

TESTIMONY OF BROCK ADAMS, SECRETARY
DEPARTMENT OF TRANSPORTATION
BEFORE THE
SURFACE TRANSPORTATION SUBCOMMITTEE
SENATE COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION

March 5, 1979

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to discuss with you both my response to your directive to improve the Amtrak route system and the Administration's recommended Amtrak Improvement Act of 1979. Since many of the provisions of the proposed Act flow from the findings contained in my report on the Amtrak route system, I shall begin this morning by discussing that report.

As I am sure you and the members of this Subcommittee know, Mr. Chairman, I believe very strongly that the Amtrak route system recommendations which I have submitted to you present us with an opportunity to respond to the very clear concerns of many of the Nation's taxpayers. My recommendations will allow us to reduce Government spending and they will permit us to focus our limited

resources on those Amtrak services which are most supported by its patrons and are most energy efficient. President Carter is committed to control of both Government spending and inflation. I am sure that you and the members of this Subcommittee share that commitment, Mr. Chairman. My recommendations will contribute to that end. The improved Amtrak route system will save \$1.4 billion in tax dollars during the next five years, and yet it will continue to provide rail passenger service to 91 percent of the number of riders served by the current Amtrak system. Opportunities to save that kind of money while not significantly impairing service are essential, and so I would like to take a few minutes of the Committee's time to discuss this opportunity with you in greater detail.

As you will recall, Mr. Chairman, the Amtrak Improvement Act of 1978 required me to develop, in cooperation with Amtrak, an improved Amtrak route system. The Act also required that I base the improved system upon population and market requirements. In response to the Congressional mandate we have designed a system which as I indicated earlier will continue to serve most of the passengers served by the present Amtrak system. It will also serve 22 of our nation's 25 largest cities and 40 of our states, while operating over 43 percent fewer route-miles and 34 percent fewer train-miles.

Those facts are true for two reasons: First, the trains to be discontinued are primarily those that cover vast distances, serve few major cities and consequently incur huge expenses to serve few passengers. By eliminating these trains, Amtrak can achieve significant savings while displacing few of its passengers. Secondly, our findings indicate that more people will, on average, ride the trains that will continue to operate. The number of passengers aboard an average Amtrak train at any given time is expected to increase 23 percent, from 141 to 173. Some of these will be current Amtrak riders who will continue to be able to reach their destinations by using other trains. Some will be new riders, attracted by the new routings I have proposed and the new and improved equipment that Amtrak will shortly introduce on certain of its routes.

In addition to the route improvements I have described, and equally important, my report also suggests that Amtrak establish several budget and service-oriented goals that will help both this Subcommittee and our Department monitor Amtrak's progress. The first of these, which addresses a concern expressed by the conferees from this

Committee in the Conference Report on the Amtrak Improvement Act of 1978, concerns Amtrak's system which has not met rising costs out of receipts from its customers, in spite of increasing ridership. During Fiscal Year 1978, Amtrak generated 37 percent of its cash expenses out of revenues from the farebox. The remainder was paid by the taxpayers. My recommended route system, as it promises to be operated by Amtrak's new management, will help to have the users pay for the costs of the service being given to them.

I am happy to be able to report to you that Alan Boyd has established a goal of improving the proportion of revenues to costs, from the present 37 percent to 44 percent by Fiscal Year 1982 and 50 percent by Fiscal Year 1985. I endorse Mr. Boyd's efforts and I will support him in the achievement of that goal.

My report calls for development of a fare policy aimed at keeping Amtrak's long term subsidy requirements at the minimum level possible, commensurate with maintaining a reasonable level of service. It is a pleasure to report to you that Amtrak's Board of Directors has recently adopted such a fare policy, and that we have already begun to see it implemented. Thanks to these actions, the Corporation's financial expenses will, in the future, be shared much more fairly between the passengers and the taxpayers.

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Mr. Chairman I would like to bring to your attention that Amtrak is expected to comply with the pay and price standards of the President's anti-inflation program. These standards call for a 7 percent limitation on the increase in pay rates and a 1/2 percentage point de-celeration in the average rate of fare increases from the 1976 through 1977 average increase. Because the price standard allows government subsidized enterprises like Amtrak to offset price increases with subsidy reductions (as outlined in Section 705(c)-4) when calculating their rates of price change, the fare-related policies outlined in this testimony are consistent with and in compliance with the price standard.

In response to public testimony presented at hearings conducted last summer by the Rail Services Planning Office of the ICC on my preliminary route system report, I have called on Amtrak to improve the quality and efficiency of the services it offers, and I am recommending one billion dollars in capital funding for improved equipment and facilities over the next five years. To assist this Subcommittee and our Department in measuring Amtrak's progress in improving its services, I have asked the Corporation to develop a set of specific service criteria. Independently, Alan Boyd has reached a similar conclusion regarding the importance of upgrading service, and his management team is already at work developing such criteria.

I hope you share my conviction that the inflation-fighting impact of the \$1.4 billion savings proposed in my report, together with the fact that it can be achieved without a major reduction of service to most rail passengers makes a compelling case for allowing the route improvements I have proposed to take effect. I realize, however, that some have expressed concerns with elements of my recommendations. Let me take this opportunity to discuss with you several of the major concerns that have been brought to my attention.

We all realize that given the uncertainties of the nation's future oil supply, we may well be confronted with an energy emergency. Some have argued that, for this reason, we need to continue to operate those trains that I have proposed to discontinue. I strongly disagree. We must remember that passenger trains consume large amounts of fuel and that they must be heavily loaded to be energy efficient. Virtually all of the trains that I proposed to discontinue are long distance trains that consume large amounts of fuel to pull the dining, lounge and low density sleeping cars found on that kind of a train. These are not energy efficient. They also carry relatively few people. In short distance corridors between major cities,

where trains can be energy efficient, I have proposed no significant service reductions. Similarly, on those long distance routes that can attract enough passengers to make the train relatively energy efficient, I have proposed continued service.

We should all bear in mind one other point when we think about the role of passenger trains in meeting any future energy emergency. Although 35 years ago, 75 percent of intercity travelers used trains for their journeys, today Amtrak carries less than three-tenths of one percent of intercity travelers in this country. Substantial increases in ridership as a result of an energy emergency would require an increase in Amtrak's fleet of locomotives and passenger cars that would take several or more years to produce. In the event of an energy emergency during the period between Fiscal Years 1980 and 1982, the short term period we are discussing here today, the hard fact is that the nation's transportation needs would have to be met by a combination of rail service, intercity bus service, mass transit, carpooling, more energy conscious driving, and a reduction in nonessential travel.

It is also important to remember that in spite of cutbacks in poorly patronized passenger operations, the basic track structure will remain in place to support intercity freight operations.

A second major concern I have heard expressed is that I am proposing to cut services that are essential, especially to towns and small cities. I am sure that this view has been expressed to some of you in your constituent mail. In weighing the merits of this argument, several facts must be kept in mind. The most important is that 99 and seven-tenths of one percent of this country's intercity travelers do not use the train. To these people, the services I propose to discontinue are clearly not essential. Of the remaining three-tenths of one percent who do use the train, the majority will continue to be accommodated by Amtrak.

My staff has studied each city-pair served by every train that was considered for discontinuance to determine whether the people along those routes would continue to have adequate public transportation available. On all the routes but one, the analysis showed that most of the

people along the route would have adequate bus or air transportation to take them to the same points which the train now serves. In many cases, it was found that the bus and train run on parallel routes, making virtually identical stops. The one exception was the Empire Builder route which runs from Chicago to Seattle and which, despite an expected reasonably high level of ridership, is an expensive route to operate. Analysis showed that 80,000 persons who rode that train during 1978 would have had no other reasonable means of public transportation available to make their journeys. Furthermore, many of these people live in relatively isolated communities in northern Montana and North Dakota with severe weather problems. For these reasons the Empire Builder is included in the recommended route system.

Also, some have claimed that my recommended route system is inequitable, that it provides less service to some areas of the country than it does to others. In reply, I can only say that my recommendations were developed using the population and market criteria required by the Congress, and that the analysis was done strictly "by the numbers." I would also remind those members who may be losing service to their state or district that they are

not alone. My recommendations end virtually all rail passenger service to the President's home State of Georgia, and four of the six trains serving my home State of Washington are recommended for elimination. Both the President and I have accepted that outcome because we know it was arrived at impartially and according to the rules.

I strongly believe that the Amtrak route system I am proposing will ultimately provide higher quality transportation in areas where passenger trains make sense, and it will do so in a more energy-efficient manner and at less cost to the taxpayers. I am committed to making the new system work. I think its implementation is essential to the long-term survival of intercity rail passenger service. One key element in achieving that goal is to give Alan Boyd and his new management team more of the stability they have correctly called for, and that brings me to a discussion of the Amtrak Improvement Act of 1979.

This Act is being proposed Mr. Chairman, with the intent of helping Amtrak to best operate the new route system effectively and efficiently. With the proposed changes, Amtrak's Board of Directors and management should be able to concentrate on improving the service quality and

performance of the new route system. The key provisions are a long-term funding mechanism which should improve Amtrak's ability to plan future operations of the system, a clear definition of Amtrak's responsibility for commuter service and the curtailment of the ICC's ability to regulate service. With your permission Mr. Chairman, I will now discuss each of these items separately.

Three Year Authorization

A major thrust of my report is an intent to provide stability and predictability for Amtrak in implementing the new system through the mechanism of a three year authorization. This mechanism would also provide the opportunity to review Amtrak's operation of its new network on a systematic basis and would provide us with the opportunity to recommend further changes for each subsequent three year authorization period.

As a further step in sound financial planning and cost control, we are proposing that future appropriations for Amtrak's capital needs be made one year in advance of the year in which the funds will be obligated. This procedure will permit Amtrak to plan its purchases of long-lead time items and materials.

We also propose a requirement that Amtrak transmit to the Department, in connection with the normal budget cycle, its annual and five year budget recommendations. We view that requirement as a clarification of changes made by the Amtrak Improvement Act of 1978 and believe that it will further contribute to planning and budget stability by bringing Amtrak fully into the budget cycle.

I am proposing a three year authorization of approximately \$2.4 billion to meet Amtrak's operating and capital requirements through FY 1982. The authorizations are based on the needs of the new route system which I have recommended. With these funds Amtrak's Board and management will have the flexibility to operate the restructured system and to make it more efficient. However, in order to assure that limited resources are not diverted from the restructured system without sound justification, the proposed Act provides that all future additions and deletions to the system be made in accordance with the Route and Service Criteria previously approved by Congress. In conjunction with Amtrak, my staff will be reviewing these criteria to assure that they

are not excessively weighty and time consuming, thus precluding timely action by Amtrak when route changes are warranted.

Specifically, Mr. Chairman, the Administration proposes an authorization of \$552 million for FY 1980, \$591 million for FY 1981, and \$598 million for FY 1982 to cover Amtrak's expenses of operating the new system. The levels are based on the figures in my report. In addition, I am recommending the repeal of the current law which permits Amtrak to use its capital appropriations to temporarily reduce its outstanding debt. This will place Amtrak on the same basis as any other federally supported program in dealing with its cash outlays.

The proposed Act also includes \$627 million in capital funds over the three year period. A portion of this amount (\$97 million) will be used to make the required labor protection payments as a result of the restructured route system, but the majority of these funds will be used to meet urgent capital needs of the restructured system. I would like to note at this time that the report included a recommendation for \$37 million for the Northeast Corridor purchase in the capital appropriation

projections. We are not requesting a new authorization for this item since sufficient funds already have been authorized in the Regional Revitalization and Regulatory Reform Act of 1976. I intend to ask the Appropriations Committee to appropriate \$12 million in FY 1980 for the final payment to Conrail for the Northeast Corridor. I will request \$25 million to be appropriated in FY 1981 to be used to reduce the section 602 loan guarantee authorization, since the first two Northeast Corridor installments were funded under the loan guarantee program.

As another element of our proposed three year authorization, we are recommending further retirement of Amtrak's debt in the following amounts: \$25 million in FY 1980, \$25 million in FY 1981 and \$75 million in FY 1982.

A contingency authorization for appropriations in an unspecified amount to fund cost increases which are either unanticipated or might result from Congressional action on our legislative proposals is also provided. Examples of the cost increases which might occur are those operating costs associated with a demand for new 403(b) services and those interest costs associated with the repeal of Amtrak's ability to use capital appropriations to temporarily reduce debt.

Mr. Chairman, I firmly believe that a commitment by the Administration and the Congress to the three year program that I have outlined will provide a sound basis upon which Amtrak can improve the Nation's system of intercity rail passenger service. This program is based upon the restructured route system and over a five year period will decrease the need for appropriations by \$1.39 billion.

Commuter Service

Section 18 of the Amtrak Improvement Act of 1978, which for the first time authorized Amtrak to operate commuter service if it were reimbursed for the avoidable cost of providing the service, contains some potentially troublesome language. Therefore, Mr. Chairman, we are proposing language to clarify Amtrak's responsibility under this authority. In preparing this language we have attempted to draw a parallel between commuter service and state-supported 403(b) service. The definition of avoidable cost would be determined by the Board of Directors of Amtrak just as under section 403(b) the Board is charged with determining the formula for reimbursement. Commuter service agreements, like 403(b) agreements, could only be renewed by mutual consent.

Finally, in order to protect its limited intercity passenger-related capital resources, Amtrak would be barred from using its capital authorization to purchase equipment or improve facilities to be used principally for commuter service.

Interstate Commerce Commission

As I have mentioned, the report contains a number of policy recommendations to Amtrak's Board and management regarding the more efficient and economic operation of the restructured route system. At the heart of these recommendations is the need to provide Amtrak with the flexibility to respond quickly to market demand.

In this regard, Mr. Chairman, our proposed bill contains several provisions which would lessen the Interstate Commerce Commission's authority over Amtrak. First, the proposed bill would repeal the ICC's authority to develop and enforce adequacy of service standards. We have felt for a number of years that the prescriptive standards established by the Commission are inconsistent with the policy of placing management responsibility with the Corporation. ICC service standards constitute an expensive external control over Amtrak's day-to-day

operation, lead to the need for increased Federal subsidies, and hamper Amtrak's ability to respond to changing demand. It is anticipated that once these regulations are repealed, Amtrak will use the tests of customer convenience and costs versus benefits to determine which services should be provided on which trains.

Second, the proposed bill would repeal the ICC's authority to require Amtrak to institute additional 403(b) service which it cannot afford or which it has judged unnecessary. The recommended authorization for operating subsidies includes a sufficient amount for Amtrak to continue operating all existing and a limited amount of additional 403(b) service. However, if Amtrak is expected to live within its budget, it must be able to refuse to operate this additional service. The ICC should not be permitted to substitute its judgment for that of the Amtrak's Board in this matter. To retain this provision would risk unjustified cutbacks in intercity train operations.

Finally, we have proposed a series of minor amendments to the Rail Passenger Service Act to make Amtrak's day to day operation of the system simpler and more efficient. These

amendments include authority for Amtrak to enter into joint fares and through rates with both domestic and international air and water carriers as well as with motor carriers; establishment of uniform pay dates to streamline a complex accounting nightmare; and a formula for reimbursement to Amtrak by the railroads for the transportation of railroad employees. All of these provisions are explained in detail in the section-by-section analysis of the bill.

That concludes my statement, Mr. Chairman. I will be pleased to answer any questions you or other members of the Committee may have.