

TESTIMONY OF GILBERT E. CARMICHAEL
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BEFORE THE
SUBCOMMITTEE ON SURFACE TRANSPORTATION
OF THE
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Mr. Chairman, distinguished members of the Committee, it is my privilege to appear before this Subcommittee to testify on behalf of the Department of Transportation on the future of Amtrak.

Again this year, the Bush Administration has recognized the importance of intercity rail passenger service by including in the President's budget, funds for Amtrak's operating and capital expenses. Over the last 10 years, Amtrak has shown a remarkable improvement in its financial performance. Where the Federal Government was required to fund over half of Amtrak's operating expenses in 1980, we expect that this year Amtrak will be able to cover almost 80 percent of these expenses from its own sources of revenues. We have now moved to the point that we can discuss the appropriate role for the Federal Government in Amtrak's future and can realistically consider in those discussions the option of eventually eliminating Federal operating subsidies.

Amtrak's system of over 23,000 miles of intercity passenger

routes is an essential component of this country's passenger transportation system. Outside the Northeast Corridor, Amtrak operates over the privately owned freight railroads and Amtrak will have the opportunity to benefit in the coming years from the growing vigor of America's freight railroads. This growing relationship between the financial health of the freight railroad industry and Amtrak's ability to improve its service and move toward self-sufficiency is worthy of particular note.

The rejuvenation of America's freight railroads can be traced directly to the passage of the Staggers Rail Act of 1980. That Act allowed for partial economic deregulation of the freight railroads, providing them many of the same freedoms to plan, invest and pursue economic opportunities that most other industries had always possessed.

With that freedom, the freight railroads evaluated their business and acted accordingly. In earlier hearings we have discussed the abandonment of redundant and little-used facilities. We have also discussed the growth of an entrepreneurial class of small railroads that are providing service on light density lines that the larger rail systems can no longer profitably operate. In many cases, creation of these small and regional railroads has resulted in a rebirth of localized, customer-oriented rail service.

what we have not discussed are the initiatives that the major freight railroads have been undertaking on their main lines. Since 1980, these railroads have committed tens of billions of dollars of private capital to upgrade their infrastructure. They have rebuilt their roadbeds and track structure and, in many areas, developed and installed signal, communications and control systems incorporating some of the most advanced technology in use anywhere. Where deferred maintenance was once common, today the main lines of the United States are in their best condition ever. The freight railroads represent a safe, fuel efficient, and environmentally superior component of the Nation's transportation system.

At the same time that these railroads were rebuilding their main lines, they were aggressively marketing their service to shippers of containerized freight. The coming together of these two private sector initiatives has resulted in the development of an intermodal, interstate rail freight system that is more than twice the size of the interstate highway system. This system is high tech and portions are high speed. Many of the containerized movements are time sensitive and, as a consequence, many of the freight trains are operating safely at their highest speeds ever. Freight train speeds of 79 miles per hour are not uncommon.

Amtrak stands to benefit significantly from the improvements that have permitted the efficient operation of high speed freight

trains over a vast network of rail lines in this country. That is because the high speed portions of the intermodal, interstate freight railroad network are also the rail lines that form the vast majority of Amtrak's route structure. Access to this rail network offers Amtrak the opportunity to provide higher quality, faster and more reliable service than it has been able to offer in the past. It offers Amtrak the opportunity to play a growing role in intercity transportation with prospects for increasing levels of ridership and revenues.

So today, as the Administration and Congress consider reauthorization of Amtrak, we can look back to a decade of dramatic improvements in the Corporation's financial performance and look ahead to a potentially bright future for intercity rail passenger service in this country. The question before us is; "Where do we go from here?" I think the time is now ripe to discuss the measures necessary to eventually eliminate the need for a Federal subsidy of Amtrak's operations. Unlike past discussions by others on this topic, I am not talking about achieving self-sufficiency by drastic cuts of routes and service. My vision of a self-sufficient Amtrak is that of a private corporation able to fulfill the mission set out for it in 1971 in the Rail Passenger Service Act -- to fully develop the potential of modern rail service in meeting the Nation's intercity transportation requirements. I would like to offer my views on how we can best reach that goal.

This is not the first time that the Federal Government has attempted to wean a major transportation company away from dependence on the Federal treasury. A little over ten years ago we were searching for ways to move Conrail to self-sufficiency. The cynics of that era decried the futility of those efforts in much the same terms that today's cynics decry our efforts to make Amtrak self-sufficient. But the Conrail effort was successful and that corporation is now a healthy member of the private sector.

I recognize that there are significant differences between the Conrail of 1981 and the Amtrak of 1992. But there are significant similarities as well. There is a lot to learn from the Conrail experience that can be transferred to our present challenge with Amtrak. The first and most important lesson that we can learn is that there must be a commitment on the part of the Administration, Congress and the Corporation to move aggressively toward this goal. This commitment will require legislative changes and it will require adequate funding of Amtrak through its transition to self-sufficiency. The Federal Government must clearly establish its priorities and commitments to the future of intercity rail passenger service and the Department is prepared to work with the Congress to jointly develop these priorities and commitments.

The Conrail experience shows that other key issues must be

addressed in any attempt to move to self-sufficiency. First, capital investment is required to develop the infrastructure and equipment necessary for profitable operations. Second, States and localities must be supportive of transportation systems that provide essential services to their citizens. Third, Amtrak's total labor expense must be in line with the levels of its competitors. And, finally, the corporation requires an outstanding management dedicated to achieving the goal of self-sufficiency. I would like to now address each of these areas in turn.

Capital Investment

A major structural problem with Amtrak is that much of its physical plant is antiquated, costly to maintain, and does not afford the opportunity for the corporation to move aggressively into new markets that offer the potential of increased revenue. Conrail had similar problems and this was addressed through an infusion of significant amounts of capital. The same will also be required to move Amtrak to self-sufficiency. That is not to say that the Federal Government should be the only source of capital for Amtrak. States and local governments whose citizens benefit from this service should contribute to Amtrak's capital needs. Amtrak also needs to aggressively pursue opportunities for capital financing from the private sector.

Support by State and Local Governments

A lesson learned from the Conrail experience is that financial self-sufficiency required that State and local governments assume greater responsibility for transportation services that benefit them. What is needed is a new approach to public support of intercity rail passenger service. States and localities served by Amtrak intercity rail service derive significant benefit from this service. In recognition of these benefits, State and local governments should provide financial support for their Amtrak service.

Many communities willingly invest public funds or commit public bonding authority to develop or improve airports in the hope of attracting improved air service. These communities need to treat rail passenger service much the same way as they treat air service and share in the burden of developing and maintaining the multimodal stations and other infrastructure necessary for quality rail passenger service.

For the last few years, FRA has been discussing the need for and the opportunities offered by developing train stations into multimodal transportation centers. These stations can make significant improvements to local public transportation, make intercity rail passenger service more attractive and serve as the focus of economic development in revitalized downtowns. One only needs to look at Washington's Union Station to see the

prototypical example of this type of facility.

FRA and the Federal Transit Administration have supported a number of cities of various sizes in conducting feasibility studies for the development of multimodal centers based at train stations. They all have shown the promise of substantial local benefits. I believe it is reasonable to require that in determining the stations to be served by a particular route, Amtrak must give preference to those station locations that have a commitment of State or local financial support for the operation of the station and that will serve as a focus for local multimodal transportation coordination.

I do not believe that seeking participation from States or localities in finding capital for improved intercity rail service is unreasonable. Indeed, many States are already making such commitments. Over 25 communities nationwide are developing commuter rail service. California will dedicate up to \$3 billion in proceeds from a recent bond issue for the development of rail service including intrastate intercity rail service. Florida has also expressed a willingness to commit State transportation funds for rail improvements, including the development of the first stage of an intercity high speed rail line. A small city, Gulfport, Mississippi, has assumed responsibility for the station and for some grade crossing eliminations as part of State and local efforts to restore Amtrak service between New Orleans,

Louisiana and Jacksonville, Florida.

Labor Expenses

A significant aspect of Conrail's transition to self-sufficiency was lowering its total labor expenses. The same will be required if Amtrak is also to reach that goal. That is not to say that individual salary levels must be depressed. Indeed, substantial savings in labor expenses can be achieved without impacting on specific levels of salaries or benefits. What is required is the elimination of certain extraneous labor costs that are imposed on Amtrak but are not imposed on its competitors such as the airlines.

Amtrak should be given greater flexibility in its ability to contract out for goods and services. Section 405(e) of the Rail Passenger Service Act needlessly restricts management's ability to achieve the most productive uses of the corporation's assets by limiting its ability to use contracts and this hampers its efforts to achieve self-sufficiency. The repeal of this provision would place Amtrak on a par with other major corporations and help reduce its reliance on Federal financial support.

Section 405(c) of the Act imposes certain "labor protective" obligations on Amtrak in the case that service is discontinued and limits Amtrak's flexibility to relocate employees without

incurring these obligations. While these provisions are similar in nature to those imposed on the rail freight industry, they are not imposed on Amtrak's competition. Congress should revise these provisions to more closely approximate the normal practice of American industry as a whole.

The third area where savings can be achieved is repeal of the Federal Employers Liability Act with its outdated and ineffective tort based workmen's compensation system. Repeal of FELA would put Amtrak on par with its competition -- indeed it would put Amtrak on par with every other industry in this country.

Dedicated Management

Eliminating the structural and institutional burdens imposed on Amtrak will not, in and of themselves, make Amtrak self-sufficient. It will take a management dedicated to achieving that goal. This is one area in which I believe that Amtrak is very fortunate. In large part we have reached the point where we can seriously discuss making Amtrak self-sufficient through the dedicated efforts of Amtrak's current management led by Graham Claytor.

Amtrak's management is dedicated to the goal of becoming financially self-sufficient. As an example of that dedication, management cut its ranks by 10 percent last year and, more recently, has deferred its pay increases, as part of Amtrak's

efforts to address the shortfall in revenues brought on by the current sluggish economy.

Summary

The Administration's budget request for Amtrak for fiscal year 1993 reflects, in part, the tough trade-offs that have to be made in a tight budgetary environment. But the request also reflects the Administration's continued support for Amtrak and the Administration's philosophy that intercity rail passenger service should become self-sufficient. Currently, Amtrak's operating costs are inflated by archaic statutory requirements and by inefficient operating rules. The FY 1993 request assumes passage of legislative proposals and implementation of work rule changes and productivity enhancements that will reduce Amtrak's operating costs.

The Administration's budget request consists of \$74 million for capital improvements and \$269 million to cover Amtrak's operating deficit. The Administration projects that Amtrak would have an operating deficit of \$482.5 million in the 1993 fiscal year absent additional legislative and management initiated changes to control costs or increase revenues. As a consequence, Congress, the Administration and Amtrak must move quickly to address these needed changes before the end of this fiscal year.

In addition to the legislative changes, the Administration's

budget request also assumes savings can be achieved through a number of initiatives that can be implemented by management. These initiatives include reduction in the size of on-board crews, increased flexibility in work assignments, contracting out of food services and the maintenance of some locomotives.

I believe that the management that is in place at Amtrak has the dedication and the ability to make Amtrak self-sufficient if we only give them the tools that will permit it to be done. I believe that financial self-sufficiency is in the best interests of Amtrak, intercity rail passengers, and this country as a whole. I pledge to the Subcommittee my willingness to work with you to provide the these tools so that this important goal can be realized.

Mr. Chairman, that concludes my prepared statement. I am available to answer questions from the Subcommittee.