

STATEMENT OF JOHN W. BARNUM, UNDER SECRETARY OF THE
U. S. DEPARTMENT OF TRANSPORTATION, BEFORE THE HOUSE
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
SUBCOMMITTEE ON TRANSPORTATION AND AERONAUTICS, ON
THE RAIL PASSENGER SERVICE ACT OF 1970.

June 17, 1974

Mr. Chairman and Members of the Committee:

We welcome the opportunity to be here today to discuss with you legislation to amend the Rail Passenger Service Act of 1970, including recommendations of the U. S. Department of Transportation.

Last year was a very significant and active legislative year for rail transportation in the United States, and for the National Rail Passenger Corporation (Amtrak) in particular. Two major efforts by this Committee and the full Congress resulted in the Amtrak Improvement Act of 1973, signed into law by President Nixon on November 3, 1973, and the Regional Rail Reorganization Act of 1973, signed by the President on January 2, 1974.

The Regional Rail Reorganization Act, primarily a bill to plan, finance, and restructure the ailing freight railroad system in the Northeast and parts of the Midwest, also will have a substantial impact upon Amtrak. Section 601(d) of that Act requires the Secretary to initiate work on the necessary studies and

improvements to achieve the goals for improved high speed rail passenger service set forth in the Department's 1971 report, "Recommendations for Northeast Corridor Transportation." That Act also specifies as one of the goals of the Final System Plan the establishment of improved high speed rail passenger service in the Northeast Corridor consonant with the recommendations of the 1971 study. As you know, over one-half of Amtrak's trains operate in the Northeast Corridor. Consequently these improvements will have a major impact on intercity rail passenger service.

We are hard at work to fulfill these Congressional directives. To organize and oversee the effort, Secretary Brinegar has established a new Northeast Corridor Program Office reporting directly to him. He has also informally established a Task Force to coordinate the many organizations involved in a project of this magnitude. The regular and ad hoc meetings of this Task Force are attended by representatives from the Federal Railroad Administration, various offices within the Office of the Secretary, the United States Railway Association, and Amtrak, all of which have critical roles to play if we are to have improved high speed rail service in the Northeast Corridor.

Within the Federal Railroad Administration, a project team has been established to handle detailed technical and analytical work.

While we have been establishing the institutional structure to plan this large and complex undertaking, concrete program implementation has been moving forward. There are two significant efforts that I can report. The first involves a program--currently in the detailed planning phase--to begin work on Corridor tracks and roadbeds to remove existing slow orders and make certain other critical improvements essential for maintaining an acceptable level of service. This should reverse the trend of slow deterioration in the quality of Northeast Corridor passenger service which we have witnessed over the past two years. The planning for this project, expected to be in the \$20 million range for this year alone, is being done by a cooperative effort among the Department, Amtrak, and Penn Central, and we hope to have improvements underway this summer.

Secondly, we expect to award contracts this month for the detailed preliminary engineering work which is the initial phase of the long-term Corridor improvement program. The planning, engineering and financial data which these contracts will generate will be included as part of the final system plan to be produced by the United States Railway Association as provided for in the Regional Rail Reorganization Act.

In the context of these developments, let me comment on various points concerning Northeast Corridor implementation raised in legislation currently pending in the Congress. The first point is the subject of any desirable or necessary legislative amendments to speed Northeast Corridor project implementation. Our view on that matter is that any such changes will become evident in the course of carrying out our extensive preliminary engineering effort and preparing the Northeast Corridor input to the preliminary and final system plans as required by the Regional Rail Reorganization Act.

The Senate bill, S. 3569, proposes that the Secretary make a monthly report to the Congress on Corridor project implementation. The Department is well aware of the high level of Congressional interest in Northeast Corridor implementation and the Secretary has accorded it a very high priority among all the important tasks on the Department's agenda. We do not think, however, that the establishment of a formal reporting requirement would either speed implementation or improve communication between the Department and the Congress on this matter. We have already taken steps to keep both Houses of the Congress apprised of our progress on the Northeast Corridor and remain available to do so on a continuing basis. In our view, this method of communication has the advantage of being much more

effective than a formal report without the disadvantage of the administrative burden imposed by a formal requirement.

In addition to our work on the Northeast Corridor implementation, we have also been integrating the significant changes that were included in the Amtrak Improvement Act of 1973.

Besides these legislative changes, 1973 provided other events of great importance to Amtrak. The energy crisis focused the Nation's attention upon the need for a fast, reliable, frequent and energy-efficient mode of intercity passenger service. Because of the energy crisis and the public's growing acceptance of intercity rail passenger service, there has been an impressive growth in ridership. During the last several months of 1973 and continuing into 1974, Amtrak has been reporting approximately a 25% increase in passenger ridership over the comparable period a year earlier. Ridership of the Metroliner increased from 2.2 million passengers in 1972 to 2.4 million passengers in 1973 and service expanded to 15 daily round trips.

There has been a great deal to absorb and analyze. In light of the short time that has elapsed in which to consider all these developments, plus the ICC Adequacy of Service Standards and the potential impact of Amtrak's new contracts with the railroads, the Department has limited its legislative proposal this year to

those issues which need immediate attention.

Thus we have proposed extension of the Amtrak authorization through fiscal year 1975 in "such amounts as are necessary to carry out the purposes.." of the Amtrak Act. Last year the Department testified that net cash losses for Amtrak were expected to decline in FY 73 to \$124 million and to \$95.6 million for FY 74. At the time, although there were several uncertainties, there was a reasonable foundation for such an estimate. However, the actual deficit for FY 73 is now placed at \$141.8 million and the deficit for FY 74 is now estimated to be at least \$155 million. The estimates of a year ago did not take into consideration the following factors:

1. Continuation of the basic system, including those routes originally proposed for discontinuance in FY 74.
2. The additional costs due to ICC Ex Parte 277.
3. The renegotiation of the railroads' contracts.
4. Inflation beyond that originally estimated.
5. Increased costs due to the energy crisis.
6. An increase in the railroad retirement tax.
7. Railroad cost as actually experienced over that budgeted in FY 73.

Amtrak's best estimates in light of these uncertainties required a \$52 million supplemental appropriation in FY 74 to meet the increased operating deficit caused by the aforementioned costs. Assuming the continuation of the basic system through FY 75, Amtrak's current estimates indicate the need for an operating grant in FY 75 of about \$150 million. However, the uncertainty of future costs, including any which may result from the implementation of the Regional Rail Reorganization Act, has resulted in the Department's recommending a general rather than a specific authorization. We believe this approach will provide the flexibility needed to administer the Amtrak program properly.

We are limiting our proposed authorization to one year because this year we will review the total Amtrak experience since its inception, including the history of the Federal Government's part in the Corporation's financial history, and recommend appropriate legislation to the Congress in 1975.

In calendar year 1975, the Department will submit to the Congress a detailed review of the Amtrak program and appropriate legislative recommendations. At that time we will have had sufficient experience with the Amtrak program to permit a better perspective with which to review major issues, including the growing debt expense, increasing and currently uncontrollable costs, and the

likelihood of potential profitability. The coming year should also provide us sufficient time to develop a long range recommendation for the role of improved intercity rail passenger service in the context of our national transportation system. Until our study is completed, the Department has no objection to proposals which freeze the existing basic system for another year.

Our one year financing proposal would increase available loan guarantees from the present level of \$500,000,000 to \$700,000,000. At this time, Amtrak's success may well depend upon the planning, development, and implementation of a carefully thought through capital program. We expect that the original limit of \$500,000,000 will have been committed by the end of this calendar year and that the \$200,000,000 increase in the limit is necessary and sufficient to carry forward an aggressive capital program for the coming year.

Another issue which we believe needs your immediate attention is the somewhat more controversial changes in last year's legislation which substantially decreased the stewardship role of the Executive Branch over the expenditures of funds by Amtrak and over the Amtrak legislative program. We believe this limitation of the role of the Executive Branch is not desirable given the increased costs of the Amtrak program and the need to coordinate the Amtrak program with other programs to revitalize the American railroad industry. In our legislative recommendations, we are

asking you to remove the restrictions upon participation by the Executive Branch in the Amtrak program that were introduced into Section 601 by the Amtrak Improvement Act of 1973.

We would also respectfully urge you not to adopt a provision suggested in a Senate bill which would prohibit the Department from reviewing expensive capital purchases, the financing of which is to be guaranteed by the Federal Government. Without the pressures and disciplines of a competitive environment, or the rigorous planning and justification which would come about if DOT reviews these expenditures, we feel Amtrak's unfettered freedom will be a license for uncontrolled and increasing deficits.

This provision seems particularly untimely in view of the fact that Amtrak will soon have a new Board of Directors. We do not think it would be wise to remove Executive Branch review on its spending authority. The Department can provide considerable independent expertise and assistance to the Board. At this time, we urge you to allow us to play a constructive role with regard to these long term capital expenditures. We also can contribute a broad national transportation system viewpoint to Amtrak capital expenditure decisions which we believe is an especially necessary consideration when such large amounts of Federal funds are being committed.

We also think it was not in the best interest of Amtrak, its passengers, or the American taxpayers to include section 801, which directed the Interstate Commerce Commission to issue regulations necessary to provide "adequate service, equipment, and tracks, and other facilities for quality intercity passenger service." We do not believe the imposition of mandatory regulations is the proper mechanism for developing and fulfilling this role.

The Department supports improvements in the quality of intercity rail passenger service. The adequacy of Intercity Rail Passenger Regulations promulgated by the Commission on December 27, 1973, Ex Parte 277 (Sub. No. 1), may or may not contribute to the continued improvement and upgrading of intercity rail passenger service due to the constraining effect of some regulations. They also may have an unfortunate impact upon Amtrak operations and finances, as was the case this fiscal year. Certain requirements in the regulations may be beyond Amtrak's present equipment capabilities and could cause Amtrak serious financial problems.

Ordinarily the regulatory process works within the framework of a profit motivated sector of the economy. In this situation, however, the Commission does not have to examine various cost factors which usually are proper issues in its deliberations. The traditional economic model for ICC regulated industries does not fit this situation. Nor is Amtrak operating in a competitive environment

with the usual economic incentives to oppose and question, where necessary, the Commission's proposed regulations since historically Amtrak's increased deficits have been underwritten by Federal subsidies.

We are suggesting, therefore, that Congress retain the Commission's role in improving the quality of Amtrak service, but change the existing law to provide that the Commission should recommend, but not order, service changes.

We are proposing one further technical amendment to the Act: the deletion of the restriction that no more than one-third of Amtrak's common stock may be owned by any one railroad. The initial issuance of common stock was completed on May 1, 1974, and two of Amtrak's four common shareholder railroads now each have more than one-third of the common stock. This situation has developed principally because most railroads that joined the Amtrak system took the tax deductions available under section 901 of the Act, rather than accept common stock in exchange for their payments. The Department believes that no harm will be done by eliminating this ownership restriction. The proposed amendments to section 304(b) would also limit any one railroad or person controlling one or more railroads from voting more than one-third of the Amtrak common stock and thus preserve

the existing limitation or the number of directors that can be elected by any one railroad.

Mr. Chairman, this completes my prepared testimony. I will try to answer any of the Committee's questions.