

TESTIMONY OF
ROBERT W. BLANCHETTE, ADMINISTRATOR OF
THE FEDERAL RAILROAD ADMINISTRATION
BEFORE THE SUBCOMMITTEE ON
SURFACE TRANSPORTATION
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
U.S. SENATE
MARCH 13, 1981

Mr. Chairman, and Members of the Subcommittee, the Department of Transportation is pleased to respond to your invitation to share with you its views on Amtrak.

The purpose of this testimony is to describe in broad outline why we believe the status quo is unacceptable; where we presently stand on appropriations and authorization matters; and how we recommend the process should evolve.

Let me emphasize that we are not discussing here the services in the Northeast Corridor. The Corridor is a unique operation. It serves a densely-populated part of the country with a high passenger travel demand, both intercity and commuter.

The hearings and discussions on the Amtrak budget and related issues in the last week have demonstrated to me the need to summarize a few key facts. These facts were critical elements in the Administration's decision to recommend reductions in the Amtrak budget. Consider the following:

- Outside of a few densely-populated corridors, Amtrak is a relatively non-essential component of this nation's transportation system.
- [As shown in exhibit one] Amtrak carries less than one percent of the nation's intercity travelers. Even excluding the private automobile,

Amtrak carries only about two percent of passengers choosing to travel by common carrier.

- o Amtrak is not demonstrably energy efficient when compared with other intercity travel modes.
 - Corridor service, where the fuel efficiency of Amtrak service is highest, achieves only 75 passenger-miles per gallon on the average, just slightly more than one-half of the fuel efficiency of intercity bus, which is 135 passenger-miles per gallon. [Exhibit two].
 - Although Amtrak is more fuel efficient than air or auto in corridor service, the fuel efficiency of the overall Amtrak system is only 55 passenger-miles per gallon. This is due primarily to the energy inefficiency of long distance trains, which must carry diners, sleepers, baggage cars and other "service" (non-passenger carrying) equipment. In general, intercity auto travel is more fuel-efficient than Amtrak whenever three persons travel in the auto. Even in potential corridors, where Amtrak's energy-efficiency is highest, any fuel savings resulting from the diversion of auto travelers to trains will be bought at a very high price. The joint DOT/Amtrak study of Rail Passenger Corridors ("Emerging Corridors") shows that for the best corridor it would cost an average of \$5.50 in public expenditures (capital and operating subsidy) to save a gallon of gas.

- o Amtrak does not represent a "fall back" mode for intercity travel in the event of an abrupt or prolonged interruption of petroleum supplies or a work stoppage in another travel mode. Amtrak's 1980 load factor was about 50 percent. Thus, if every seat on every train were filled, giving Amtrak a 100 percent load factor, Amtrak, with its existing equipment, could haul only two percent of current intercity travelers.
- o There has been testimony that other intercity passenger modes receive larger subsidies than Amtrak. This simply is not accurate. Amtrak receives significantly larger subsidies than do either the air, auto, or bus modes.
 - [As show in exhibit three] Amtrak receives substantially more in public subsidy than either the airlines or the bus companies. This is true whether the comparison is based on total funds received, total funds per passenger or total funds per passenger-mile.
 - Airports cover their costs, with a portion of their incomes coming from fees paid by the airlines. Bus companies pay for the operation and maintenance of their bus stations. These activities are carried on with minimal public funds for operation and maintenance.

The need for a thorough assessment of Amtrak's role in our national transportation system derives from the fact that a continuation of past trends is unacceptable. Between 1972 and 1980, Amtrak's annual operating deficit ballooned from \$210 million to \$650 million. During that period Amtrak's costs rose by 260 percent while revenues grew by only 170 percent.

Amtrak's total subsidy over its ten years of operation has reached \$5 billion, including both operating subsidies and capital grants and loans. This figure does not include the hundreds of millions of dollars which were spent in acquiring the Northeast Corridor, nor the large sums which have been expended upon the improvement of that property.

Continuation of these trends would result in an expenditure of nearly \$1 billion in fiscal year 1982. As with other areas of Federal spending, rail passenger service is competing for increasingly scarce resources. A service which provides less than one percent of the nation's intercity passenger travel simply cannot command such a large share of the Federal budget. Whatever the basis for past expenditures, it is now necessary to focus on an essential change in Amtrak's fiscal and operational environment. A new approach to Amtrak is necessary to contain the deficit at a level which compares reasonably with the benefits we receive from our rail passenger system-- a level that is also supportable in view of other cutbacks in Federal spending.

With these facts as background, the Administration's proposal for Amtrak is the only rational approach. Because Amtrak serves less than one percent of the nation's intercity travelers, is not particularly energy-efficient, and can be substituted for with unsubsidized service provided by air or bus, the Administration made a reasoned decision to reduce the subsidy to Amtrak. Had the Administration not made this decision, the subsidy to Amtrak would have been almost \$1 billion in FY 1982 and would have exceeded one billion dollars a year in the future.

- o There is an urgent need to bring Amtrak's deficit and the Federal subsidy payments under control. Even if the \$1 billion price tag for FY 1982 were acceptable, the projected growth of the subsidy in the ensuing three years would not be acceptable. The Federal subsidy proposed in fiscal years 1983 through 1985 for Amtrak by the former Administration totaled more than \$3.5 billion [Exhibit four]. A mode of travel serving less than one percent of the nation's total intercity passenger market cannot command such a large share of the Federal budget.

- o Even with optimistic assumptions (such as Amtrak's operating deficit will not rise in real terms and only \$225 million is required for capital in each year), the

total bill for serving less than one percent of the traveling public between FY 1983 and FY 1985 comes to \$3.3 billion. This number does not even include interest payments or local taxes.

- o The Administration's proposals for Amtrak reflect the urgency of constraining Amtrak's growing Federal subsidy. The proposals were reached after considering the role Amtrak plays in intercity travel, the small energy savings attributable to rail passenger service, and the growing subsidies required by Amtrak to enable it to compete with unsubsidized carriers. Although the specifics of the legislative proposals are not yet final, I want to discuss three key provisions with you now.

To begin, the sole response to reductions in budget need not be the elimination of service. We believe that there are several fronts on which Amtrak can move, with appropriate encouragement and support from government when necessary. Improvements in labor and management productivity should be explored much more fully than they have been in the past. In addition, where it is clear that the available level of resources requires a reduction in service, the selection of routes and trains for elimination should be made primarily upon business grounds. Using a business approach for any necessary route reductions would minimize the impacts on the traveling public because route reductions

would affect the least patronized and most unprofitable services first.

We will propose a combined authorization of \$613 million to cover operating expenses, the costs of capital acquisitions and improvements, the expenses of State-assisted 403(b) services, and labor protection.

We will propose advancing from FY 1985 to FY 1982 the requirement that Amtrak revenues cover 50 percent of total operating costs, measured on a system-wide, not route-by-route basis.

We will propose that Amtrak use business-like procedures for pricing its services differently on different routes and for deciding which routes to discontinue when the available financial resources require that a route be eliminated. Our proposal would require Amtrak to eliminate first those routes which are the worst economic performers.

We strongly disagree with Mr. Boyd's statement that only the Northeast Corridor service could be operated for \$613 million. My staff estimates that at least \$150 million (and as much as \$250 million) would be available to operate service outside of the Northeast Corridor. Of course, the more service Amtrak provides, fewer employees will be affected and the labor protection costs will be less. If aggressive pricing and marketing strategies are employed, even greater amounts could be available for operating other routes.

Under existing legislation, Amtrak's revenue to cost ratio must reach a level of 50 percent by FY 1985. Our proposal advances this requirement to FY 1982. The 50 percent level is not a radical idea, as Exhibit Five shows. Amtrak achieved it in 1972 and exceeded it in 1973 and 1974.

As Secretary Lewis told this Subcommittee last week, the Department intends to work with Amtrak in pursuing these avenues of reform and rationalization. The Federal Railroad Administration has already initiated discussions with Mr. Boyd and intends to pursue efforts to minimize areas of disagreement.

The Department recognizes that the time is short and we are sensitive to the other demands on this Subcommittee. We are also aware that the stakes are high. For that reason, we have made this issue one of our highest priorities. We look forward to working with the members of the Subcommittee and with its staff to develop a constructive solution to this thorny issue.

I am pleased to try to answer any questions you might have.