, airports, and transit. Amtrak, and the nation's transportation system, would be better off with Amtrak able to focus on one thing—operating trains--and doing it well.

- ***Create a system driven by sound economics***: One of the flaws of the 1970 model is that intercity passenger rail has sometimes been defined by politics, habit and fear of change. That is one reason that some routes have high subsidies, such as the $466 per passenger subsidy in FY 2004 on the Los Angeles to Orlando *Sunset Limited.* Intercity passenger rail needs to serve the markets where there is an identifiable demand that intercity passenger rail can meet. It cannot and should not try to serve every market regardless of the cost and regardless of the revenue. Just as with other transportation modes and other successful businesses in general, intercity passenger rail needs to have the dexterity to recognize changing business patterns and demand, and that sometimes the services of yesterday are not needed or justified today or tomorrow. Intercity passenger rail service needs to be designed to cost-effectively meet and support the transportation needs of the traveling public and sponsoring public authorities.

- ***Introduce carefully managed competition to provide higher quality rail services at reasonable prices***: For the last 34 years under the 1970 model, intercity passenger rail service has not been subject to the discipline of the market place. On corridor services, for example, States do not have any alternative but to have Amtrak operate the intercity service. This has resulted in a service that is more costly than one would expect in a competitive situation, and which often has not been responsive to changing transportation patterns, demands or expectations. In a free market economy, competition leads to improved cost effectiveness, higher quality and innovation, elements that have been sorely lacking in intercity passenger rail for the past generation. Transition to competition is never easy, but it is necessary for the public to get the service it demands and deserves.

- ***Create an effective public partnership, after a reasonable transition, to manage the capital assets of the Northeast Corridor***: The Washington-New York City-Boston Northeast

Corridor main line is the most heavily utilized rail route in the country, forming an essential link for intercity passenger and freight transportation and commuter access to the major cities of the Northeast. By some measures, such as the number of persons per day that use this infrastructure, Amtrak is a minority user of this infrastructure – particularly in urban areas. Transportation services on this corridor need to be insulated from the unpredictable consequences of Amtrak's own finances and needs at any given time. At least initially, the ownership of these assets should be in the public sector, and management and control of this asset should reflect significant input from the States that depend on the Northeast Corridor for passenger and freight mobility.

As noted, two weeks ago the Administration's Passenger Rail Investment Reform Act was introduced in the House. It sets out and details the Administration's proposals on specific ways to achieve these objectives. After a generous transition period, intercity passenger rail would become an economically viable and strategically effective mode of transportation, supporting numerous successful rail corridors nationwide. As set out in Secretary Mineta's transmittal letter accompanying our legislative proposal, we look forward to working with Congress to discuss and fashion the specifics of legislation in ways that will successfully reform intercity passenger rail for the future.

In addition, last week Amtrak itself released its plan of strategic initiatives crafted by Amtrak to begin the process of reform within the company itself. That is a timely development, with many positive elements. Amtrak's own recognition of the need for reform is a welcome response to Secretary Mineta's steadfast resolve to address the problems of intercity passenger rail, and create a viable future. But Amtrak's plan would not accomplish everything needed, and legislation will be needed that achieves all of the objectives set out by Secretary Mineta and the Administration.

Conclusion

My own experience with Amtrak's Board persuades me that Amtrak itself recognizes the necessity for reform and that time is critical. It is essential that others come to recognize this, too. Without reform, Amtrak is not sustainable at its current level of funding or at any level Amtrak is likely to receive in these difficult budgetary times. Moreover, history tells us that merely throwing money at the 1970 model of intercity passenger rail without addressing the problems that have been identified in the subsequent years does not result in any long-term improvements in Amtrak's finances or quality of service.

Some people appear to assume that reform necessarily means that many areas will lose intercity rail service, but that is not necessarily so. There are other ways to run intercity passenger service and, given the chance, States are likely to try some of them and succeed at improving service and eliminating operating subsidies. The experience of the Alaska Railroad, which has done just that since the State of Alaska bought it from the Government 20 years ago, is instructive. It did not change routes; it got creative about providing service based on the markets it serves. Today, the Alaska Railroad gets capital grants, but no operating assistance. It makes a profit "above the rails." One of the Alaska Railroad's innovations is to supplement its basic, year-round passenger service by seasonally hauling special first-class cars belonging to the cruise ship companies. This is the kind of creative adaptation the Administration's bill envisions, but making such improvements depends upon freeing intercity passenger rail from the frozen mold of 1970. It should not surprise anyone that continuing to do the same thing that failed before 1970 has failed again.

The Administration has been clear that it cannot support the failed model of the past, nor pouring more funding into that failed approach. We have been equally clear that IF meaningful reform is accomplished and implemented, the Administration would support funding of infrastructure and transition needs for train operations and related costs. Although this complicates the appropriations process, we do not believe there is a basis for arriving at any "baseline level of support" for Amtrak until Congress has sent significant reform legislation to the President and it is enacted with his signature. In this regard, while the Administration maintains that no funds should be appropriated for Amtrak's use in the absence of meaningful reform, <u>any</u> future appropriations should be subject to a variety of needed grant conditions to ensure an improved intercity passenger rail system is achieved.

Secretary Mineta and his team look forward to working with the Congress to resolve the recurrent crisis that plagues the old model of intercity passenger rail. Thank you for the opportunity to share our perspective on Amtrak and intercity passenger rail service. I would be pleased to respond to any questions you may have.

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APPENDIX A

FULLY-ALLOCATED LOSSES, FY 2004 (Fully loaded with Depreciation, Interest, and All Overheads)			Subsidy Status					
Service Type	Route	Route No.	Unsubsidized by a State	Subsidized by one State	Subsidized by >1 State	Fully Allocated Loss	Fully Allocated (Loss) Per Passenger	Fully Allocated (Loss) Per Passenger-Mile
CORRIDORS	Acela Express	RT01	x			($62,768,816)	($24)	($0.137)
	Metroliner	RT02	x			($10,164,129)	($28)	($0.179)
	Regional/Federal	RT05A	x			($214,454,452)	($33)	($0.214)
	Clocker Service	RT13	x			($13,161,515)	($7)	($0.146)
	Empire/Maple Leaf	RT15A	x			($49,283,033)	($45)	($0.260)
	Wolverines	RT22	x			($23,995,163)	($66)	($0.301)
	Hoosier State	RT54	x			($3,459,904)	($193)	($1.176)
	Ethan Allen Express	RT03		VT		($4,758,963)	($44)	($0.300)
	The Downeaster	RT09		ME		($4,088,448)	($16)	($0.196)
	Keystone Service	RT14		PA		($37,986,865)	($42)	($0.505)
	Chicago-St.Louis	RT20		IL		($9,782,941)	($46)	($0.249)
	Illini	RT23		IL		($4,305,586)	($38)	($0.188)
	Illinois Zephyr	RT24		IL		($2,752,948)	($25)	($0.143)
	Heartland Flyer	RT29		OK		($2,505,850)	($46)	($0.288)
	Pacific Surfliner	RT35		CA		($42,655,395)	($18)	($0.219)
	Capitols	RT37		CA		($10,582,332)	($9)	($0.134)
	San Joaquins	RT39		CA		($10,137,611)	($14)	($0.089)
	Adirondack	RT40		NY		($5,944,945)	($45)	($0.188)
	Blue Water	RT41		MI		($5,176,764)	($55)	($0.262)
	Kansas City-St.Louis	RT56		MO		($4,127,533)	($32)	($0.154)
	Pere Marquette	RT65		MI		($698,827)	($8)	($0.051)
	Piedmont	RT67		NC		($154,052)	($3)	($0.028)
	Hiawathas	RT21			WI,IL	($13,076,153)	($28)	($0.347)
	Cascades	RT36			WA,OR	($12,374,211)	($21)	($0.141)
EXTENDED CORRIDORS	Pennsylvanian	RT57	x			($11,911,500)	($69)	($0.337)
	Vermonter	RT04		VT		($11,793,249)	($47)	($0.254)
	Carolinian	RT66		NC		($16,723,244)	($55)	($0.197)
OVERNIGHT	Silver Service	RT16A	x			($173,078,522)	($234)	($0.374)
	Three Rivers	RT17	x			($75,173,377)	($492)	($0.990)
	Cardinal	RT18	x			($18,602,874)	($209)	($0.497)
	Capitol Limited	RT26	x			($43,784,083)	($242)	($0.486)
	City of New Orleans	RT30	x			($30,429,407)	($160)	($0.335)
	Texas Eagle	RT32	x			($42,914,712)	($183)	($0.282)
	Coast Starlight	RT34	x			($63,002,725)	($152)	($0.271)
	Lake Shore Limited	RT45	x			($63,803,165)	($228)	($0.387)
	Crescent	RT52	x			($64,761,043)	($252)	($0.445)
TRANS-CONTINENTAL	Empire Builder	RT25	x			($75,338,574)	($172)	($0.223)
	California Zephyr	RT27	x			($89,696,739)	($267)	($0.320)
	Southwest Chief	RT28	x			($121,849,944)	($420)	($0.390)
	Sunset Limited	RT33	x			($44,953,841)	($466)	($0.406)
SPECIAL	Auto Train	RT63	x			($36,292,739)	($184)	($0.214)

FULLY-ALLOCATED LOSSES EXCLUDING DEPRECIATION, FY 2004			Subsidy Status					
Service Type	Route	Route No.	Unsubsidized by a State	Subsidized by one State	Subsidized by >1 State	Fully Allocated (Loss) excluding Depreciation	Fully Allocated Surplus/(Loss) excluding Depreciation per Passenger	Fully Allocated Surplus/(Loss) excluding Depreciation per Pass.-Mile
CORRIDORS	Acela Express	RT01	x			$34,914,101	$14	$0.076
	Metroliner	RT02	x			$4,254,424	$12	$0.075
	Regional/Federal	RT05A	x			($67,429,048)	($10)	($0.067)
	Clocker Service	RT13	x			($5,063,033)	($3)	($0.056)
	Empire/Maple Leaf	RT15A	x			($33,882,812)	($31)	($0.179)
	Wolverines	RT22	x			($18,544,324)	($51)	($0.233)
	Hoosier State	RT54	x			($2,503,376)	($140)	($0.851)
	Ethan Allen Express	RT03		VT		($3,391,588)	($31)	($0.214)
	The Downeaster	RT09		ME		($2,566,386)	($10)	($0.123)
	Keystone Service	RT14		PA		($20,579,982)	($23)	($0.274)
	Chicago-St.Louis	RT20		IL		($7,183,542)	($34)	($0.183)
	Illini	RT23		IL		($2,592,721)	($23)	($0.113)
	Illinois Zephyr	RT24		IL		($1,524,313)	($14)	($0.079)
	Heartland Flyer	RT29		OK		($835,055)	($15)	($0.096)
	Pacific Surfliner	RT35		CA		($29,295,844)	($12)	($0.150)
	Capitols	RT37		CA		($8,886,253)	($8)	($0.113)
	San Joaquins	RT39		CA		($8,041,600)	($11)	($0.071)
	Adirondack	RT40		NY		($3,158,793)	($24)	($0.100)
	Blue Water	RT41		MI		($3,152,360)	($33)	($0.159)
	Kansas City-St.Louis	RT56		MO		($2,046,552)	($16)	($0.076)
	Pere Marquette	RT65		MI		$257,226	$3	$0.019
	Piedmont	RT67		NC		($59,754)	($1)	($0.011)
	Hiawathas	RT21			WI,IL	($10,050,840)	($22)	($0.267)
	Cascades	RT36			WA,OR	($8,615,173)	($14)	($0.098)
EXTENDED CORRIDORS	Pennsylvanian	RT57	x			($7,477,037)	($44)	($0.212)
	Vermonter	RT04		VT		($4,362,240)	($17)	($0.094)
	Carolinian	RT66		NC		($10,303,277)	($34)	($0.121)
OVERNIGHT	Silver Service	RT16A	x			($127,584,217)	($173)	($0.276)
	Three Rivers *(discontinued)*	RT17	x			($60,315,381)	($395)	($0.794)
	Cardinal	RT18	x			($14,649,343)	($165)	($0.391)
	Capitol Limited	RT26	x			($36,188,720)	($200)	($0.402)
	City of New Orleans	RT30	x			($25,068,544)	($132)	($0.276)
	Texas Eagle	RT32	x			($35,482,314)	($151)	($0.233)
	Coast Starlight	RT34	x			($49,857,663)	($120)	($0.214)
	Lake Shore Limited	RT45	x			($48,117,329)	($172)	($0.292)
	Crescent	RT52	x			($47,836,835)	($186)	($0.329)
TRANS-CONTINENTAL	Empire Builder	RT25	x			($60,142,718)	($138)	($0.178)
	California Zephyr	RT27	x			($73,240,719)	($218)	($0.261)
	Southwest Chief	RT28	x			($100,078,254)	($345)	($0.320)
	Sunset Limited	RT33	x			($36,184,099)	($375)	($0.326)
SPECIAL	Auto Train	RT63	x			($24,507,860)	($124)	($0.144)

FULLY-ALLOCATED LOSSES EXCLUDING DEPRECIATION AND INTEREST, FY 2004			Subsidy Status					
Service Type	Route	Route No.	Unsubsidized by a State	Subsidized by one State	Subsidized by >1 State	Fully Allocated Surplus/(Loss) excluding Interest and Depreciation	Fully Allocated Surplus/ (Loss) excluding Interest and Depreciation per Passenger	Fully Allocated Surplus/(Loss) excluding Interest and Depreciation per PM
CORRIDORS	Acela Express	RT01	x			$65,925,790	$26	$0.144
	Metroliner	RT02	x			$5,195,023	$14	$0.091
	Regional/Federal	RT05A	x			($55,862,860)	($9)	($0.056)
	Clocker Service	RT13	x			($4,642,821)	($2)	($0.051)
	Empire/Maple Leaf	RT15A	x			($30,358,049)	($28)	($0.160)
	Wolverines	RT22	x			($16,205,513)	($44)	($0.203)
	Hoosier State	RT54	x			($2,077,187)	($116)	($0.706)
	Ethan Allen Express	RT03		VT		($3,080,340)	($28)	($0.194)
	The Downeaster	RT09		ME		($1,936,100)	($8)	($0.093)
	Keystone Service	RT14		PA		($18,508,165)	($20)	($0.246)
	Chicago-St.Louis	RT20		IL		($6,029,941)	($28)	($0.153)
	Illini	RT23		IL		($1,830,754)	($16)	($0.080)
	Illinois Zephyr	RT24		IL		($946,938)	($9)	($0.049)
	Heartland Flyer	RT29		OK		($349,554)	($6)	($0.040)
	Pacific Surfliner	RT35		CA		($19,708,202)	($8)	($0.101)
	Capitols	RT37		CA		($7,722,575)	($7)	($0.098)
	San Joaquins	RT39		CA		($6,640,095)	($9)	($0.058)
	Adirondack	RT40		NY		($2,507,224)	($19)	($0.079)
	Blue Water	RT41		MI		($1,970,238)	($21)	($0.100)
	Kansas City-St.Louis	RT56		MO		($1,122,461)	($9)	($0.042)
	Pere Marquette	RT65		MI		$726,848	$8	$0.053
	Piedmont	RT67		NC		($7,035)	($0)	($0.001)
	Hiawathas	RT21			WI,IL	($8,727,295)	($19)	($0.231)
	Cascades	RT36			WA,OR	($7,201,241)	($12)	($0.082)
EXTENDED CORRIDORS	Pennsylvanian	RT57	x			($5,057,384)	($29)	($0.143)
	Vermonter	RT04		VT		($3,061,498)	($12)	($0.066)
	Carolinian	RT66		NC		($9,174,628)	($30)	($0.108)
OVERNIGHT	Silver Service	RT16A	x			($103,675,796)	($140)	($0.224)
	Three Rivers *(discontinued)*	RT17	x			($54,439,514)	($356)	($0.717)
	Cardinal	RT18	x			($12,251,455)	($138)	($0.327)
	Capitol Limited	RT26	x			($29,756,396)	($165)	($0.331)
	City of New Orleans	RT30	x			($20,610,791)	($108)	($0.227)
	Texas Eagle	RT32	x			($29,229,972)	($125)	($0.192)
	Coast Starlight	RT34	x			($38,893,870)	($94)	($0.167)
	Lake Shore Limited	RT45	x			($39,384,495)	($141)	($0.239)
	Crescent	RT52	x			($39,042,169)	($152)	($0.268)
TRANS-CONTINENTAL	Empire Builder	RT25	x			($47,705,768)	($109)	($0.141)
	California Zephyr	RT27	x			($60,018,931)	($179)	($0.214)
	Southwest Chief	RT28	x			($84,102,632)	($290)	($0.269)
	Sunset Limited	RT33	x			($29,309,476)	($304)	($0.264)
SPECIAL	Auto Train	RT63	x			($13,527,125)	($69)	($0.080)