

S. 1501, THE PASSENGER RAIL INVESTMENT REFORM ACT

HEARING

BEFORE THE

COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

OCTOBER 2, 2003

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SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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THURSDAY, OCTOBER 2, 2003

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Committee met, pursuant to notice, at 2:30 p.m. in room SR-253, Russell Senate Office Building, Hon. John McCain, Chairman of the Committee, presiding.

OPENING STATEMENT OF HON. JOHN MCCAIN, U.S. SENATOR FROM ARIZONA

The CHAIRMAN. Good afternoon. The Committee meets today to hear testimony on the Administration's plan for restructuring intercity passenger rail service in the United States. Key elements of the plan were announced in June 2002 when Amtrak was threatening its entire system unless Congress provided yet another bailout. But it was only this past July that legislation was sent to Capitol Hill. At the Administration's request, I introduced the Passenger Rail Investment Reform Act, S. 1501.

The Administration's plan embodies what I believe are the concepts critical for reform, a network of trains that makes economic sense, fair and open competition for Amtrak, and cost-sharing with the States. Equally important, the proposal would transform Federal support from sponsorship of an intercity passenger company, that for all practical purposes is owned by the Federal Government, to providing capital support for an intercity rail program along the lines of the New Starts transit program. Amtrak could become one of a number of companies providing service under contract through a competitive bidding process.

While my colleagues and I may not agree on exactly how Amtrak and intercity passenger rail service should be restructured, I think we all agree that what exists today is far from ideal. Amtrak loses over \$1 billion annually, yet serves less than 1 percent of intercity travelers. It operates routes that lose hundreds of dollars per passenger that would not survive if service was based on market demand rather than parochial political interests. For example, the Sunset Limited, a train that operates through Arizona on its long odyssey from Los Angeles to Orlando, loses over \$400 per passenger and it carries less than 300 passengers per day. At the same time, four times as many people fly between Los Angeles and Tucson as ride between all points served by the Sunset Limited.

While we continue to subsidize long-distance trains at hundreds of dollars per passenger, there is no train service in many short-

distance corridors where rail might actually attract enough customers to break even at least on operating costs. Time and again, reports have shown that the future of intercity service is in short-distance corridors that can compete with other modes of transportation, and corridors are where states are proposing to invest their own money.

The Administration's plan is far from perfect. There are obvious omissions in it, notably how much restructuring will cost. In some aspects the plan may not be entirely workable. Nevertheless, the plan is commendable for addressing head-on the difficult issues of restructuring, including the existing Amtrak route network, access to the rights of way of the freight railroads, and how new rail service could be developed.

I'm also encouraged by the recent announcement of the Administration's intent to nominate Lou Thompson, the U.S. expert on international rail reform, Bob Crandall, former CEO of American Airlines, well known to the Senator from South Dakota and to me, Floyd Hall, former CEO of K-Mart, to serve on the Amtrak Board of Directors. We need a board that will exercise its fiduciary responsibilities, initiate some real change, and provide Congress some constructive legislative recommendations. I'll certainly schedule a hearing on the nominees as soon as possible once we receive their paperwork.

Last June, during the Committee's mark-up of our safety title for the TEA-21 reauthorization, the Committee inserted a placeholder for Amtrak of \$2 billion for each of the next 6 years. The placeholder provision would authorize a level of funding well above the average \$1.6 billion in annual funding requested by Amtrak in its latest 5-year plan and would require no reform or restructuring. I think we can do better.

This Committee has an obligation to come to terms with Amtrak's problems and why our passenger rail program is largely a failure. Simply throwing billions more at Amtrak, whether through appropriations, bonds, or some other scheme will not solve the fundamental problems, and if we're serious that the status quo is unacceptable, the longer we postpone making the tough choices that need to be made, the harder it's going to be and the more limited our options become.

I remain committed to reform. I hope the Administration's plan can serve as a basis for developing a consensus proposal on Amtrak. Unless we can make progress on legislation in a bipartisan manner, I fear that Amtrak will remain the albatross blocking the development of a program that actually helps meet the needs of the traveling public. I know that the Senator from South Carolina has had a long and deep involvement in the Amtrak issue, as has our friend from New Jersey who arrives here today. I thank them. Senator Hollings.

**STATEMENT OF HON. ERNEST F. HOLLINGS,
U.S. SENATOR FROM SOUTH CAROLINA**

Senator HOLLINGS. Thank you very much, Mr. Chairman. Your test, of course, of whether or not you have sufficient passengers to warrant whether you're making sufficient money to sustain, those are good business tests. But there are certain entities in public do-

main that are exceptions from that test, obviously defense, we don't look upon defense as a money-making situation, it's a service necessary to a free government. Similarly with Medicare, similarly with Social Security, and I say similarly with respect to a national passenger rail service.

I happen to have been the attorney for the local city passenger bus service. We constantly looked for how in the Lord's world to save money or to make it operate in the black. It never did, that was 50 years ago. As of this minute it's still not operating in the black, yet they're very capable people operating it, the pay scale is appropriate, and all these other things, the routes and so forth cut back and everything else and it's still in trouble. And last week when I met with the distinguished Administrator, David Gunn, and I think the Government is lucky to have him, he just outlined an emergency situation. He described the track. He brought a piece of the track with him, and I hope he'll bring it today or something of that kind because you see how the track is just worn into half a track, I can tell you that now.

He says he's money in his own schedule to take that worn track and have it replaced and that's what he's doing. He's not risking safety at the minute, but he will not be able under the present budget to continue doing the necessary repairs to that track on the one hand. Otherwise, he had a piece of cable, telling me that in 1935 going through the tunnel, Senator Lautenberg, into New York, they put this cable, it was very sophisticated cable, very expensive, and there was three cables there to sustain the Amtrak operation. One of them is gone completely, another one went out, and they've got it repaired. From his particular experience up in Canada, these repairs never last and that one cable that's still got it going, it might meet the demands of the distinguished Senator from Arizona. Once that goes, Amtrak closes down.

I think we are in a critical, critical situation, an emergency situation. This committee ought to know it because Mr. Gunn has proposed that, outlined exactly what he outlined to me and to the Amtrak board, and as a result of having outlined that, Senator from Texas, there has been no appropriations sent up here to take care of the situation and to really establish a passenger rail service.

Now we are establishing one. We're about to vote. In fact, the final vote will be Tuesday, 2 weeks from now on a passenger rail service for Iraq, but we don't have a proposal from the Administration for a passenger rail service for the United States of America. This Committee ought to come clean and ought to vote close it down or close it up.

Of course, I favor a national system that's going to cost—I think the concerns of our distinguished Chairman are very well based in other words, there's no use to run a rail service just to call it national to where it's not picking up any passengers at all. There are going to have to be some cutbacks, but then they're going to have to be, if you're going to continue to go from north to south and east to west, they're going to have to be some inordinate expenses there and they've got to be taken care of.

So I appreciate the hearing but I don't think we can continue with hearings or appointing new boards or whatever else. We this year, before we adjourn, we ought to call a spade a spade and ei-

ther vote to have a passenger rail service appropriating the money or say that we're not going to do it. If there's some way to pose this particular amendment to bring it to a head so we'll know where we're headed I would try to propose it. We'll look at it and see. Thank you very much.

The CHAIRMAN. Thank you, sir. Senator Hutchison.

**STATEMENT OF HON. KAY BAILEY HUTCHISON,
U.S. SENATOR FROM TEXAS**

Senator HUTCHISON. Chairman McCain and I have battled over Amtrak for years, but we agree on one thing: Amtrak is in bad shape. We can choose to throw in the towel, we can dissolve Amtrak, or we can work to make rail a viable transportation option. I fear that the proposal before us today would be the elimination of Amtrak. Why not cutoff funding for our highways and our aviation system?

Rail opponents point to low Amtrak ridership numbers to justify shutting it down, but as Mr. Gunn has learned from actually going on the Sunset Limited, if you have bad service you really can't test the ridership. If we are going to have a reliable rail option, I think we are going to have to fund it and we're going to have to support it and we're going to have to treat it like the other modes of transportation in our system.

The Texas Transportation Institute recently released its 2003 Urban Mobility Study, which surveys surface transportation conditions across the Nation. The study depicts a bad situation getting worse. In 2001, traffic congestion cost the Nation \$69 billion, \$4.5 billion more than in 2000. This figure includes 5.7 billions gallons of lost fuel and 3.5 billion hours of lost productivity resulting from congestion.

The study also found that the extra time needed for rush hour travel has tripled since 1982. This situation is one of the greatest domestic transportation challenges facing America today. We should strictly act to reauthorize TEA-21 with adequate funding for Federal highway and mass transit programs. We need to complete the conference on the overdue FAA reauthorization bill and we need to make rail a viable transportation alternative.

Senators Lott, Burns, Snowe, and myself have introduced legislation that would create a true national passenger rail system. Our bill, the American Rail Equity Act, AREA, would create a national passenger rail office at the Department of Transportation responsible for coordinating with states and the railroads to ensure the national system makes improvements necessary to efficiently operate an intercity passenger rail system. It provides increased capital and operating funds so routes on the national system can finally have a chance to succeed. In return, Amtrak must operate on time or risk losing its routes to private operators.

I suppose the bill before us is better than no bill at all, but not by much. It provides no funding for operating intercity passenger rail, insufficient funding levels for capital needs, and it tasks the states to fund an engineer of the network. Train tracks, like highways, do not stop at State borders. If President Eisenhower had adopted this approach, we would not have the interstate highway system.

Amtrak itself has much to answer for. I was extremely disappointed in Amtrak's proposed \$9.1 billion capital plan, which allocates more than \$8 billion to the Northeast corridor, leaving crumbs for the national system. This inequity can not continue. Area sponsors have adopted a motto, national or nothing. The Administration bill, I'm afraid, is not much. If we fail to enact real change in this reauthorization bill, I think we're going to run out of opportunities to achieve intermodal transportation systems. I will not support a proposal that does not put the national system on a par with the Northeast corridor. We face a new beginning or the beginning of the end.

I hope that we can support a bill that will actually fund Amtrak, will give us the capital needs to make it a good system, and commit to it like we do highways and rail. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Lautenberg.

**STATEMENT OF HON. FRANK R. LAUTENBERG,
U.S. SENATOR FROM NEW JERSEY**

Senator LAUTENBERG. Thanks, Mr. Chairman. I'm going to repeat something I heard just now. Senator McCain and I have occasionally disagreed on this matters, so that's two against one. We haven't done well so far, but thanks, Mr. Chairman, for holding the hearing. It's the second time this year this Committee has held a hearing on the topic of passenger rail service, and here we are with another idea before us about what to do with Amtrak, this one from the Bush Administration, and frankly I think it's a non-starter.

In my previous stint in the Senate, I was the Chairman and then Ranking Member of the Appropriations Subcommittee on Transportation and I learned one thing: Transportation takes money and anybody who tells you otherwise isn't being candid. David Gunn was hired last year to stabilize Amtrak and he has done, as Senator Hollings said, a very impressive job and my hat's off to him. The job's gotten harder since he has had the task. He has told us in forthright terms what resources he needs to provide safe and efficient rail service to our country. He's told us what we will get for the funding we provide.

My read of the Administration's Amtrak proposal is that it's long on ideology and short on practical solution. Let the states pay for rail services is what the Bush Administration's proposal is. It's just not realistic. The states are facing their biggest budget crunches since the Great Depression, and I'll take the liberty, Mr. Chairman, of reading something that I'd like put in the record. It's a letter dated September 1996 and it says in one paragraph on the second page, "First, many of us believe that Amtrak finances and operations are a matter for the Federal Government. The Federal Government created Amtrak." It's signed by George W. Bush, then Governor of the State of Texas. So I don't know what kind of a change in view.

The CHAIRMAN. That will be made part of the record without objection.

[The information referred to follows:]

STATE OF TEXAS—OFFICE OF THE GOVERNOR
September 20, 1996

Thomas M. Downs,
 Chairman, President and Chief Executive Officer,
 National Railroad Passenger Corporation,
 Washington, DC.

Dear Mr. Downs:

Since our conversation, it appears that there is a discussion in a number of states about subsidizing Amtrak's operations. This letter is a report on some of the sentiments of leaders in the State of Texas.

Before I talk about funding options, I do want to reiterate how disappointed we are with the Texas Eagle decision. I am particularly concerned about the inadequate notice given to communities along the Eagle route. Amtrak has encouraged local officials to invest funds in depot facilities and to help market rail services. As I am sure you can understand, this abrupt decision created a lot of consternation and worry among the impacted communities. Secondly, it is hard for us to understand the Texas Eagle decision since few Amtrak routes were eliminated, although many lines are losing money just like the Texas Eagle.

Recently, congressional action allows Texas to spend our Congestion, Mitigation and Air Quality (CMAQ) program funds as a short-term subsidy for the Texas Eagle. After discussions locally elected officials, it appears that the CMAQ option is not feasible. First, CMAQ funds are generally limited to projects within our state's four air quality non-attainment zones. Only one of these zones, Dallas/Fort Worth, is served by the Texas Eagle. Secondly, the Dallas/Fort Worth area Metropolitan Planning Organization has fully allocated all of its expected CMAQ appropriations to specific projects for the next five years. Finally, it is unlikely that the portion of the Texas Eagle which operates in the Dallas/Fort Worth area will have any significant impact on air quality in the region: a fact which would make a rail subsidy a poor candidate for CMAQ funding. In short, many of the local leaders are convinced that diverting CMAQ funds from ongoing air quality projects would hurt efforts to meet air emissions reduction goals.

I have discussed the idea of long-term state funding subsidies with key members of the legislature. I am not optimistic about long-term funding for several reasons.

First, many of us believe that Amtrak finances and operations are a matter for the Federal Government. The Federal Government created Amtrak. If your long-term plan is entice states to be Amtrak's main funding source, as opposed to Washington, you should clearly state this goal and debate it. We understand that there are efforts to dedicate some of the ??? cents of the gas tax to meet Amtrak's capital need. If this is the case, it seems wise to wait and see whether or not this course of action is approved. If it is approved, the concept of state subsidies should be moot.

Secondly, state leaders, including me, worry about subsidizing a poorly run operation over which we will have no control. Germane questions such as routes, frequency of traffic, capital improvements, and marketing plans, concern us. With no control, it seems that any state's subsidy would be like pouring money in a black hole.

Finally, Texas is being asked to subsidize interstate long-haul services. This does not seem fair since other states' subsidies fund intrastate and short-haul routes. In short, other states are buying more frequency and more runs, not just paying for survival. Texas leaders do not want to be treated differently.

I appreciate your attention to this matter, and I hope this update helps in your future planning.

Sincerely,

GEORGE W. BUSH,
Governor.

Senator LAUTENBERG. Thank you very much. The Bush Administration officials argue that rail infrastructure shouldn't be funded at the same Federal/State share as highways and airports and the Government has no business providing essential transportation services. Well, that's ideology talking and ideology doesn't build or maintain our Nation's transportation infrastructure. It takes concrete and steel and human labor and engineering, yes, it takes money, Federal money. It took Federal money not just gasoline

taxes to build the Dwight D. Eisenhower interstate highway system. It took Federal money to build our national aviation system.

Yesterday we celebrated the 75th anniversary of Newark Liberty International Airport, one of the most utilized airports in our Nation's history. Ideology didn't build it, money did. With regards to witnesses who are here today on behalf of the Bush Administration, I have to ask them where some of their ideas come from. It seems to me they're bankrupt ideas to bankrupt a railroad. After 9/11 I thought it would be quite evident, self-evident, how important Amtrak is as part of our national intermodal transportation system, but I guess it didn't.

According to the Texas Transportation Institute at Texas A&M University, the average rush-hour driver wasted 26 hours stuck in traffic in 2001, and that's nearly a 20 percent increase in just 5 years. People in Los Angeles spent 90 hours a year stuck in traffic. In Phoenix, in the Chairman's home State, commuters spent 61 hours on average stuck in traffic each year. The annual cost of all of this is estimated to be \$70 billion, according to the Institute. Instead of solutions to these problems we get an ideology.

So if I sound angry, I am, that the Bush Administration wants to abdicate its responsibility with regard to passenger rail in this country. And I remind everybody that on 9/11, that fateful day when America's vulnerability was evidenced, the only thing that moved in the busiest region of our country was Amtrak. Aviation stopped dead, 5,000 airplanes directed to land because we were afraid that their being in the sky was a danger to the passengers. The country needs Amtrak and Amtrak needs Federal assistance. It's that simple and I thank you, Mr. Chairman.

The CHAIRMAN. Senator Burns.

**STATEMENT OF HON. CONRAD BURNS,
U.S. SENATOR FROM MONTANA**

Senator BURNS. Thank you, Mr. Chairman, and thank you for this hearing. I will offer my statement for the record and I'll just paraphrase. I want to hear from the testimony today.

We took a look at the recommendation or the idea that states should participate more financially in the support of Amtrak in the local states, and I just want to pass this along to you. In Montana, we requested a report, analysis of the economic benefits of Amtrak's Empire Builder into Montana. I'm not going to go through all the findings but we found out some very interesting things. The Empire Builder is an essential transportation service, which is by and large, in most communities served, the communities had had no alternative means of transportation.

Direct spending by Amtrak using non-resident travelers in Montana by Amtrak is estimated between \$5.3 and \$5.7 million annually. Now that might not be a hill of beans to some States, but it is to my State of Montana up on the High Line. And it plays a very important part to the everyday lives of Montanans who live in isolated areas and that is the High Line of my State.

I concur with the ranking member of this committee that if we want a national railroad system it should be a national system. We can't draw it back into areas where the so-called heavily traveled or demand for commuter routes, because we know one thing: High-

way 395 North at 6 in the morning until 9 is the world's largest parking lot and it's getting worse. And for us to be discriminated against because we're in rural areas and have no public transportation, our relief is just as great. So a national system in the bill that was identified by my friend from Texas, and I'm a co-sponsor on that bill, we think is the right approach.

And so we've got to wrestle with this and I think the Committee is going to have to take on the responsibility of coming down on one side or the other. So Mr. Chairman, thank you for the hearing and I'll submit my full statement.

[The prepared statement of Senator Burns follows:]

PREPARED STATEMENT OF HON. CONRAD BURNS, U.S. SENATOR FROM MONTANA

Thank you Mr. Chairman for calling this important hearing. As you know, myself and several others on this Committee have an ongoing interest in the future of Amtrak. Together with Senators Hutchison, Lott and Snowe, who all sit on this Committee, we introduced S. 1505, the American Rail Equity Act of 2003, in response to the bill we are reviewing today. I applaud the Administration and you Mr. Chairman for your work in this area, but I do not agree with you on this issue.

Our bill, in summary, reauthorizes Amtrak for six years to coincide with TEA-21 reauthorization. It establishes a National Passenger Rail System that consists of Amtrak's current routes. Additionally, S. 1505 authorizes approximately \$60 billion over that six year authorization period, with \$12 billion for operating costs and \$48 billion in bonding authority.

Now is not the time to pull the plug on a national passenger rail system. Our authorization alternative gives Amtrak the funds to prove itself over a six-year term and doesn't shift the burden to states whom without our assistance could not afford to maintain service. If changes need to be made at the end of that time period then we should deal with them. Amtrak should be given a decent shot and not provided another year of "just enough."

In this Committee and in Congress as a whole, we sometimes forget the true positives Amtrak provides to many rural areas of the Nation. I want to take a moment and discuss the results of a report prepared in July of this year that addresses Amtrak's importance and footprint in my state.

In July an outside company provided a requested report for the Montana's Departments of Transportation, Commerce and Agriculture labeled "Analysis of the Economic Benefits of The Amtrak Empire Builder to Montana." While I don't intend to go through all the findings, there are some important excerpts I believe should be considered by the Committee.

- The Empire Builder is an essential transportation service for which there is, by and large in most communities served, no reasonable alternative.
- Direct spending by Amtrak-using nonresident travelers in Montana and by Amtrak is estimated to be between \$5.3 and \$5.7 million annually. This may not amount to a hill of beans in some states but \$5-6 million along the hi-line of Montana makes a dent in the lives of those who live there.
- The Empire Builder as an institution is no small part of everyday life to many Montanans who live in rural isolation along the hi-line and who depend upon it to get to medical services, send children to college, and for travel out of the state.

Retention of long-distance trains and specifically the Empire Builder is essential to my state. Without it, there would be relatively no transportation alternative when looking at the rural and isolated character of Montana and adjoining states.

This Congress needs to remember there is a lot of land and a lot of people who need transportation alternatives who reside between the east and west coast of this country. Until we address the reoccurring problems with Amtrak and make a good faith long-term effort to establish a national passenger rail system this issue will dog us for years to come.

I look forward to hearing from the witnesses on this matter and I look forward to hearing from the panel on their thoughts for the future of Amtrak.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. Our first panel is the Honorable Alan Rutter, who is the Administrator of the Federal Railroad Administration. Pardon me? But first we'll hear from Senator Dorgan.

[Laughter.]

**STATEMENT OF HON. BYRON L. DORGAN,
U.S. SENATOR FROM NORTH DAKOTA**

Senator DORGAN. Mr. Chairman, thank you very much. I feel like a consolation prize.

The CHAIRMAN. He usually blends into the woodwork.

Senator DORGAN. That's true. Let me just say that I appreciate Mr. Rutter and Mr. Mead being here. Mr. Mead, you've been very helpful to our Committee on a good many issues, and to Mr. Gunn, thank you for assuming this obligation that you've undertaken.

The Amtrak rail passenger issue is a serious issue, and regrettably, I don't think the administration's Passenger Rail Investment Reform Act is a serious proposal. It's a serious proposal if you just decide you want the message to be shut down the rail service on the long-haul routes and continue the rail service on the Eastern Corridor. That would probably be self-sufficient, raise revenues so that you can have rail passenger service on the East Corridor from Boston to Florida.

The Administration is not quite saying it that way, but it would probably more appropriate for them to just say, look, we don't believe in long-haul routes. We think the Empire Builder ought to shut down and we'll just continue an Eastern Corridor piece of rail passenger service. They don't do quite that, they concoct a mechanism by which they say the states should create compacts and do various things.

Transportation, I think, is critical to this country's economy. Whether it's on wheels or on rails or on water or in the air, this economy moves forward with transportation and the transportation for people and freight makes this economy run. I happen to think, as Senator Burns has indicated, that rail passenger service is something very important to this country, and not just the service on the East Coast. Roughly 70- to 80,000 North Dakotans use Amtrak service in a year. Montanans use it. It's a significant adjunct to our transportation needs and it's just very important that we continue it. The Empire Builder has been a great part of our transportation network and we want to continue it.

So the question is today how do we seriously address this. We will, I think, dismiss quickly the Administration's proposals because I don't view them as serious. Then the question is, how do those of us from both political parties serving in Congress construct something that is serious, that recognizes we want to continue rail passenger service in this country's future. We can do this and we should do it, but we ought not delay much longer, because we delay, it seems to me, at the risk of having this service shut down and that's the last thing I want to have happen.

Finally, Mr. Chairman, one statement. Will this require some subsidy? Sure. Frankly, we subsidize every form of transportation in this country. We always have and I don't think we ought to shy away from providing a reasonable subsidy to create a rail pas-

senger system that works, one that is national in scope, and one that I think strengthens this country's economy.

The CHAIRMAN. Mr. Rutter, Mr. Mead, welcome.

**STATEMENT OF HON. ALLAN RUTTER, ADMINISTRATOR,
FEDERAL RAILROAD ADMINISTRATION, U.S. DEPARTMENT
OF TRANSPORTATION**

Mr. RUTTER. Thank you, Chairman McCain, Members of the Committee. Thanks for the opportunity to discuss the administration's proposal for intercity passenger rail reform, the Passenger Rail Investment Reform Act, which Senator McCain has so graciously introduced at Secretary Mineta's request.

In my 2 years in office I've often come to this Committee to talk about passenger rail and have been chastised, rightly so, for not having more to say. Today I'm proud to describe and defend a comprehensive proposal to reform the manner in which passenger rail services are provided to our citizens. I've been reading capsule descriptions of our proposal in the press, often included in recent stories about the perpetual battle on Amtrak appropriations.

Our proposal has been described in general terms as this: The Bush Administration seeks to dismantle Amtrak, dumping passenger rail service on the states and privatizing the remaining routes. I'd have to identify with newspaper readers, who upon reading that assertion would react with incredulity. Not only does that not sound like a great plan, it doesn't sound like our plan at all, its intent, or its likely effects.

I hope my testimony has clarified some of the features of our legislation, but let me now respond to the three ways in which that caricature fails to describe our bill. First, I don't think the word dismantle should be used to describe our proposal to alter the organizational structure of the current passenger rail provider. Dismantle is a verb with intent. It describes a process or stripping down and does not always imply reassembly. We have no such malice here. Rather, we are merely proposing a different institutional arrangement for passenger rail service in hopes of providing an increase in the quality and quantity of such services. We can disagree about the effects or the pace of that restructuring, but no one should impugn our motives.

Second, I'll object to the word "dumping". After Isabel blew through our region recently, I frequently joined my fellow Prince William County residents at our county landfill to dispose of the remains of our uprooted trees. When you go to a dump, you drive up, drop off your refuse, and drive away. To apply that analogy to passenger rail, we would have to be proposing to leave states wholly responsible for all passenger rail provision and propose that the Federal Government refuse to have anything to do about it ever again, and that is not what we are proposing.

When I was in Buffalo a few weeks ago to discuss our proposal with AASHTO's standing committee on rail transportation, I heard from State officials who disagree with our proposals for long-distance train operating support or capital matching percentages. However, most of them appreciated that we are proposing a long-term partnership where the Federal Government would share capital funding and service design responsibility with States.

Finally, I want to make sure we distinguish between the board's privatization and competition. I call your attention to my discussion of this point in our testimony so I won't repeat it verbatim here. If states are already providing operating subsidies for intrastate passenger rail service, we agree with many of them that there should be a careful, routine process for allowing them to choose an operator who will provide the best value proposition for their citizens. We do so consistent with a core tenet of governmental procurement policy that taxpayers receive more value when service providers compete against each other. We deliberately chose this path, not that of the British experience or that recommended by the Amtrak Reform Council.

That's my opening statement, Mr. Chairman. This is a complicated issue and ours is a complicated proposal, and I look forward to discussing it with your Committee. This hearing is another step that we trust will lead to fundamental, sustainable, long-term reform in intercity passenger rail policy. Thanks.

[The prepared statement of Mr. Rutter follows:]

PREPARED STATEMENT OF HON. ALLAN RUTTER, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION, U.S. DEPARTMENT OF TRANSPORTATION

Chairman McCain, Senator Hollings and members of the Committee, I am honored to appear on behalf of Secretary of Transportation Norman Y. Mineta and the Bush Administration to discuss our legislative proposal, the Passenger Rail Investment Reform Act (the PRIRA), and the future of intercity passenger rail service.

This year marked the first time in the last several years that there was no summer Amtrak crisis. There was no impending financial meltdown that required the Congress and/or the Administration to bail Amtrak out yet again.

That was not a happy accident. Much of the credit goes to Congress: in the Department of Transportation's FY 2003 Appropriation Act, you imposed on Amtrak the discipline and oversight of the formal Federal grant process. This is a process that is common throughout the Department's other programs but which had not applied to Amtrak for decades. FRA used the grant process effectively to hold Amtrak accountable. Much credit also goes to David Gunn and his senior management team who have embraced the need to change the way things have been done at Amtrak. They have recognized the need for accurate and reliable financial reporting, and improved fiscal controls. They have also recognized their accountability for the sound and effective expenditure of the public's funds. These are essential values for any organization that depends upon the public's investment and trust.

The lack of a crisis this year does not mean that the Congress and the Administration can put intercity passenger rail service policy on the back burner. We must confront the reality, as the Department's witnesses have stated in our past testimony before this Committee on April 29 and June 5 of 2003 and during the previous year that this Nation's present business model for intercity passenger rail service cannot be sustained indefinitely. It will take more than authorizing mountains of cash to address the need for improved intercity passenger rail service in this country, particularly since we know that such mountains will look more like molehills in the final versions of the appropriations acts. The Department believes significant structural reform is required. Only forceful action will permit this form of transportation to be anything more than an afterthought in transportation plans of our citizens.

Any objective analysis of intercity passenger rail today leads to the conclusion that this form of transportation is slowly withering away under the current system. After \$25 billion of Federal subsidies and countless Congressional hearings, studies, and new business initiatives by Amtrak, intercity rail passenger traffic volumes have remained essentially constant over the past 25 years, while airline enplanements have increased to 250 percent of their mid-70s levels, and traffic volumes for both commuter rail and intercity automobile travel have more than doubled.

But the picture is not bleak across the board, not by any means. When the Administration undertook an effort to reform the way we make passenger rail investments, we looked at where passenger rail is working and growing. Those places

have a few things in common: broad public support for passenger rail and support from local communities and states, often in the forms of capital investment and operating assistance.

We have strived to build a system based on those descriptors of success, rather than on the cobbled-together remnants of the failed passenger rail operations of freight railroads. We need a passenger rail system that is dynamic, one whose services and route structure can adapt to changing consumer needs, one coordinated with the rest of our intermodal transportation system.

In every other mode of transportation, we get that flexibility and that degree of planning and investment through a state-federal partnership. The Federal Government cannot do good highway investment without partnering with states on where those highways should go. We cannot do good work on maintaining and growing our maritime or aviation infrastructure without state and local partners making some key decisions. Thus, our proposal's foundation is built on a strong, stable federal-state relationship.

Before I talk about the specifics of the Administration's legislative proposal to accomplish this reform, I wish to reiterate the consistent message of the Department before this Committee and before other forums for the last two years. This Administration believes that there is a vital role for intercity passenger rail service as part of this Nation's system of passenger transportation. That is the reason Secretary Mineta reluctantly approved Amtrak's proposed mortgaging of its rights to use Penn Station in 2001, and why the Department expended substantial effort to provide Amtrak a loan under the Railroad Rehabilitation and Improvement Financing Program in 2002. Without either of those actions, Amtrak would today be in the hands of the Bankruptcy Court. The Administration's commitment to successful reform of intercity passenger rail can also be seen in the President seeking out truly gifted citizens such as David Laney, Robert Crandall, Floyd Hall, and Lou Thompson to serve on Amtrak's Board of Directors.

It is the Administration's belief in intercity passenger rail transportation that also led to the first serious review of intercity passenger rail service in a generation and the first new Administration proposal for how that service should be provided in three decades. In the Administration's reform bill, we have addressed how to best structure the decision-making and public financial assistance this form of transportation requires, taking into account the changes that have taken place in this country's transportation needs and patterns over the last three decades and the changes yet to come. And, quite frankly, we have also tried to recognize the realities and limits of the Federal treasury.

The Fundamental Issues of Intercity Passenger Rail Reform

The Administration's legislative proposal for the Passenger Rail Investment Reform Act contains a very detailed sectional analysis that describes not just the specifics of each section but how they work together. Rather than use this testimony as an opportunity to say the same thing a different way, I will append that analysis to this testimony. Instead, I will focus this testimony on the issues that are addressed by the reform bill and must be addressed by any other serious effort to provide for viable intercity passenger rail service over the long-term. After almost two years of internal Administration analysis, review of options and debate, I am convinced that the Administration and Congress must resolve these eleven fundamental issues, loosely grouped in three broad categories. These categories are:

- *Governmental Roles and Relationships*
- *Constituency Issues*
- *Money*

Governmental Roles and Relationships

Defining the future Federal/State and local roles in the provision of intercity passenger rail service: The Federal Government and 12 State Governments have taken on essential roles in the provision of intercity passenger rail service either for that service in general, or for specific routes and services. It is difficult to imagine the absence of a public sector role in this form of transportation, particularly over the upcoming five or six years covered by the next authorization legislation. But are the current relationships in the public sector the optimum or most desirable? In the proposed reform bill, the Administration says they are not. The dominant decision-making and funding role of the Federal Government in this form of transportation is inconsistent with Federal involvement with other forms of transportation. This over-reliance on Federal initiative may be a contributing factor to intercity passenger rail's inability to effectively address the changing transportation demands of this country. The Administration's leg-

islative proposal looks to the successful highway and transit programs as models for intercity passenger rail. The bill would establish a strong Federal/State partnership much like those that exist for highways and transit where the Federal Government is responsible for safety, is a partner in capital investment, and establishes certain minimum standards that services must meet to receive this funding. The States, however, will be the initiator and implementer of actions.

And states are already taking that initiative. More than \$136 million in passenger rail investments were made by the states in FY03. Not coincidentally, those investments are being made in places where demand for passenger rail is high, where state and local commitments are strongest, and where the service has the greatest chance for success. Right now, states are making those investments largely unsupported by the Federal Government. The Administration's proposal considers that kind of state supported investment as the most important sign for where Federal investment should be directed.

Planning and Decision-making: Currently, intercity passenger rail planning is primarily the responsibility of Amtrak. Amtrak's exercise of that duty is marked more by a defense of the route system it inherited in 1971 rather than initiative to address changing demographics and travel patterns. While the reluctance to change before 1997 might be attributable, in part, to the statutory restrictions on the route system, neither highways nor transit nor aviation are subject to centralized planning of this sort. These are the forms of transportation that have seen explosive growth while Amtrak ridership has stagnated. The Department does not believe this is some sort of unrelated coincidence.

Highway and transit programs require comprehensive statewide and metropolitan area planning performed by the State departments of transportation and metropolitan planning organizations. These are the organizations most in tune with changing regional and local mobility needs. The Administration believes they must play a primary role in passenger rail planning, deciding when, where, how, how much and who provides intercity passenger rail service as part of a coordinated, comprehensive and multi-modal transportation system.

Addressing Commuter Service Concerns: The intertwining of Amtrak and commuter rail operations has resulted in the latter being periodically held hostage over issues relating to the financial condition of Amtrak but otherwise unrelated to commuter service. In recent years we have even witnessed a commuter agency that prepaid for its Amtrak services having been threatened by an Amtrak shutdown because Amtrak had commingled the commuter agency's funds with other funds in Amtrak's accounts. The Administration strongly believes that, while intercity and commuter rail service are complementary in many ways, commuters should not go through the periodic stress and uncertainty brought on by Amtrak's regular flirtation with financial catastrophe.

Under the Administration's legislative proposal, infrastructure currently owned by Amtrak but on which commuters depend will be transferred to public bodies. These new owners can structure contracts for the operation and maintenance of these facilities that are independent of the financial condition of the intercity rail service provider. Equally important, the States will be given the opportunity to select the operators of the intercity rail service important to them. In making such selections, the States can balance the risks versus the advantages offered by different operators. Indeed, some States might decide that the best approach may be to have one entity provide both commuter and intercity passenger service. But these will be local decisions based upon local issues, not ones that result in threatened national shutdowns of commuter service because of the failure of a single national intercity passenger rail carrier.

Addressing Intercity versus High-Speed Passenger Rail Concerns: Some believe that high-speed passenger rail requires a Federal policy completely distinct from other forms of intercity passenger rail. We don't see it that way. The Administration sees intercity passenger rail as one form of transportation that encompasses a wide range of speeds that reflect the mobility needs of the transportation market being served. We should view high-speed rail, not as a distinct and separate goal, but as a possible end state of current investment in passenger rail.

The Administration's legislative proposal is consistent with this perspective. Section 7101 of the proposed *Safe, Accountable, Flexible and Efficient Transportation Equity Act of 2003 (SAFETEA)*, would transform the existing program of "high-speed" corridor planning into a program that supports State planning for conventional as well as high-speed rail service. This planning program would

help States make informed decisions on the where, what and how intercity passenger rail service can play an appropriate role in enhancing passenger mobility. PRIRA would create a Federal/State capital investment partnership modeled after that now used for the transit new starts program. This program would provide capital grants, including full funding grant agreements, to implement State-based intercity passenger rail initiatives that are the product of sound State planning. The scope of the planning and capital improvements that can be undertaken under these programs allows the States more flexibility to choose whether to support or expand services currently provided by Amtrak, or to develop new or improved (including high-speed) intercity passenger rail service on new or existing rail rights-of-way.

Constituency-Issues

The Role of Competition: One of the greatest challenges facing intercity passenger rail is how to assure that the service provides the best value in terms of cost and quality to the passenger and the public, both of whom must foot the bill. This has always been an issue where States have provided financial support for specific trains. To them, Amtrak has looked like the monopoly utility, dictating prices and conditions of service with little or no apparent connection to the actual costs of that service. Missouri knows what Amtrak charges to provide the State-supported *Mules* and *Ann Rutledge*, but how does the State determine whether that is the best possible price? Is Amtrak's menu of service options all that can be done or are there service innovations that warrant consideration? How can the State motivate Amtrak to reduce its enormous overhead burden, which is currently about \$400 million annually?

In aviation, in trucking, indeed in most commercial enterprises in this country, the best possible price is determined by competition. Competition also is the incubator of innovation. As Amtrak has stagnated for three decades, lower cost commercial aviation and intermodal package delivery have seen creative and successful new companies grow and flourish. The Administration proposes to phase in the ability of States to use competition to select the operators of services they deem important enough to justify State financial support. If the reconfigured Amtrak operations group, which the Administration's bill calls the Passenger Rail Service Provider, is indeed meeting the State's needs by offering the best possible price and the highest quality service, then it will keep the business. If it is not, competition will force it to improve. The riding public and the State and Federal taxpayers will be the beneficiaries.

In discussions on the Administration's bill, I have been struck by how some people confuse the concepts of competition and privatization. They argue that because few if any passenger rail systems are profitable, our proposal, which they mistakenly assume transfers the responsibility for intercity passenger rail service solely to the private sector, is not workable. In fact, under our proposal, the responsibility for intercity passenger rail rests with the States and Federal Government, just as it does for the National Highway System. States do not build these highways. They competitively select design teams and contractors to fabricate the bridges and pour the pavement. The States pay these contractors for their services. However, through competitive selection, the States assure themselves they are getting a quality product and a fair price. But this role for competitively selected contractors doesn't make I-95 or any other highway private.

Passenger Rail Access to the Freight Railroad System: A corollary to the issue of competition is how to provide access to the freight railroad system by service providers other than the current Amtrak operating entity. The Administration recognizes the reluctance of many of the freight railroads to host any passenger rail service of any kind, but their preference is that Amtrak should provide passenger service, if it has to be provided. The freight railroad system is too important to this Nation's economy to create uncertainty that could adversely affect freight service. At the same time, intercity passenger rail cannot survive without access to the freight railroads. The Administration's proposal attempts to reconcile these two positions.

First, the Administration's bill provides a workable and legally sustainable way to provide access to freight railroad lines for non-Amtrak providers of intercity passenger rail service.

Then the Administration's bill addresses concerns expressed by some freight railroads that they would have to deal with multiple new, small passenger operators. The Federal Railroad Administration will review and approve the qualifications of any operator the States might propose. Such a review would go to

all significant issues needed to assure that the carrier can meet its obligations to operate over the specific freight railroad in a safe and reliable manner. No more than one service provider will operate over any route thus eliminating the possibility of having multiple intercity passenger operations on one line except in limited areas around terminals. Going beyond this, the Administration's bill limits the current access to the freight rail system at incremental cost to those routes and service frequencies currently operated by Amtrak. This amounts to less than 15 percent of the freight rail system currently operated by the Class 1 railroads. An "arm's length" agreement between the State and freight railroad would be required to establish service over a new route or expand service on an existing route.

Addressing the Concerns of Liability: One of the recurring issues related to intercity passenger rail service revolves around issues of liability and insurance. The Administration believes that the Amtrak Reform and Accountability Act adequately addressed this issue by setting liability limits. The issue then becomes the ability of States or their designated operators to obtain insurance up to those liability limits. Experience with Amtrak has shown that insurance is generally available for the higher levels of liability—in the \$10 million to \$200 million range. It is the first dollar of coverage that is more difficult to obtain because of the greater likelihood of successful claims in amounts less than \$10 million. The Administration's bill addresses this issue by making first dollar of insurance coverage an eligible cost under the proposed capital program.

What Happens to Amtrak's Employees: It is natural that Amtrak's employees are very concerned about the future of intercity passenger rail service. The short-term prospects for Amtrak's financial condition should raise greater questions for them than the long-term effects of the potential introduction of competitive selection of operators and of maintainers of the Northeast Corridor. Over the long run, the reforms of intercity passenger rail service will result in stable if not growing employment in this industry, much as has occurred in the commuter rail industry. But that prospect provides little solace for someone facing this transition. The Administration's bill seeks to address these concerns in a number of ways. It provides a relatively long transition in areas that affect employment; requires that current collectively-bargained agreements transfer to Amtrak's successor corporations; provides current employees with priority consideration for employment with new operators; requires that new operators be subject to the Railway Labor Act, railroad retirement and other railroad laws in the same way as Amtrak; and, provides an employee transition program modeled after the program that helped ease the impact on employees of the changes that made Conrail financially viable.

Money

Operating Assistance: One of the lessons learned from the Amtrak Reform and Accountability Act of 1997 is that Amtrak requires operating subsidies. While many of the other reforms the Administration proposes will help reduce the size of the subsidy requirements for specific routes and services, some amount of operating assistance will be required for almost all of these routes and services for the foreseeable future. Such subsidies should be the responsibility of the State or States that believe these services are important enough to warrant their support. The Administration really sees no difference between commuter and intercity passenger rail in this regard. Having said that, the Administration is cognizant of the challenges many States will face in first determining whether a particular train or service warrants financial support, then identifying the sources of that financial support. For those reasons, our legislative proposal would not seek the State operating assistance requirement for corridor trains until two years after enactment and phase in this assistance for long distance trains over five years.

The extended phase-in period is also intended to provide opportunities and incentives to improve the financial performance of these trains. Moreover, the gradual reduction in financial support on an even-handed basis across the system will necessitate addressing first the trains that perform the worst. That should yield important improvements in financial performance each year.

By the end of the period covered by this authorization bill, the proposed reforms would also provide financial equity among the States supporting intercity passenger rail. The States that choose to pay for more service would receive more service. No State would get for free that for which another State must pay.

Design of the Capital Assistance Program: One of the Federal Government's continuing responsibilities for intercity passenger rail will be as a capital investment partner of the States. Intercity passenger advocates aspire for a capital program that is like those for other modes of transportation, and our legislative proposal contains such a program. The proposed structure of the capital program in the Administration's proposal is closely modeled after the Federal Transit Administration's Transit New Starts program. It will have the same sort of eligibility criteria. It will require the same rigorous planning and analysis by applicants, including the development of project management plans with regular updates. Finally, it will include the same safety, procurement, management and financial compliance reviews and audits as the Department undertakes with recipients of FTA funding.

Amounts and Sources of Capital Funding: The Administration has consistently said that it is willing to invest in a reformed system of intercity passenger rail service. The Administration's willingness to support funding for intercity passenger rail recedes the less the system is reformed and the more it resembles the flawed business model we currently use. The Administration also believes that this funding should be upfront and honest and thus come from the General Fund of the Treasury. The Administration cannot support the use of the Highway Trust Fund nor can we support back door approaches to financing from the Federal treasury such as those using tax credit bonds.

A National System

One other issue that should be addressed as part of intercity passenger rail policy is the meaning of a "national system". Must such a system involve a single carrier national in scope? The Administration does not believe so. Indeed, before the creation of Amtrak, there was no national carrier of rail passengers. Our Nation's system of intercity passenger rail service was really composed of regional services provided by multiple carriers that came together in precursors of what we today call intermodal terminals but back then were frequently called "union stations." The Administration's proposal envisions a modern view of a national system that has attributes of the past. This would be a coordinated system of passenger transportation that takes advantage of the strengths of all forms of passenger transportation; a system where connections to rail, air, highway and personal transportation come together in intermodal terminals. This is the promise of the Statewide and metropolitan area planning that are part of the surface transportation program. The Administration's intercity passenger rail legislative proposal would provide additional encouragement to the States to consider the merits of all forms of passenger transportation in their planning and to prioritize their investments based upon how the different forms of transportation can work together to provide for effective passenger mobility throughout this country.

The Passenger Rail Investment Reform Act is a serious effort to address a serious problem, the declining state of intercity passenger rail transportation in this country. For the first time in 30 years, an Administration has made a proposal that actually has a chance of providing long-term stability for this form of transportation. It deserves thoughtful consideration by this Congress. Secretary Mineta and I look forward to working with this Committee and Congress to craft a meaningful authorization of intercity passenger rail service that looks beyond the failures of the past to the needs and opportunities of the future.

Sectional Analysis

Summary: The purpose of the bill is to undertake a restructuring of intercity passenger rail transportation in the United States that will increase management accountability and encourage response to market forces. The assumption adopted in 1970, at the time Amtrak was established, that a single for-profit private entity could succeed in planning and providing nation-wide passenger rail service has long since been shown to be unworkable. The losses of several predecessor railroads on passenger service foreshadowed this outcome and, in any case, the Federal Government has provided \$26.6 billion in subsidies to Amtrak over its 32-year existence.

Notwithstanding Congress' enactment in 1997 of a strong reform mandate, Amtrak has demonstrated since that date that, in its current form, it is either unwilling or incapable of rationalizing its operations. Five principles for change are:

- Create a system driven by sound economics.
- Require that Amtrak transition to a pure operating company.
- Introduce carefully managed competition to provide higher quality rail services at reasonable prices.

- Establish a long-term partnership between the states and the Federal Government to support intercity passenger rail service.
- Create an effective public partnership, after a reasonable transition, to manage the capital assets of the Northeast Corridor.

This bill proposes a different course for Amtrak, one that has been shown to be viable and beneficial in earlier examples of legislative restructuring in the transportation area. One instructive example is the transfer of the Alaska Railroad, a federally owned and operated railroad, to the State of Alaska in 1985. More recently, in 1987, the Federal Government entered into a long-term lease of the two federally owned airports in the metropolitan Washington region (Reagan National and Dulles International) to an airport authority created by the Commonwealth of Virginia and the District of Columbia. In both cases, governmental entities with a direct stake in the service accepted planning and management responsibility for these facilities, with subsequent major improvements. A third example, very close to the Amtrak situation, was the Northeast Rail Service Act of 1981, which provided for transfer of Conrail commuter operations in the Northeast Corridor to the states or localities involved, or to an alternative Amtrak operating subsidiary that was not considered a serious competitor at the time. This shift in responsibility also succeeded.

The model for the restructuring proposed in the bill is the Federal-State-local partnership found in the public transit mode. Under this model, the regional, state, or local entity ("public entity") makes the fundamental decisions about what service is justified, undertakes the planning that fits this service into overall passenger transportation patterns in the area, and manages the enterprise to best advantage. The Federal role is to participate in making capital investments that support high-quality, integrated services in an area, but not to subsidize service that the local entity itself would not subsidize.

Throughout the bill and this analysis, the time-frame for actions is expressed in relation to the date of enactment and the subsequent Fiscal Year (that is, the first Fiscal Year after enactment is defined to be "Year One," with subsequent years identified in the same manner. If the legislation is enacted sooner than 61 days after a Fiscal Year begins, that Fiscal Year is defined to be "Year One."

The bill consists of three Titles. Title I provides the foundation for Amtrak's future—the basic realignment of Amtrak management and services that would permit a public entity to inherit and enhance existing routes through decisions that it has the ability to develop and implement itself. Specifically, (1) the Board of Directors would be directed to restructure Amtrak to prepare for the transfer of decisions about what service to provide and how to pay for it to public entities; (2) all but a few residual but important legal rights and duties would be shifted into two separate, free-standing corporations (along with associated personnel and assets) that would undertake arms-length contracting with public entities for services starting not later than the second year after enactment; (3) a North East Corridor Compact Commission would be created to formulate an interstate compact among the eight states comprising the Northeast Corridor and the District of Columbia to, under a 99-year lease from the United States, manage all rail operations in the Corridor; (4) an employee severance payment modeled on that provided to Conrail employees in the Northeast Rail Service Act of 1981 would be offered to current Amtrak employees; and (5) a schedule for phased reduction of operating subsidies to Amtrak's 17 long-distance routes would be put in place over the second through sixth years after enactment, to enable states or groups of states to determine whether and how to continue these operations in whole or part.

Title II addresses the many financial matters Amtrak must deal with to ready itself for transfer of services and equipment and other assets to successor organizations. Specifically, (1) the Fiscal Year 2003 limits on grants to Amtrak to ensure more accountability would be made permanent for the transition period of continued operations by Amtrak; (2) Amtrak would prepare the necessary financial and engineering plans to address the backlog of capital projects in the Northeast Corridor and elsewhere; (3) Amtrak's common stock would be redeemed or acquired by eminent domain at book value to simplify the corporate structure in advance of transfers; (4) an exchange of assets held by Amtrak and debt held by the United States would occur to place the fee simple title to the Northeast Corridor and other assets in the United States for subsequent lease or transfer to other government entities; (5) unneeded real estate and other facilities would be liquidated over the 2004–2006 timeframe; (6) the outstanding debt secured by real estate and rolling stock would be readied for transfer to the entities that accept this property, with a process for possibly refinancing the debt at more favorable rates; and (7) necessary operating and other assistance to effectuate transfer would be authorized.

Title III establishes the permanent Federal program of grant assistance for capital projects to be provided to the public entities that succeed to Amtrak nationwide, including the Northeast Corridor. This title is intentionally structured to parallel the existing capital assistance program for public transit (49 U.S.C. 5309). It is quite likely that existing transit properties will accept management responsibility for existing Amtrak services in some metropolitan locales and would benefit from adoption of a familiar, time-proven, grant program mechanism.

Short Title and Purposes: The Act would be named the “Passenger Rail Investment Reform Act.” This signifies that the bill is designed to maintain and enhance rail passenger service nation-wide, not to undermine it.

The purposes of the bill emphasize the need to restructure passenger rail service in the United States to adapt to competition from other modes by establishing a long-term partnership among the states and the Federal Government to support intercity passenger rail service through mutual commitment.

Title I—National Passenger Rail Service Restructuring

Transition Board of Directors: Section 101 would expand the current 7-member, reform Board of Directors to 11 members, to equip the Board with enough depth and expertise, such as corporate financial management and accounting experience, to undertake the many transition duties set forth in the bill. Current members would continue to serve for their established terms, the Department of Transportation (DOT) Secretary would remain as an ex officio voting member, and the Amtrak President would remain as an ex officio non-voting member. In anticipation of the decreased membership due to the expiration of terms prior to enactment of the bill, a quorum of members for conducting business is defined as a “majority of the Board members who have been lawfully appointed.” This will allow decisions to be reached and implemented while additional Presidential appointees are considered by the United States Senate.

To ensure that the valuable rail assets currently held by Amtrak are used to best advantage and in the public interest, the Board of Directors would be directed to form an Asset Transition Committee comprised of the DOT Secretary and two other Board members (or one other member if two other members are not lawfully appointed). The Asset Transition Committee would ensure that the public interest is served in Board decisions and Amtrak management actions that change the use of or status of (1) the Amtrak’s contractual right of access to rail lines of other railroads; (2) Amtrak secured debt; (3) Northeast Corridor real property and assets; and (4) rolling stock. This committee would approve any Amtrak management actions that would affect the four subject areas.

Elsewhere in the bill, Amtrak is directed to transfer most of its personnel, assets, and duties to two successor corporations. In recognition of the public nature of the remaining duties following these transfers, the Transition Board of Directors would then be reduced to three ex officio officials of the Department of Transportation: the Secretary of Transportation and possibly the Federal Railroad Administrator and Federal Transit Administrator. The residual duties are set forth below. The other members of the Transition Board of Directors would thereafter no longer serve as appointees of the President to the Amtrak Board of Directors, but could instead become members of the Board of Directors of the successor corporations.

Passenger Rail Service Restructuring: Section 102 sets forth requirements for the fundamental restructuring of Amtrak to prepare for the transfer of its duties, personnel, and assets to successor entities. Within 6 months of the beginning of Year One, the Board of Directors is required to prepare a plan to restructure Amtrak management, personnel, assets, operations, and other activities and relationships into three entities: (1) a “holding company” staff to oversee and manage Amtrak’s contracts with host railroads, including the “right of access” to rail lines of other rail carriers, and contracts with operators of passenger trains chosen by states or interstate compacts (including the rail passenger service provider discussed next); (2) a nationwide rail passenger service operator, to continue rail services and to include the Reservations Center and rolling stock ownership and maintenance; and (3) a rail infrastructure manager. This would involve the assignment of all Amtrak personnel by name to one of the entities and the division of accounting, finance, budget, and assets to provide for the operation and funding of each entity independently. Amtrak would operate under this division of responsibility as of the first day of Year Two.

An initial step in the restructuring would be the requirement that Amtrak file appropriate Articles of Incorporation under state law for two business corporations that are entirely independent of Amtrak, referred to in the legislation as the “Passenger Rail Service Provider” and the “Passenger Rail Infrastructure Manager” or the “successor corporations.” No later than the first day of Year Two, the two divi-

sions of Amtrak that generally correspond to the descriptions of the successor corporations would be transferred to create the successor corporations. Employees of Amtrak on the date of enactment would retain their pay and benefits, seniority, and other collective bargaining rights for a minimum of four years from date of transfer. The corporations would only undertake railroad activities on a contractual basis with Amtrak or another entity.

The first successor corporation, the Passenger Rail Service Provider, would enjoy the exclusive right, until the last day of Year Three, to continue to provide the intercity passenger service that is being provided by Amtrak on the date of enactment, and would provide interline reservations services to any other provider of intercity passenger rail services on the same basis and rates as services are provided to the operational entities that provide service within Amtrak on the date of enactment. This corporation would also take ownership of Amtrak rolling stock and associated debt. The President of Amtrak on the date of enactment of this section would be offered the position of Chief Executive Officer of the Passenger Rail Service Provider. Prior to the last day of Year Three, a competitive process would be required to decide who would provide services after that date.

The second successor corporation, the Passenger Rail Infrastructure Manager, would enjoy the exclusive right, until the last day of Year Six, to continue to provide the dispatching, maintenance, and infrastructure services that are being provided by Amtrak on the date of enactment in the Northeast Corridor, and would begin to carry out the capital backlog investment plan prepared by Amtrak, to the extent funds are made available. Prior to the last day of Year Six, a competitive process would be required to decide who would provide those services after that date.

While the successor corporations and the “holdover company” entity have no common carrier obligations, they would continue to be subject to laws and regulations governing railroad safety, employee representation for collective bargaining purposes, the handling of disputes between carriers and employees, employee retirement, annuity, and unemployment systems, and other dealings with employees that apply to a rail carrier providing transportation subject to subchapter I of chapter 105 of title 49, U.S.C.. In addition, retirement, annuity, and unemployment system rights would be maintained for employees in the remaining Amtrak entity.

This section directly addresses the interests of commuter authorities and freight railroads whose facilities and operations are intertwined with Amtrak’s. As a general matter, Amtrak is required to ensure that the implementation of the restructuring gives due consideration to the needs of freight and commuter rail operations that, as of the effective date of the Act, operate in the Northeast Corridor on Amtrak right of way. In addition, two restrictions are placed on use of the “right of access” to freight lines as of the date of enactment: (1) the terms and conditions for operation of an intercity passenger rail route or frequency that is not in place on the date of enactment of this section would be subject entirely to negotiation and mutual agreement between the host railroad and Amtrak, or any successor to Amtrak, and would not operate under the pre-existing right of access; and (2) the right of access to any segment of rail line of another rail carrier would not be available to more than one intercity passenger rail operator, whether Amtrak or a successor to Amtrak, during any period of rail passenger service over that line.

Other portions of the section address the terms that would apply after “exclusive rights” for the successor corporations terminate if a public entity chooses to replace the successor corporations. For example, “legacy equipment” (rolling stock associated with a particular route) would be made available on an equitable basis, and passenger reservations services would be provided at reasonable cost.

North East Corridor Compact: Under section 103, Congress would encourage creation of an interstate compact among the eight states that comprise the Northeast Corridor, plus the District of Columbia, to succeed to Amtrak as the provider of passenger rail services in the Corridor. The United States would lease the Corridor and its facilities to the NEC Compact for 99 years at no cost. The Compact would, in turn, accept full responsibility for managing service at its expense, with the exception of capital grant assistance. The Compact would be established no later than the last day of Year Two, and operating no later than the following June. The Compact would contract with the two successor corporations at least until the end of the periods of exclusive rights enjoyed by the corporations, and thereafter at the option of the Compact if the contracts are completed.

The minimum responsibilities and authorities of the Compact specified by section 103 are as follows: (1) full responsibility for 99 years to succeed to Amtrak as operator of the Northeast Corridor, subject to the provisions of a lease from the Department of Transportation; (2) execution of a lease of the Northeast Corridor from the Department of Transportation for a period of 99 years; (3) responsibility for Corridor maintenance and improvement; (4) operation of intercity passenger rail service; (5)

arrangements for operation of freight railroad operations and commuter operations; (6) assumption of financial responsibility for Northeast Corridor functions; (7) authority to make use of the Corridor for non-rail purposes; and (8) provision for participation by the U.S. Department of Transportation as the non-voting representative of the United States. Authority (7) contemplates creative use of the Corridor right of way and easements to help finance Corridor operations over the long term.

The section provides for a "Compact Commission" of five members that must propose a Compact for adoption no later than the last day of Year One. Two of the members are appointed by the DOT Secretary; two by the governors of the Northeast Corridor states and the Mayor of the District of Columbia; and a fifth member chosen mutually by the other four members. Elsewhere, section 207(c) of the bill provides an authorization of funding for the activities of the Commission. In addition to the Compact responsibilities and authorities set forth above, the Commission must create a Compact that addresses the basis for Compact debt issuances; the assurance that the Federal Government is "held harmless" as to lease of the Corridor; and guarantee of any residual rights of organized employees who transfer to a replacement organization from a successor corporation. The Commission would terminate upon the completion of its work.

Three inducements to adoption of the Compact are provided by this section or elsewhere in the bill. First, the "backlog" capital funding authorized to bring the Corridor to a state of good repair would not be released until the Compact is established and operationally prepared to accept a grant. This best assures that this large amount of capital investment will be made in ways that best serve the passenger rail service the Compact decides to provide. Second, commuter services headquartered in a state that does not join the compact would pay fully allocated costs of commuter operations on the Corridor after the last day of Year Two. Third, in the event the Compact is not adopted, the legislative directs that the DOT Secretary to make appropriate legislative recommendations to Congress that address the monetary contributions by Northeast Corridor states and the District of Columbia that would be necessary to provide continued intercity passenger rail service to those states and the District.

Assistance to Address Capital Needs: Section 104 provides an authorization for "backlog" capital assistance grants on a one-time basis (spread over several years) to restore rail facilities and equipment nation-wide, including bringing the Northeast Corridor back to a state of good repair, consistent with capital spending plans developed under section 202 of the bill. In the case of the Northeast Corridor, the funding would only be released with the NEC Compact is functional. Such sums as may be necessary are authorized to be appropriated over the time-frame of Years Three through Six. The Federal share of expenditures for capital improvements under this section would be up to 100 percent but solely for the purpose of funding deferred maintenance, safety and security projects. Expenditures for capacity expansion are not authorized by this section.

Employee Transition Assistance: Section 105 provides an authorization for voluntary buyouts for current Amtrak employees that are modeled on, but (when adjusted for inflation) are more generous than, those available to Conrail employees at the time Conrail was readied for sale to the private sector. A maximum payment of \$50,000 would be offered during Years One and Two to employees of Amtrak who voluntarily terminate their employment with Amtrak and relinquish any legal rights to receive termination-related payments under any contractual agreement with Amtrak. Amtrak would be required to certify that the financial assistance results in a net reduction in the total number of employees of Amtrak equal to the number receiving financial incentives; the financial assistance results in a net reduction in the total employment expense of Amtrak equivalent to the total employment expenses associated with the employees receiving financial incentives; and Amtrak would not increase the total number of employees eligible for termination-related payments without the express written consent of the DOT Secretary.

Limit on Operating Assistance for Long-Distance Routes: Section 106 provides an authorization for a gradual reduction in and phase-out of the Federal subsidies of Amtrak's 17 "long-distance" routes, over a five-year period to permit adequate time for the adjustments in service or provision of state-funded operating subsidies that would permit continuation of service desired by affected states. States or interstate compacts might be able to preserve some long distance routes by making modest incremental improvements in their economic performance each year. In other cases, states or interstate compacts might decide that they want to preserve a portion of a long distance route that performs well and stop or reconfigure other portions. Section 106 is designed to facilitate such decisions by the states. The technique proposed would effectively preserve the existing subsidy levels longest for the most cost-efficient service, by capping the per-passenger mile subsidy amount at \$0.40 in

the first year of restriction (Year Two) and gradually reducing the cap to \$0.10 in the last year of subsidy (Year Five). This relatively long transition for long distance routes compared to other routes is provided in recognition that it is more difficult to form interstate compacts among large numbers of states and the states involved with long distance routes may need more time to work out what to do and implement it.

Title II—Financial Reforms

Limitations on Availability of Grants to Amtrak: Section 201 would make permanent the Fiscal Year 2003 restrictions on grants to Amtrak that bring more accountability to the use of those Federal funds. Because two successor corporations will take over from Amtrak in Year Two, a revised form of the restrictions would then be applicable to them, as appropriate to their duties.

Spending Plans for Capital Backlog Reduction: Section 202 would direct Amtrak to undertake the development of the backlog capital investment plans for the Northeast Corridor and elsewhere in the system. The plan would be required within 6 months of the beginning of Year One, and this section would specify that Amtrak submit the capital spending plan prepared under this section to the Secretary of Transportation for review and approval. The plan could be implemented only after approval by the Secretary, and with any modifications specified by the Secretary. When the NBC Compact becomes effective, it would take over the plan for the Corridor. Authorizations for grants is separately provided in section 104 of the bill.

Redemption of Common Stock: Section 203 provides for the redemption of Amtrak common stock, to simplify the governance of the corporation as it is restructured. Given Amtrak's current assets and liabilities, it is anticipated that the common stock has little or no value. This section would provide for mandatory redemption of the stock on the basis of current book value, after an impartial valuation supervised by the Secretary of the Treasury. In the event the shareholders do not accept this outcome voluntarily, the section provides for use of Amtrak's eminent domain authority to acquire the stock. Judicial review of such an action would be limited to the question of just compensation. The common stock would not be reissued, with the exception of a token amount to the DOT Secretary in recognition of the financial contributions of the United States to Amtrak over time.

To prepare for the stock redemption, the DOT Secretary would arrange, at Amtrak's expense, for a valuation of all assets and liabilities of Amtrak to be performed by the Secretary of the Treasury, or by a contractor selected by the Secretary of the Treasury. The valuation would be completed not later than 6 months after the beginning of Year One.

Retirement of Amtrak Preferred Stock; Transfer of Assets: Section 204 provides that, subsequent to the redemption of common stock, Amtrak would exchange its assets, including the Northeast Corridor, to the DOT Secretary in return for extinguishing the mortgage held by the United States on the Corridor and the cancellation of more than \$10 billion in accrued but unpaid dividends on preferred stock that Amtrak owes the United States. The United States would also surrender its preferred stock, in exchange for a nominal amount of common stock. Amtrak would remain liable for debt secured by these assets that is not held by the U.S., such as the mortgage on Pennsylvania Station in New York City. These debts would ultimately be assumed by the successors to Amtrak. At the time of transfer of assets to the United States, the DOT Secretary would enter into an agreement with Amtrak under which Amtrak would exercise on behalf of the Secretary care, custody and control of the assets transferred.

An element of the valuation and exchange process under section 203 and 204 would be to accomplish a detailed specification of the assets, personnel, and activities that support commuter authority operations in the Northeast Corridor and elsewhere. This would permit the uninterrupted continuation of commuter service in the event of other service disruption in the Amtrak system.

It is contemplated that, outside the Northeast Corridor, the DOT Secretary would consider the retransfer of certain real estate assets to appropriate state authorities, including Chicago Union Station and rail-related assets in the Chicago metropolitan area, and properties owned by Amtrak between Boston, Massachusetts and Washington, District of Columbia that constitute the route through Springfield, Massachusetts and the routes to Harrisburg, Pennsylvania and Albany, New York from the Northeast Corridor mainline.

Real Estate and Asset Sales: Section 205 mandates liquidation in the Year One-Year Three time-frame of the many properties held by Amtrak that are not integral to the provision of rail service and do not convey to successor entities. Any proceeds from the liquidation of assets under this section would be credited as an offsetting

collection to the account that finances grants for debt and interest payments under section 206 of the bill to the Passenger Rail Service Provider.

Management and Transfer of Secured Debt: Section 206 sets forth a number of criteria for the future handling of Amtrak debt. First, except as approved by the DOT Secretary to refinance existing secured debt, Amtrak would not be allowed to enter into any obligation secured by assets of Amtrak after the date of enactment. Second, when the Passenger Rail Service Provider successor corporation is in place and it accepts the transfer of ownership of the existing rolling stock from Amtrak, all debt secured by the rolling stock would be transferred to and become a liability of the Passenger Rail Service Provider. An equivalent transfer of debt obligations would be made to the North East Corridor Compact.

This section would also authorize such sums as may be necessary to the Secretary for grants to the Passenger Rail Service Provider and to the North East Corridor Compact to pay principal and interest payments on its secured debt for Years Two through Six.

Transition Operating Assistance: Section 207 sets forth the final operating assistance that would be provided by the Federal Government for intercity rail passenger service (other than the separate long-distance subsidies described above). Specifically, the section provides “such sums as may be necessary” for grants to Amtrak for operating expenses in Year One; grants to the Passenger Rail Service Provider for operating expenses of all services except long-distance trains and routes in Year Two; the administrative expenses of interstate compacts in Years One through Three; and grants in Years Two through Six to cover administrative expenses of the “holding company” Amtrak.

This section also provides that, after the last day of Year Two, the Federal Government would only enter into a grant agreement with a State, regional Compact, or other public entity.

Title III—Grants and Other Assistance for Intercity Passenger Rail Service

Capital Assistance For Intercity Passenger Rail Service: Section 301 adds a chapter 244 to title 49, United States Code, to set forth a permanent program for Federal grant assistance to rail passenger operations for needed capital investments. The provisions of the chapter are closely modeled on the existing Federal transit capital assistance program (49 U.S.C. 5309). The new program is intended to adopt the same stance as the current transit program, in leaving the management and operations of transit systems to appropriate government entities and restricting the Federal role to up to a 50 percent share in the capital projects that qualify under planning and other criteria for Federal assistance. As an interim measure, the Federal share could be a higher percentage (up to 100 percent in the first year of the program (Year Two)). Up to an additional 30 percent of project net capital cost could be funded from amounts appropriated to or made available to a department or agency of the Federal Government that are eligible to be expended for transportation.

Grants could be used for acquiring, constructing, supervising or inspecting equipment or a facility for use in intercity passenger rail service, expenses incidental to the acquisition or construction (including designing, engineering, location surveying, mapping, environmental studies, and acquiring rights-of-way), payments for the capital portions of rail trackage rights agreements, passenger rail-related intelligent transportation systems, highway-rail grade crossing improvements on routes used for intercity passenger rail service, relocation assistance, acquiring replacement housing sites, acquiring, constructing, relocating, and rehabilitating replacement housing, and rehabilitating, remanufacturing or overhauling rail rolling stock and facilities used primarily in intercity passenger rail service.

In addition to these purposes, the grant funding would be available to fund self-insured retention of risk for the first tier of liability insurance coverage for rail passenger service associated with the capital assistance grant, but the coverage may not exceed \$20 million per occurrence or \$20 million in aggregate per year. This option addresses the difficulty that replacement operators for Amtrak may have in obtaining “first dollar” liability insurance coverage.

Final Regulations on Applications by States for Corridor Development Grants: Section 302 provides that the Federal Railroad Administration must issue final implementing regulations for the new capital assistance program not later than June 1, 2004, so that the program can be available in Fiscal Year 2005.

Authority for Interstate Compacts for Corridor Development: Section 303 encourages the formation of interstate compacts (other than the NEC Compact, addressed separately) that can succeed to Amtrak as a regional operator of continued rail service. Formation of such entities, along with states that take on Amtrak service, is a necessary step in the restructuring process.

The CHAIRMAN. Thank you very much. Mr. Mead, welcome back to the Committee.

Mr. MEAD. Thank you, Mr. Chairman.

The CHAIRMAN. Next time you come tell me how many appearances you've made before this Committee.

**STATEMENT OF HON. KENNETH M. MEAD, INSPECTOR
GENERAL, U.S. DEPARTMENT OF TRANSPORTATION**

Mr. MEAD. I'll have to add them up. I think working with committees like this though is what makes being a civil servant worthwhile.

The CHAIRMAN. Or makes you earn your pay.

Mr. MEAD. Well, it is a hard way to earn a dollar, sir. Reauthorization of the aviation, highway transit, and rail programs all seem to involve difficult policy and funding issues this year, more so it seems to me than in the past, but Amtrak and passenger rail, in fact, may be the most difficult of all of the reauthorizations that you face. Fiscal 2004 actually marks the second year that Amtrak's getting Federal money without any authorizing legislation. I think Congressional direction is needed to move the current system beyond the unsatisfactory status quo.

I want to reiterate a point we made at the hearing this past spring that the current model for designing, governing, and funding the intercity passenger rail system in this country is broken, that problems manifest by numerous indicators, most notably the persistence of Amtrak's cash operating loss, growing debt burden, and declining on-time performance. There are charts in my testimony to that effect and I'm not going to belabor it here.

Something that's not commonly understood is that for the past 6 years those results, the declining performance, have developed in an environment where Amtrak had access to external funding of about \$8.4 billion. That's an average annual amount of \$1.4 billion per year. Most people think they've been getting \$650, \$670 million a year, which is their annual appropriations, and they have gotten that, but you add to that the money that came from the taxpayer relief fund and from their borrowings, a couple billion dollars of borrowing and going further into debt.

I don't want to paint this though as just a problem of money. It goes well beyond that to the amount of services provided, who controls the investment, who provides the service, who selects the providers. And without a reauthorization, the answers to those questions, you're likely to see a continuation of the stalemate or current status quo.

I want to make a strong point of saying I think the Department, the Amtrak board, and David Gunn, his management team, all have done a good job over the last year of controlling expenses, something we have not seen in the past. Make no mistake about it, those efforts are not going to save you from a limp-along, deteriorating Amtrak without either a significant increase in funding for the current system or fundamental changes to it. There is no way that Amtrak is going to save its way through success. There is no way that pinching pennies alone is going to make the current model we have work.

Some thoughts, Mr. Chairman, on the Administration's proposal. In fact, I think the Administration's proposal confronts several key issues in a straightforward and comprehensive way while leaving others quite vague or unanswered altogether. In particular, its provisions on corridor development and governance, that is giving the states greater control over passenger rail service and decisions in their state. I think that has merit and deserves consideration.

But the proposal leaves open and unanswered what level of Federal capital funding it's prepared to support. The bill says, "such sums as are necessary" and that's it. Answers are needed here because probably the biggest problem facing the current system, in our view, is the condition of its infrastructure, and that of course is going to be a show-stopper to any corridor development.

This lack of clarity on the funding issue has also fostered a conception that the burden of funding operating losses is going to fall on the states in a relatively short period of time with no compensating, sustained, Federal commitment to significantly expanded Federal capital funding. Given the current fiscal climate in the states as well as the Federal Government, this funding uncertainty has got to be addressed as a central part of any reauthorization measure.

I also want to point out that the Administration's proposal calls for the separation of the Northeastern Corridor infrastructure from the operations. In our view, keeping the infrastructure, the tracks, the bridges, signaling, as well as the operations of the trains as one integrated unit is likely to introduce the least risk to the successful transfer of its governance to the Northeastern states or to disruption of operations. The concern here is that if you have two separate units, a separate infrastructure group would have different incentives and priorities than the operations group and that could be pretty disruptive.

And as for the proposed phase-out of operating subsidies, 3 years may seem like a long time, but it's likely to prove logistically and financially difficult for the states to deal with in the timeframes contemplated, especially in the current budget climate. I think that requiring a large increase at this pace in State operating subsidies for their trains is more likely to lead to their elimination and restructuring than improvement.

I want to say a couple words about the Administration's focus on short-distance corridors. These are corridors that are 500 miles or less. I think this is a central element of the proposal. I think it deserves your consideration. That's because these corridors are the ones that are most patronized today. They're all over the country, there's not just a Northeast Corridor, and they hold the greatest potential for some growth.

I'll give you a frame of reference. Amtrak ridership in 2002 totaled about 23.4 million people. The short-distance corridor trains carried 19.8 million, or 84 percent, of them. Forty-seven percent were in the Northeast Corridor, 37 percent outside. The remaining 16 percent of the passengers, or 3.5, 3.6 million, rode the 17 long-distance trains. Many of the people that rode the long-distance trains are traveling only between stations located on existing corridors that could be served by improved service on the corridor trains, which are the Amtrak trains, rather than riding on long-dis-

tance trains that go well beyond the corridor and sometimes arrive very late at night or in the early a.m.

A word on Amtrak's 2004 funding needs. I'm assuming no reauthorization before enactment of the Fiscal Year 2004 appropriations. We think that Amtrak can get by and run the current system with about \$1.5 billion in 2004. How can that be accomplished? It can be accomplished by limiting the capital spending to the minimum needed to maintain reliability. Amtrak ought to be able to cover the difference between the 1.5 billion and the Senate mark, which is around 1.35, because it's going to have \$200 million in carry-over funds from 2003. But I don't want to leave with you the erroneous impression. You shouldn't make any mistake about it, that level of funding is merely going to postpone the day of reckoning. Amtrak can't continue to operate the current system without eventually and soon addressing the backlog investment needed to bring the system to a state of good repair. The price tag on that is about \$6 billion.

I noted earlier that the Administration's bill provided no guidance on funding levels and it merely authorizes such sums as may be necessary. Well, I wanted to give the Committee an illustration of how this bill might work, and so we assumed, that is the Inspector General, this isn't the Administration, that given the fiscally constrained budget environment, the total annual funding would be about \$1.5 billion. That's illustrative only and it may sound conservative but it's more than has ever been appropriated to Amtrak for intercity rail in a single year and it's more than the Senate 2004 mark.

After allocating funds to cover the operating costs, we allocated the remaining money between capital and debt, and we were able with that level of funding to pay off about two-thirds of Amtrak debt, while also providing an increase in capital funding continuously over the period of reauthorization. There's a chart in my testimony, and I don't want to get into a lot of detail now, I'll answer questions in the Q&A period, but I want you to keep in mind please that the Administration bill provides that the Federal Government would share in the capital investment. The states would be required under the bill to pick up the full cost of subsidizing operating losses on all the trains. That's going to be about \$600 million a year. Additionally, that proposal would eventually require a 50 percent capital match, which would total another \$600 million per year.

I think the capital match requirements and the phase-in of the operating subsidy, that the states should pick that up. I think those could usefully be points in negotiation and compromise. I think the states this is a mode of transportation like highways and the others and I think they should pay their fair share. It's a question about what their fair share is and when the fiscal situation is such that they can responsibly assume it. Thank you.

[The prepared statement of Mr. Mead follows:]

PREPARED STATEMENT OF HON. KENNETH M. MEAD, INSPECTOR GENERAL,
U.S. DEPARTMENT OF TRANSPORTATION

Mr. Chairman, Senator Hollings, and Members of the Committee:

We appreciate the opportunity to testify on the reauthorization of intercity passenger rail service and Amtrak, and the Administration's proposed reauthorization legislation. Fiscal year 2004 represents the second year that Amtrak will have received Federal funding without new authorizing legislation providing guidance on how that money should be spent. In the interim, Congress has provided that direction in piece-meal fashion in the appropriations process. At this crossroads for passenger rail service, a comprehensive reauthorization that provides new direction is needed to move the current system beyond the unsatisfactory status quo.

Current Model Is Broken. We want to start today by reiterating a point we made to this Committee last spring which is that the current, overall approach to designing, governing, and funding the intercity passenger rail system in this country is broken. As shown in the following table, these problems are evident in the persistence of Amtrak's cash operating loss, growing debt service burden, and declining on-time performance.

	1999	2000	2001	2002	2003*
Cash Operating Loss	\$579	\$561	\$770	\$631	\$671
Debt Service (Principal & Interest)	139	131	145	233	247
On-Time Performance	79%	78%	75%	77%	74%

* 2003 figures are forecast except for on-time performance which is for the 11 months through August 2003. Cash operating loss and debt service are in millions of dollars.

What is not commonly understood is that these results have developed in an environment in which Amtrak has had access to external funding of \$8.4 billion over the last 6 years (1998–2003). This is an average annual amount of \$1.4 billion per year—*more than twice the average \$670 million in appropriated funds during this period.* These funds consist of Federal funds of \$6.2 billion split between \$4 billion of annual appropriations and a one-time infusion of \$2.2 billion in Taxpayer Relief Act funds. To supplement these Federal funds, Amtrak tapped private financial markets to borrow an additional \$2.2 billion in this period. In spite of the resulting \$1.4 billion per year in funding, the accumulated backlog of capital investment has grown to at least \$6 billion.

Reauthorization Guidance Is Essential. The problems with our current approach to intercity passenger rail service extend beyond issues of funding to questions of who decides on the types and amounts of services provided, who controls the investment in infrastructure and operations, who provides service, and who selects the providers. Without a reauthorization that answers these questions, we are likely to see an unfortunate continuation of the status quo that provides too little money to adequately fund the current system—a system that, as a result, provides unsatisfactory service.

Although that sounds critical of current operations, on the contrary, we think the Department, the Amtrak Board, and David Gunn and his management team have all done a good job over the last year of controlling expenses—an issue we have consistently cited in our annual Assessment Reports as a key to improving Amtrak's financial performance. Nevertheless, such efforts will not free us from a limp-along Amtrak without either significant increases in funding for the current system or fundamental changes to it. As we have noted before, Amtrak can't save its way to financial success—pinching pennies alone won't make this model work.

The Administration's bill confronts several key issues in a straight-forward and comprehensive manner while leaving others less clear or unanswered. In particular, its provisions on governance and corridor development are well-developed. It leaves unanswered, however, what level of Federal capital funding it supports. Also, we would suggest a different approach to organizing the Northeast Corridor (NEC)—separating operations and infrastructure may risk disruptions to service—and the timing of the phase-out of Federal operating support could prove problematic, especially in the current fiscal climate.

The elimination of all Federal operating support over a short timeframe, in conjunction with stepped-up requirements for the states to match Federal capital funds, would create significant financial difficulties for states wishing to preserve long-distance train service. Although we make clear in this testimony the trade-offs that may need to be made between long-distance and short-distance service if funding remains at recent levels, we recognize that resolving this is a policy call for the Congress and the Administration.

Focus on Short-Distance Corridors. The Administration's bill proposes to focus Federal capital funding on developing and investing in short-distance corridors (routes with end-to-end distances of less than 500 miles). This would target service improvements to the services that are most patronized today and that hold the greatest potential for passenger growth in the future. Specifically, Amtrak ridership in 2002 totaled about 23.4 million passengers, and short-distance corridor trains carried 19.8 million (84 percent) of them—47 percent in the Northeast Corridor and 37 percent on other corridor trains. The remaining 16 percent of passengers (3.6 million) rode the 17 long-distance trains. (Attachment 1 provides more details on ridership and revenue by route for 2002.)

In addition, most long distance trains overlap at least one and often two or more corridors. As a result, many of the passengers on long-distance trains are traveling *only* between stations located on existing corridors and could be served by improved service on corridor trains rather than riding on long-distance trains that continue on beyond the corridor. For example, on the Coast Starlight from Seattle to Los Angeles, only 5 percent of passengers (about 27,000) in 2000 rode from one end of the route to the other. Over 50 percent of passengers (277,000) boarded and alighted within one of the three corridors on the route. In other words, if the Coast Starlight had not run, 55 percent of the passengers it carried had alternative rail service on either the Cascades, Capitols, or Pacific Surfliner services. (Attachment 2 provides the "end-to-end" and "corridor" passengers for each of the 17 long-distance trains in 2000.)

Maintain Integrated NEC and Slow the Pace of Operating Subsidy Phase-Outs. We would take a different tack than does the Administration on certain issues, however, particularly on the separation of NEC infrastructure from operations and the pace of the phase-out of operating assistance. Maintaining the NEC as an integrated railroad is likely to introduce the least risk to the successful transfer of its governance to the northeastern states or of disruption to operations in the period leading up to that transfer. The proposed phase-out of long-distance subsidies is likely to prove logistically and financially difficult for the states to deal with in the timeframes contemplated. In today's state budget climate, requiring a large, rapid increase in state operating subsidies for both long-and short-distance trains is more likely to lead to their elimination than restructuring and improvement.

Funding and Fiscal Capacity Are Open Questions. We note also that the Administration's proposal leaves open the question of the level of funding committed to short-distance corridor development and its source. This lack of clarity has fostered the perception that the burden of funding system operating losses would fall on the states with no compensating Federal commitment to significantly expanded Federal capital funding. Such a perception weakens support for the governance reforms in the proposal, particularly given the current fiscal climate in the states.

The basic equation confronting the Congress in reauthorizing intercity passenger rail service is that, without a substantial increase in funding, the entire current, interconnected system cannot be adequately maintained while also investing in short-distance corridor development. In fact, it will require an increase in appropriated funds of nearly *50 percent* compared to 2003 enacted levels just to maintain the current system (\$1.50 billion versus \$1.05 billion). To significantly increase investment in the corridors, which serve the majority of passengers, would require *an additional increase of a like amount*. If such funding increases are not feasible, new investments in corridors could only come from either cuts to long-distance train services or, as reflected in the Administration's bill, the transfer of the funding responsibility for their operating losses to the states.

A number of reauthorization proposals have been made in addition to the Administration's bill. Although each has its strengths, the incremental improvements we discuss in this testimony could be lost if this contention between funds for new investments or for long-distance train subsidies results in a stalemate. Then we are likely to see a continuation of the ugly status quo into the indefinite future.

Amtrak's 2004 Funding Needs. We think that Amtrak can maintain reliability on its system and meet its other obligations if its 2004 appropriation were near to or matched the Senate figure of \$1.346 billion. Although Amtrak has requested \$1.8 billion, about \$300 million of this amount is for reducing the backlog of capital investments on the system or for lower priority investments. Therefore, we estimate that Amtrak can get by with about \$1.5 billion in 2004 by limiting capital spending to the minimum needed to maintain reliability. Amtrak should be able to cover the difference between this amount and the Senate mark from its carryover funds from 2003, which are about \$200 million.

One should keep in mind, however, that the Senate level of funding merely postpones the day of reckoning and that day is surely coming. Amtrak cannot continue to operate the current system without *eventually and soon* addressing the

backlog of investment needed to bring that system to a state-of-good-repair. Otherwise, unacceptable and unpredictable equipment and infrastructure problems will surely begin a downward spiral of diminished service levels and disappearing passenger revenue.

Cost of the Administration's Bill. The Administration's bill provides no guidance on funding levels, but merely authorizes "such sums as may be necessary." As a result, providing a projection of the costs in the bill requires making assumptions about the annual spending totals and the amount of funds to allocate among capital backlog investment, corridor development, and debt amortization.

We have made the following assumptions to give the Committee an illustration of how the bill might work. First, we have assumed that, given the fiscally constrained Federal budget environment, total annual funding would remain flat throughout the reauthorization period at about \$1.5 billion. This is the amount we have estimated Amtrak needs in 2004 to maintain system reliability and have arbitrarily adopted that as the 2005 baseline. We note this is more than Amtrak has ever received in a single appropriation.

After allocating funds to cover projected operating requirements, we have allocated the remaining funds in each year between capital and debt based on the following approach: we have dedicated sufficient funds to amortize about two-thirds of Amtrak's non-defeased equipment debt while providing sufficient funds to increase capital funding continuously over the period. The slow but steady growth in capital funding should permit the parties to plan for and efficiently invest the new capital funds. The reduction in debt would provide the needed flexibility to either use Amtrak's legacy equipment or retire it depending on each route's future operating requirements or alternative equipment opportunities. Otherwise, this legacy expense will fall on the states, saddling them with a burden they did not create, or new service providers, reducing their inclination to compete to provide existing services.

The detailed projection of the bill's cost based on these assumptions is provided as Attachment 3 and the table below provides an abbreviated version of that estimate.

	Amtrak Request 2004	OIG Estimate 2004	OIG Estimate Of Administration's Bill						
			2005	2006	2007	2008	2009	2010	Total 2005-2010
Capital (except debt)	\$927	\$600	\$600	\$650	\$700	\$800	\$1,000	\$1,200	\$4,950
Debt Principal	117	117	113	88	177	138	126	120	762
Net Added Debt Service	0	0	0	4	37	272	276	83	672
<i>Total Capital</i>	<i>\$1,044</i>	<i>\$717</i>	<i>\$713</i>	<i>\$742</i>	<i>\$914</i>	<i>\$1,211</i>	<i>\$1,402</i>	<i>\$1,403</i>	<i>\$6,384</i>
Operating Loss	\$607	\$607	\$634	\$664	\$476	\$189	\$ 2	\$ 2	\$1,966
Interest Expense	163	163	153	118	111	104	98	92	676
<i>Total Operating</i>	<i>\$771</i>	<i>\$771</i>	<i>\$787</i>	<i>\$782</i>	<i>\$587</i>	<i>\$293</i>	<i>\$100</i>	<i>\$94</i>	<i>\$2,642</i>
<i>Total Request</i>	<i>\$1,814</i>	<i>\$1,487</i>	<i>\$1,499</i>	<i>\$1,524</i>	<i>\$1,500</i>	<i>\$1,503</i>	<i>\$1,502</i>	<i>\$1,497</i>	<i>\$9,026</i>

Keep in mind, however, that the Administration's bill and these figures assume that the Federal Government would share in capital investments, but the states will pick up the full cost of subsidizing operating losses on both the long-distance and corridor trains. After the 3-year phase-in period in the bill and absent any restructuring, this would amount to \$650 million per year. In addition, for the states to fully tap the capital funding we have projected, the Administration's proposal would require a 50 percent capital match at full phase-in, totaling \$600 million per year. Thus, the \$1.5 billion in Federal funding we have projected for 2010 would require a state match of about \$1.2 billion.

We note that the Administration's proposal has an increasing state capital match requirement over the course of the reauthorization period. Both highway and transit programs over their histories have had changing state matching requirements, some as low as 5 or 10 percent, that grew over time as the programs matured. Because of the tough fiscal climate facing the states, setting the value of the state matching percentages as well as the timing of the phase-out of operating support will be points for negotiation and compromise in this reauthorization.

In the remainder of our testimony, we would like to comment in more detail on six reauthorization issues and how the Administration's bill proposes to address them:

- Targeting system development and capital investment to short-distance corridors;
- Implications for long-distance trains of refocusing investment;
- Maintaining the Northeast Corridor as an integrated railroad and addressing its capital needs;
- Improving the governance of intercity passenger rail service by giving the states more control;
- Funding the legacy expenses of the current system including debt and excess retirement costs; and,
- Providing reliable Federal funding for passenger rail service.

The first two issues address the nature of intercity passenger rail service, the second two focus on how to produce and govern that service, and the last two address funding issues.

Targeting development and investment to short-distance corridors

The Administration's bill would target investments in intercity passenger rail service to short-distance corridors with the goals of increasing speeds, increasing frequency, and improving the quality of the services offered. Short-distance corridors are those routes whose endpoints are less than 500 miles apart. This distance lends itself to services that can compete with the automobile for both leisure and business travelers and with air service if the trip times are low enough and frequencies of service are high enough.

Because constraints on Federal and state budgets are likely to persist for many years, investments in these corridors by necessity must be made on an incremental basis. Track capacity, train equipment, and signaling and control improvements will have to be added as funding permits and in phases that gradually increase speeds, decrease travel time, and improve service quality. Realistic goals are to achieve eventual top speeds of 110 miles per hour, end-to-end travel times of 3 to 4 hours, and 5 to 15 round trips per day in these corridors.

Section 301 of the Administrations' bill proposes a capital investment program for these corridors that would match Federal capital funds to those raised by the states. Successful development of the corridors will require such a dedicated program with a separate funding allocation. Success, however, requires more than a program, it will hinge on identifying reliable levels of funding.

Corridor services currently exist in the Northeast, in the Pacific Northwest on the Cascades route between Vancouver and Eugene, between San Diego and Santa Barbara on the Pacific Surfliner service, and between Chicago and Milwaukee on the Hiawathas. Examples of emerging service corridors are Chicago-Detroit and Chicago-St. Louis in the Midwest and Washington-Richmond and Richmond-Charlotte in the East.

Implications for long-distance routes of investment in short-distance service

There is no magic answer to the fundamental dilemma of corridor development versus long-distance service facing the Administration and Congress. Without a significant boost in funding from some source, whether Federal or not, investment in short-distance corridors is not possible without reducing funding for long-distance service. However, as we pointed out last spring, the long-distance trains have been the political glue that has held the Amtrak system together for the last 30 years.

One option that might provide some fiscal relief is the restructuring of some long-distance trains into corridor feeder services. Much of the territory and stations covered by the 17 long-distance trains are also covered by short-distance corridors and trains today. In fact, on some long-distance trains, significantly fewer than half of the passengers travel the entire route from endpoint to endpoint. (See Attachment 2.) By redesigning train services that operate in the gaps between corridors, but not overlapping them, feeder services could continue to provide services to stations currently served by the long-distance trains and do so on more convenient, daytime schedules and likely on more frequent schedules. This restructuring can be accomplished over a period of years that would minimize transition costs and would allow for the growth of the complementary short-distance corridor services.

Some long-distance trains are not well-suited for restructuring as corridor feeder services, particularly the trains from Chicago to the West Coast. To maintain services to the stations on these routes may require the indefinite continuation of oper-

ating subsidies. Corridor feeder services may require operating subsidies as well, but are likely to be less expensive to operate and generate more revenue resulting in lower losses and subsidy requirements.

Restructuring most long-distance trains into feeder services mitigates the “free rider” problem in cost sharing with the states. If one state in the middle of a route refuses to contribute to the operating subsidy, bordering states may be required to bear an increased burden to maintain the service. Because most of the feeder routes would operate in only one state, funding responsibility and operating control would reside with that state alone.

Maintain the Northeast Corridor as an integrated railroad

The Administration’s bill proposes to divide activities on the Northeast Corridor among two companies, separating train operations from the maintenance and control of the infrastructure. Separating operations from infrastructure increases the risk that conflicts will arise between operations and investment because each company will be responding to different incentives that may not be reconciled. The result could be disruption to service and a decline in on-time performance. Outside the Northeast Corridor, operations and infrastructure are separated and system performance there is markedly worse than on the NEC.

The fundamental goal of the Administration’s proposed realignment is to facilitate the eventual transfer of control of the NEC to the northeast states. Maintaining the NEC as an integrated railroad, however, can achieve this goal just as well while also providing additional benefits. In particular, keeping operations and infrastructure integrated offers advantages of simplicity, performance, efficiency and risk.

Simplicity. Realigning the NEC as an integrated railroad would merely involve reestablishing something similar to the old NEC Strategic Business Unit (SBU). A combination of the old Intercity and Amtrak West SBUs would constitute the nationwide passenger rail service provider.

Performance. Consolidated control of infrastructure and operations would produce substantially better on-time performance based on current experience with on-and off-corridor results, (on-time performance in the 90 percent range versus 70 percent and below for intercity services).

Efficiency. An integrated NEC provider of track maintenance, capital programs, operations, and dispatching is likely to be more efficient and less costly than two providers, each having a monopoly over a subset of these services.

Risk. A bifurcated approach would require a fully functional oversight and control organization at the outset lodged in the NEC Compact to coordinate between operations and infrastructure. If the NEC Compact is delayed, there could be disruptions to smooth operation of the corridor.

Improving system governance through greater state control

The Administration’s bill proposes to vest primary control of intercity passenger rail services in the states. It also proposes to shift significant funding responsibilities to the states as well. We support this refocusing of decision-making authority onto the state level because a new relationship must be established among Amtrak, the Federal Government, and the states if higher speed, higher frequency, short-distance corridors are going to be successfully developed.

Many interested parties have raised concerns that multi-state compacts will be needed for many of the routes currently operated and that, depending on the number of states involved, they will either be impossible to negotiate or unworkable in practice. This concern is overstated. Most corridor and feeder services will be primarily in one or two states. A few will extend to 3 states. Though not without potential difficulties, negotiating these compacts should not present an insurmountable obstacle to corridor development.

The most complicated compact will involve the NEC states (nine states). Although the potential problems in developing a workable governance, operating, and funding structure are perhaps great, the potential benefits to the states are great as well from assuming control of the NEC. There should be sufficient incentive to reach a workable consensus on the NEC because the problems for these states for their commuter operations as well as intercity services would be severe without a rebuilt and efficiently functioning corridor.

The Administration proposal models a Federal passenger rail program on the current transit program for New Starts. Under this approach, states would: (1) decide on the corridor service attributes such as speed, frequency, and quality, (2) choose who operates the service, and (3) negotiate with freight railroads to operate and invest in the services, and (4) apply for Federal capital grants for equipment and track investment.

We have heard concerns about how complex and time-consuming the application and other processes might be that are developed to implement the program. One way of dealing with this issue is to tie the level of Federal requirements and control to the Federal funding requested for a project. As the Federal funding percentage exceeds certain thresholds, then additional criteria and procedures would apply, and where state and private funds exceed some percentage of a project's total cost, maximum local flexibility and minimum filing requirements would apply.

Funding the current system's legacy expenses, principally debt

Adopting a new approach to organizing, investing in, and operating intercity passenger rail service as proposed by the Administration raises the question of what to do about the legacy expenses of the current system. Amtrak has long-term debt with amortization periods as long as 25 years that must be financed. In addition, Amtrak pays excess railroad retirement taxes (excess RRTA) because of the decline in freight railroad employment over the last 30 years that is unrelated to passenger railroad employment which has been essentially constant over the same period. Direct and separate Federal funding of these legacy expenses would facilitate the development and experimentation with alternative operating models and route structures. Otherwise, these legacy expenses, principally debt, will fall on new service providers and the states, reducing their inclination to compete for existing services and, in the case of Amtrak's debt load, saddle them with a burden they did not create.

- *Long-term Debt.* Because Amtrak requires Federal operating and capital subsidies greater than its debt principal and interest payments, these obligations are currently financed by Federal funds. Just to service the current long-term debt and capital lease obligations will require an average of \$285 million per year through 2010. Because all current and future Amtrak debt would likely be paid by the Federal Government, Amtrak's ability to incur additional long-term debt should be permanently frozen, except for refinancing opportunities that lower interest expense and do not increase the outstanding principal. Furthermore, because Amtrak borrows at higher interest rates than the Federal Government, a one-time appropriation that repays immediately any debt that can be economically amortized would produce long-term Federal savings.
- *Excess RRTA.* Future retirement tax payments for any passenger rail providers that would qualify today as excess Railroad Retirement Tax Act payments should be funded through a direct appropriation to the Railroad Retirement Board. The estimated annual cost to Amtrak for excess RRTA is about \$160 million per year. Direct funding would establish and maintain a level playing field for all competitors to provide intercity passenger rail services.

Securing a Federal consensus for consistent funding

As we have noted before, the Federal quid pro quo to a stepped-up state funding role in passenger rail services should be the provision of some assurance to the states that past uncertainty concerning the levels of Federal funding would not recur. Investments in corridor development can proceed most efficiently where long-term decisions and multi-year investments can be made without the threat of a disruption in Federal funding.

This is, perhaps, one of the toughest nuts to crack considering the tight fiscal constraints facing the Federal budget. Highway, transit, and aviation trust fund revenue projections are down and, as a result, those programs are likely to add new demands on the general fund over the next few years. Alternate funding arrangements, such as tax credit bonds, have not found favor. In spite of these difficulties, a reliable Federal funding commitment will likely be needed to generate state support for a new Federal-State financing partnership. A broad and committed consensus needs to be reached so that achieving the authorized funding levels and Federal capital funding commitments will be much more tractable in future budgets.

Mr. Chairman, this concludes our statement. I would be pleased to answer any questions.

ATTACHMENT 1

Amtrak 2002 Ridership Distribution

	Fiscal Year 2002			
	Riders (000)	% of Total	Revenue (000)	% of Total
<i>Long Distance Train</i>				
16—Silver Star	252	1.1%	\$25,088	1.9%
17—Three Rivers	127	0.5%	9,863	0.8%
18—Cardinal	74	0.3%	3,921	0.3%
19—Silver Meteor	248	1.1%	28,347	2.2%
26—Capitol Ltd.	146	0.6%	12,558	1.0%
45—Lake Shore Ltd.	288	1.2%	24,295	1.9%
48—Silver Palm	206	0.9%	18,262	1.4%
52—Crescent	246	1.0%	25,287	2.0%
57—Pennsylvanian	76	0.3%	2,855	0.2%
63—Auto Train	202	0.9%	50,742	3.9%
25—Empire Builder	368	1.6%	39,717	3.1%
27—California Zephyr	327	1.4%	36,521	2.8%
28—Southwest Chief	256	1.1%	36,770	2.8%
30—City of New Orleans	159	0.7%	11,676	0.9%
32—Texas Eagle	129	0.6%	14,349	1.1%
33—Sunset Ltd.	97	0.4%	13,794	1.1%
34—Coast Starlight	446	1.9%	33,272	2.6%
<i>Total Long Distance</i>	<i>3,646</i>	<i>15.6%</i>	<i>387,315</i>	<i>30.0%</i>
<i>NEC</i>				
1—Acela Express/Met.	3,214	13.7%	\$ 364,150	28.2%
5—Regional	5,760	24.6%	298,788	23.1%
13—Clocker	1,979	8.5%	18,867	1.5%
<i>Total NEC</i>	<i>10,953</i>	<i>46.8%</i>	<i>\$ 681,804</i>	<i>52.7%</i>
<i>Other Corridor</i>				
3—Ethan Allen	39	0.2%	\$ 1,726	0.1%
4Vermont	67	0.3%	3,759	0.3%
6—Twilight Shoreliner	215	0.9%	13,291	1.0%
7/15—Maple Leaf/Empire	1,241	5.3%	47,853	3.7%
9—Downeaster	245	1.0%	3,844	0.3%
14—Keystone	949	4.1%	21,969	1.7%
40—Adirondack	91	0.4%	4,116	0.3%
66—Carolinian	215	0.9%	11,328	0.9%
67—Piedmont	44	0.2%	596	0.0%
20—State House	226	1.0%	5,656	0.4%
21—Hiawatha	404	1.7%	6,689	0.5%
22—Wolverine	300	1.3%	9,695	0.8%
23—Illini	92	0.4%	2,886	0.2%
24—Illinois Zephyr	94	0.4%	2,339	0.2%
29—Heartland Flyer	53	0.2%	903	0.1%
35—Pacific Surfliner	1,725	7.4%	28,357	2.2%
36—Cascades	580	2.5%	13,004	1.0%
37—Capitols	1,080	4.6%	11,014	0.9%
39—San Joaquins	734	3.1%	17,620	1.4%
41—International	92	0.4%	2,774	0.2%
54—Kentucky Cardinal	21	0.1%	664	0.1%
56—Mules	144	0.6%	3,153	0.2%
65—Pere Marquette	60	0.3%	1,604	0.1%
XX—Special Trains & Buses	98	0.4%	8,640	0.7%
<i>Total Other Corridor</i>	<i>8,808</i>	<i>37.6%</i>	<i>\$223,480</i>	<i>17.3%</i>
<i>Grand Total</i>	<i>23,407</i>	<i>100.0%</i>	<i>\$1,292,600</i>	<i>100.0%</i>

Source: Amtrak's Fiscal Year 2002 Ridership and Revenue summary.

ATTACHMENT 2

End-to-End vs. Corridor Passengers
On Long Distance Trains

Train	2000 Passengers			% End-to-End	% Corridor ¹
	End-to-End	Corridor ¹	Total		
1 Auto Train	233,900	233,900	233,900	100%	100%
2 California Zephyr	33,362	72,198	382,002	9%	19%
3 Capitol Limited	62,481	16,698	145,196	43%	12%
4 Cardinal	3,631	16,087	74,479	5%	22%
5 City of New Orleans	39,433	—	200,682	20%	0%
6 Coast Starlight	26,174	277,299	505,098	5%	55%
7 Crescent	8,561	77,610	265,789	3%	29%
8 Empire Builder	40,307	155,159	433,404	9%	36%
9 Lake Shore Limited	67,264	99,326	300,989	22%	33%
10 Palmetto	28,148	70,524	217,865	13%	32%
11 Pennsylvanian	—	33,590	33,590	0%	100%
12 Silver Meteor	52,063	69,913	254,229	20%	28%
13 Silver Star	34,877	129,397	269,577	13%	48%
14 Southwest Chief	47,079	2,683	268,267	18%	1%
15 Sunset Limited	13,685	5,972	119,444	11%	5%
16 Texas Eagle	2,192	30,675	145,023	2%	21%
17 Three Rivers	20,599	55,947	133,206	15%	42%
Total Long Distance	713,756	1,346,978	3,982,740	18%	34%

¹Represents the number of passengers who get on and get off the train within the confines of a single corridor. Corridors include stations on existing Amtrak corridors and those on planned high-speed rail corridor routes.

Source: OIGs analysis of Amtrak's 2000 Origin/Destination station pair data.

ATTACHMENT 3

Section	Account	Am- trak 2004	OIG 2004	Administration's Bill			2008	2009	2010	6 Year Total
				2005	2006	2007				
104	<i>Capital</i>									
	Capital Backlog [100% Federal; Section 202 Plans]	252	—	—	—	350	400	500	600	1,850
207/301	Capital Grants [100%—50% Federal; Section 207 for 05/06]	675	600	600	650	350	400	500	600	3,100
	<i>Total Capital (except debt principal)</i>	927	600	600	650	700	800	1,000	1,200	4,950
	[Section 301—States' Capital Match]	—	—	—	—	88	267	500	600	
	[Section 301—States' Percentage Match]	0%	0%	0%	0%	20%	40%	50%	50%	
207/106	<i>Operating</i>									
	Long Distance Losses [Amtrak 2005; PRSP thereafter]	563	563	580	501	395	187	—	—	1,662
207	Short-Distance Losses [Amtrak 2005; PRSP 2006]	188	188	194	169	—	—	—	—	362
207	Multi-State Administrative Transition	—	—	4	5	4	—	—	—	13
207	Amtrak Administrative Expenses	—	—	—	2	2	2	2	2	10
103	NEC Compact Commission	—	—	2	—	—	—	—	—	2
105	Employee Buyouts [PRSP & PRIM]	—	—	—	75	75	—	—	—	150
	<i>Total Operating (except interest expense)</i>	751	751	779	752	476	189	2	2	2,200
	<i>NEC Operating Loss/(Profit)</i>	(144)	(144)	(146)	(88)	—	—	—	—	(234)
	<i>Amtrak Legacy Debt</i>									
207/206	Amtrak/PRSP Principal	117	117	113	88	177	138	126	120	762
206(d)	Additional Principal Paydown	—	—	—	—	39	292	315	130	776
207/206	Amtrak/PRSP Interest	163	161	153	118	111	104	98	92	676
206(d)	Interest Savings from Paydown	—	—	—	—	(2)	(20)	(39)	(47)	(108)
	<i>Total Debt Service</i>	280	278	266	206	325	515	500	295	2,107
	<i>TOTAL</i>	1,814	1,485	1,499	1,520	1,500	1,503	1,502	1,497	9,023
	<i>Amtrak Legacy Debt</i>	2004	2004	2005	2006	2007	2008	2009	2010	Total
	Total Principal	117	117	113	118	207	168	156	150	
	Total Interest	163	163	153	148	139	130	122	114	
	<i>NEC Compact</i>									
	Operating Profit	144	144	146	148	150	152	155	157	908
	Amtrak Legacy Principal	—	—	—	(30)	(30)	(30)	(30)	(30)	(150)
	Amtrak Legacy Interest	—	—	—	(30)	(28)	(26)	(24)	(22)	(130)
	<i>Compact Net Profit</i>	144	144	146	88	92	96	101	105	628

The CHAIRMAN. Thank you, Mr. Mead, and the Senate mark is 1.35 and you say they've got 200 million rolled over from last year. Is that correct?

Mr. MEAD. Yes, sir.

The CHAIRMAN. But yet the Administration has only asked for \$900 million, Mr. Rutter. Where do you think that you and Mr. Mead differ here on the estimates of what level of appropriations are required?

Mr. RUTTER. I think the main difference is that our appropriation, or at least the President's budget for 2004, talked about a \$900 million number and that any amount over that should be accompanied by concrete moves in the direction of reform. Frankly, the 2003 appropriation, which came out after the President's 2004 budget, contained many of those steps, and we believe that there are additional steps that the appropriators can take to move continuously toward this point away from the status quo.

I would, however, note that that \$900 million is 70 percent more than the previous year's request and is much higher than the last 3 to 4 years of the previous Administration's requests for Amtrak appropriations.

The CHAIRMAN. Well, you have a point there. Mr. Mead, do you still think that Amtrak needs to restructure its debt?

Mr. MEAD. Oh yes.

The CHAIRMAN. How do you do that?

Mr. MEAD. Well, I mean, it's a matter to some extent of a personal philosophy, but I think if you're going into a reauthorization period we're really going to try to make a difference. My own view is that you ought to freeze the debt, the Federal Government probably ought to pay it off, because frankly we're paying off the debt anyway and we can borrow money cheaper than Amtrak's interest rates. We could just pay it off.

The CHAIRMAN. So we ought to just pay off their debt?

Mr. MEAD. Yes, as part of the reauthorization. I certainly wouldn't recommend you do it as part of the appropriations process. I think it should be part of a larger package. And I say that also because if we're going to be looking to the change in governance and structural change in Amtrak, and look to the states to take more responsibility and start governing, the states aren't going to be interested in picking up anything if you say, well, you're going to be saddled with debt to boot.

The CHAIRMAN. You've observed as I have over the years by the way, I really regret that Yogi Berra ever made that comment about *deja vu* all over again because we all get real tired of hearing it, but over the years we've sort of had this same debate, this same discussion, and you have noticed many of their long-distance routes that have, as I mentioned in my earlier opening statement, as much as \$400 per passenger subsidy. Is there any way that any of those long-distance routes in your mind, from your experience, are ever going to come close to any kind of reasonable cost per passenger?

Mr. MEAD. Some of them won't, but I believe there is a misconception about what a long-distance route actually is. If you stop and look across the United States and take the East Coast as point A and the West Coast as point Z, there are very few people that

are actually going to ride from point A to point Z, but there are lots of people that will be going between intermediate points across the United States, and it's those intermediate points that hold a lot of promise that are called corridors. And that is what I think is a very important feature of the Administration's bill to invest in those, regardless of the State. In many states, such as Texas, there are corridors in Texas that could stand development.

The problem is that when you're just relying on long-distance trains, the train that's one train going across and it may show up at 3 a.m. in the morning. It's one train, it's really not maximizing the growth potential, but there are some in this country, Mr. Chairman, that the distances between one corridor and another exceed 500 miles, maybe 1,000 miles. Frankly, those people probably ought to consider getting on a plane.

The CHAIRMAN. I think most of them . . .

Senator BURNS. We've got airplanes that show up at 3 in the morning. That doesn't solve any problems.

Mr. RUTTER. Mr. Chairman, if I could add to that.

The CHAIRMAN. Please, Mr. Rutter.

Mr. RUTTER. The other thing that treating all long-distance trains equally is inaccurate because not all long-distance trains have the same characteristics, either their on-time performance or the kind of people who ride it. You have two members of your committee here who represent states served by the Empire Builder. The Empire Builder travels on BNSF freight ride-away and BNSF operates that train at about 80 to 90 percent on time.

The other thing that characterizes that particular route is that if you looked at between Minnesota and Chicago and North Dakota and Washington, you've got different characteristics of where people are traveling. People in North Dakota and Montana are mostly going between those two states or to Washington. Very few of those people go to Chicago. Similarly, Chicago to Minnesota, Minneapolis, that's where most of that traffic happens on that end. One of the things that could be possible is to look at bifurcating long-distance trains into shorter segments, serving those segments with coach service rather than more expensive sleeper service and particularly the Empire Builder is in a situation where it's the least avoidable costs aren't nearly as high as some of the other Western routes. So it's important to recognize that there are different circumstances for each of these particular services.

The CHAIRMAN. Well, my time has expired but I'm afraid we may be headed in the same direction we have, and that's we'll give them enough money to limp along and the debt goes up and the operating losses continue and that's very unfortunate because at some point or another we're going to have to maybe never, maybe we won't ever have to make a tough decision. We've avoided those pretty well in some other areas. Senator Lautenberg.

Senator LAUTENBERG. Thanks, Mr. Chairman. The thing that struck me is that we talked about when we heard from Mr. Mead about giving, limiting the funding to \$1-1/2 billion above, that's certainly above where we are now, but it goes with the statement that says, minimize the capital to maintain reliability. And one of the things that we've done here is we've constantly minimized what it is that we put into the road, and I think the chairman just said

the same thing and I'm inclined to agree with him. He didn't say quite what I'm going to say, but we are talking about kind of fisher-cut bait here, I mean, either we're going to put enough into the railroad at one time or over a period of a few years to bring it up to the kind of travel that people would like to see or just limp along as we see and not really do much.

Chairman McCain and I a few years ago were in Brussels, Belgium, at the same time, and I headed for Paris where my trip was to continue and I got on a train and in an hour and 25 minutes we went 200 miles. I don't think you could get an airplane there if you wanted to, and at what point does it take us to in this country to say, hey listen, when you get those distances that are 500 miles or less, there almost ought to be no dispute. Certainly between here and New York City, if we could get there in an hour and a half, an hour and 45 minutes, one could speculate but make some pretty optimistic guesses about how much rail service would be occupied, would be taken. Even now you get a cloudy day out here, a rainy day, and I usually use Acela if I can, it's crowded. People want to know the reliability of rail service is there.

So I would ask if there shouldn't be a point, Mr. Rutter, that we say, look, I read the statement that then-Governor Bush about it being a Federal responsibility, Federal costs for capital and operations, and I can ask you what changed in his mind, I guess the job probably from being Governor out there and knowing you can't afford to do much about this, but there are those national causes. What should we do about you said refinance the debt in some way, Mr. Mead. Well, that's a nice idea but it's the how-to that's bothersome. If we're going to restructure the debt we're going to have to put a lot more money into it. So at what point do we face up to our responsibility and say that we want to get it done? Is the Administration allowing Amtrak to spend its funding to cure the same safety defect as it criticized Amtrak for, funding provided for Amtrak adequate to address all these safety concerns, Mr. Rutter?

Mr. RUTTER. Well, we're certainly one of the things I get to do is represent the Secretary on Amtrak's board, we regulate Amtrak from a safety perspective as well as advise the Secretary and the Administration on passenger rail policy. Getting back to I think part of your question on the amount of money, it's also much a matter of what are you going to spend that money on. When Mr. Mead talks about buying down debt, dollars invested toward that have serious and significant benefits in a present value situation now. If that has appeal to spend money on, rather than spending money on the status quo without any further change, I think the other thing that those dollars going toward of a different kind of system would be illustrated between the difference in what we were being asked to do when that letter that you quoted from, when Tom Downs was going to shut down the Eagle and said, we'd enjoy you picking up the difference, and the current Governor, Governor Perry, who's talking about resuscitating some plans for high-speed passenger rail, not where the Eagle goes, but where the most people in Texas are.

I think that's one of the distinctions that we'd like to move toward in our proposal, which is to make investments in services that have the most potential for serving people.

Senator LAUTENBERG. Well, I'd ask you this. I understand that the Administration has recently released the names of three people that it proposes to nominate to the Amtrak board. One is a long-time advocate of railroad privatization, the second is an experienced hand at working with companies headed into bankruptcy, and the third has a reputation as an outspoken business person, no experience whatsoever in the rail sector and perhaps has some conflict of interest in modes of transportation. So were these individuals selected by the Administration for the purpose of administering a coup de grace to the railroad once and for all?

Mr. RUTTER. Absolutely not, sir. First, let me talk about well, I'll get to the people we've named, then we'll talk about killing Amtrak. The people that we've named, the three that you mentioned, all have qualifications that speak to the kinds of qualifications set out in the statute for Amtrak's board, people who are familiar with business, with transportation services, and all three of those folks are very qualified. They're outspoken, they're going to speak their mind, but they're very bright, and we believe they're the kind of people that are going to help offer assistance to David and to the rest of the board members as we try to make Amtrak better.

Finally, let me speak directly to the frequent not necessarily here but frequent accusations that this Administration is about killing Amtrak. If that were indeed our interest, we would have done that last summer. Amtrak was in dire straits, they were on the brink of bankruptcy. Instead of having them go bankrupt, our Administration came in with a \$100 million RIF loan and Congress came in with \$200 million in supplemental appropriation, and we've worked with David and the Amtrak team to make sure that they're able to live within the means that Congress provided for them.

It is not the Administration's proposal or its policy that passenger rail service go away. We'd like to make it better and the people that we will soon send paperwork up here for the three additional board members we believe are capable, talented people who are going to help make a positive difference in how Amtrak meets that need.

Senator LAUTENBERG. And Mr. Rutter, we don't expect the negative difference to be the target, but this isn't an IQ test. I want to know whether these people have experience in passenger rail service. I want to know whether their business experience is appropriate for what is a quasi-government corporation and the responsibility of providing service. You look at what we spent for aviation and for highways and compare that to the monies and funds that we put into rail service. There is no comparison.

Mr. RUTTER. One more response to that. It's certainly as qualified or more qualified than some of the people that have served on the board in the past 2 or 3 decades. You look at Mr. Crandall, who knows about running a transportation business. You look at Mr. Hall, whose entire life has been about customer service, retail business, which frankly should be a concern of Amtrak's about what its passengers need.

Senator LAUTENBERG. Well, we're not going to debate that here, I assume, Mr. Chairman. Mr. Crandall, you know, very capable guy. He opposed my stopping smoking in airplanes when he was smoking five packs of butts a day.

The CHAIRMAN. Senator Smith.

**STATEMENT OF HON. GORDON H. SMITH,
U.S. SENATOR FROM OREGON**

Senator SMITH. Thank you, Mr. Chairman. I'd like to put an opening statement if I may.

The CHAIRMAN. Without objection.

Senator SMITH. And I do want to note with appreciation Claudia Howells from Oregon who's come to testify on the next panel. I appreciate her coming here. Also, gentlemen, I'm quite mindful as a former State legislator that every time an Oregon State budget was made we had a big Amtrak issue and we would put millions of dollars into it to keep it going to do our part of it, and I know the State of Washington does the same. In other words, the states value the service. I'm also mindful that many states don't pay anything for it and I'm wondering if there isn't something that can be fairly done to share the burden. If it's a value, why don't they participate? And resources are scarce, but if it means something, why does the Federal Government pick up all for some and not all for others?

Mr. MEAD. I think that point is well taken. I view intercity passenger rail much like the highways, much like the airports, that the states ought to have more to say about what happens. I think one problem with this bill though is that it comes before you with no money in it. And when you say, well, such sums as are necessary, you say, well, what that may mean to one person may mean something quite different to another. And the other is that this whole problem with Amtrak actually began, well, many years ago, but it started coming to a head 2 years ago and now the Federal budget situation is quite different than it was a couple years ago. We have more Federal obligations and the State fiscal crisis, as Senator Lautenberg was saying, I don't know if it's the worst since the Great Depression, but it's almost the worst fiscal situation facing the states since the Great Depression.

And you have that, the confluence of the Federal situation and Amtrak and it's hard to go to the states at that point and say, well, we want some money, we want you to belly up and contribute something too. But I do think they have to pay their fair share, but we need to look very closely at this bill in terms of the phase-in period and the size of the capital match. On the capital match issue, sir, I'd point out that over the years different transportation programs have had different matching levels. This bill proposes 50 percent. The highway program, when you were starting the interstate, I think it was 90 percent at that point. Now for most highway programs it's 80 percent. In transit I believe it's 50 or 60 percent. Airports it's even different. So I think Congress has some flexibility there on the exact match to require.

Senator SMITH. But it's prospective, it's not a part of this bill that states would have to contribute if they want to continue?

Mr. RUTTER. Well, no actually. Part of this bill is to do two things that meet or at least respond to the situation that Oregon, Washington and California have particularly seen. And that is, one, that those states have made substantial investments in increasing and improving passenger rail. It's been responded to by lots of pas-

sengers, but they've done so without a Federal partner, any Federal dollars. Our bill would create a capital partnership where the Feds and the states would be able to participate in that.

And the other point that you made is that there ought to be some degree of equity among states for that operating subsidy. No State should get for free what other states choose to pay for.

Senator SMITH. And do you find when the states are involved like Oregon, California, Washington, that you have a better system?

Mr. RUTTER. I think that one of the things that informed our bill was the success that's happened on the West Coast, and it's happened not at high speeds of 110 or so, it's happened with frequencies, it's happened with reliability, which resulted from investments made in the freight infrastructure, and it's happened with new and newer rolling stock, all of which have meant that it's much more patronized, as Mr. Mead has talked about, the number of Amtrak passengers who are on shorter corridor distance.

Senator SMITH. Thank you. That's a very helpful update. Another update I would appreciate, Mr. Chairman, is on the Pioneer Line that Amtrak used to run between Boise actually it used to go from Chicago to Portland, Oregon but now from Boise to Portland and my understanding of that was actually, well, not a money maker, it was far better for Amtrak than many of the lines that are still running. I wonder if you can give me an update as to what the status is of that. Is there still a consideration of a freight passenger rail component? Is there anything happening on the Pioneer Line?

Mr. RUTTER. Not that I'm aware of. One of the things that would certainly be possible, and Ms. Howell's from Oregon, would certainly be able to talk about, one, the difficulty that they've just gone through keeping the service they have, and that's they're contributing where maybe some other states aren't. But to the extent that that lift for a Portland to Boise service may not be huge, that's certainly something that this bill would anticipate that those two states could make that choice jointly together.

Senator SMITH. Thanks, Mr. Chairman.

[The prepared statement of Senator Smith follows:]

PREPARED STATEMENT OF HON. GORDON H. SMITH, U.S. SENATOR FROM OREGON

Thank you Chairman McCain. I appreciate you for holding this hearing on a very important issue to my State of Oregon and our country.

Oregon is fortunate to be served by two Class I freight railroads, 19 shortlines, and Amtrak. As this hearing considers the Administration's legislative proposal for restructuring intercity passenger rail service and Amtrak, one area of improvement I would like to see is more equitable participation by *all* the states in supporting Amtrak. In the Pacific Northwest, the states of Oregon and Washington provided \$16.5 million in operating support in 2002.

In addition, according to Amtrak, since 1992, Amtrak, the states of Washington and Oregon, and their freight partners have committed more than \$600 million in track and signal upgrades, train equipment and station improvements on the Pacific Northwest Rail Corridor. Many other states with Amtrak service, however, contribute nothing. As we debate the future of Amtrak, I hope we can devise a system whereby all states make a fair contribution to supporting intercity passenger rail service.

I would like to extend a special welcome to one of my constituents who is testifying today—Ms. Claudia Howells from the Oregon Department of Transportation's Rail Division. I look forward to hearing your views regarding Oregon's partnership with Amtrak and how the rest of the country can learn from Oregon's experience.

I would also be interested from all the witnesses on how we can encourage more states to contribute financially to an intercity passenger rail system that benefits the traveling public.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Dorgan.

Senator DORGAN. Mr. Chairman, thank you. Mr. Rutter, as I understand the Rail Investment Reform Act, which the Administration has proposed, the long-distance trains would operate with 100 percent of the operating costs of those trains being guaranteed by the states in which it operates?

Mr. RUTTER. At the end of that authorization period. It wouldn't start immediately.

Senator DORGAN. So 100 percent of the operating costs and 50 percent of the capital, correct?

Mr. RUTTER. It would be 100 percent of that operating subsidy. That's a pretty big difference, the difference between revenues and expenses, which differs by route.

Senator DORGAN. But long-distance trains, by and large, are not profitable, is that correct?

Mr. RUTTER. That's true.

Senator DORGAN. And so——

Mr. RUTTER. And nor do we pretend that they ever will be.

Senator DORGAN. I understand. And so the losses that exist on the long-distance trains are not offset by, for example, profits on a heavily populated Eastern Corridor, which is circumstantial where you have a national system? Instead you take pieces of this apart and separate them and you say there shall be a Northeast Corridor and there shall then be long-distances trains in states involved in paying the operating losses of those trains and then states also paying 50 percent of the capital costs, do I have that right?

Mr. RUTTER. At the conclusion of that authorization cycle that's how it would work.

Senator DORGAN. And tell me how long the phase-in, when is that conclusion of that cycle?

Mr. RUTTER. Our bill sets out a 6-year pace and certainly as Mr. Mead has mentioned, there are those who would question the speed with which that happens, and certainly that's a conversation that we'd be happy to have with Members of this Committee and the House, as long as we're moving toward away from the status quo and toward a better future.

Senator DORGAN. But isn't this a philosophy that says, look, to the extent that there are trains out there, the Empire Builder being one, as part of our rail passenger service that are losing money, the Federal Government's going to have nothing to do with that, 50 percent of the capital costs, but otherwise we're going to have nothing to do with that. If somebody wants to run them, God bless them, we don't have any interest in it. And the reason I ask that question is philosophically I think it would have been much more up-front if we just say, the Administration does not believe in subsidizing long-distance trains. We believe that we ought to have a Northeast Corridor, which likely would be self-sustaining, I assume, and then the long-distance trains, we don't want anything to do with them really, if somebody else wants to cover the

losses, let them do it, but our philosophy is not to do that. Why would you just not say that because that's what your bill is?

Mr. RUTTER. Well, our bill is trying to put passenger rail in the same position that we have for other surface transportation programs, which is the Federal Government is a capital partner and that operating and maintenance expenses are primarily a responsibility of States. That's how we do highways, that's how we do transit. There can be arguments about the level of capital participation and there can be probably some talk about how you transition from where we are now to where that would be and how fast do you get there?

Mr. MEAD. You know, very substantial parts of what people think of as long-distance routes today, the Administration, if I'm reading the bill correctly and I think I am, does see an interest in and that's where they want to put up capital money, and I think that's really important.

Senator DORGAN. Well describe that to me. Describe where those routes would be.

Mr. MEAD. Well, you could take a long-distance route, take Chicago to Los Angeles.

The CHAIRMAN. Try Orlando to Los Angeles, that's my favorite.

Mr. MEAD. Orlando to Los Angeles, OK, we take Orlando to Los Angeles.

Senator DORGAN. Well, don't take too much time, I only have 5 minutes.

Mr. MEAD. I'll be real quick. There are few people that are going to go from end to end, get on that train in Orlando and ride it all the way to Los Angeles, but there are lots of cities in between. In some instances, 400 or 500 miles separate those two cities. Those two cities would be eligible for funding as a capital grant to develop corridor service. Right now, the service they get is that long-distance train coming through going all the way across country and yet those two communities could probably sustain or may very well be able to sustain additional frequencies, and that's why the capital program in the bill, I think, has some merit. But the Administration would not be funding the whole route all the way from Orlando to Las Vegas.

Senator DORGAN. I'm much more interested in the operating costs and the operating subsidy in the bill. I've often asked the question if we did not describe the interstate highway system of a national system, who would have decided to invest the money that was needed to be invested to build an interstate highway from Fargo, North Dakota to Beech, North Dakota, which travels through a substantial part of our State where there are very few people living and yet we build an entire interstate highway through North Dakota, through Montana. Why? Because we are bridge states in which that piece of the interstate highway is every bit as important as every other piece of that highway in this country.

And the same is true, exactly the same thing is true, as between Rugby, North Dakota, and Williston, North Dakota with Amtrak. You simply can't stop Amtrak at Fargo, North Dakota and decide to pick it up again in Helena, Montana, going to Seattle unless you're going to airlift that locomotive and the cars. I mean, it is im-

plausible, you just can't do that. So my point is that what you've described here is a system that I think says we don't want to subsidize any long-distance trains and we know from the start that long-distance trains require subsidy, we know that. You're taking tons of metal across this country on a track and we know it takes money, so we have decided as an affirmative matter to subsidize that over the years.

I'm perfectly comfortable with that. I want it to be effective and efficient but I'm perfectly comfortable because we subsidize everything else in transportation. So let me just ask this question. We know that you proposed this at a time when State governments are financially flat on their back and there isn't a ghost of a chance in my judgment for you to, just as you could not have with George W. Bush back in 1996, you won't now convince those Governors to spend money they don't have to subsidize long-distance trains. And even more than that, my understanding of the way this would work is you'd have to have groups of States, all of which would agree to meet that subsidy to get, and probably two of seven states would say no, five say yes, and you don't have an opportunity then to run that train and provide the operating loss or the subsidy for the operating loss.

So, Mr. Chairman, I appreciate the support not the support, I should say the testimony—of Mr. Rutter and Mr. Mead, but I end this questioning exactly where I began with my statement. This is a plan that says, let's abandon the Federal support for long-distance trains. It is exactly moving in the wrong direction, exactly in the wrong direction.

And, Mr. Mead, you might say in the long run, or Mr. Rutter, you might say in the long run wouldn't it be nice to be able to provide some State support? Sure, that would be nice in the long run, but the fact is, this railroad, this Amtrak, will either live or die in the short and intermediate run and the fact is this proposal comes at a time when you don't have a ghost of a chance of connecting the dots to keep long-distance trains running with your plan. And there are a lot of folks in this country that are going to be disadvantaged by this and I think it takes an important part of our transportation system and renders it inoperative at a time when we really need it.

The CHAIRMAN. Mr. Rutter and Mr. Mead, would you care to respond?

Mr. RUTTER. Well, first off, we do continue to plan for and look at the Federal Government having a responsibility and an ongoing partnership with states to provide dollars for capital assistance. The other thing that I'd say is that we've done an awful lot of outreach with a lot of States, State DOTs, the Governors' offices, and they share your concerns about long-distance trains. They've said that about 60 or 70 percent of your bill, Mr. Rutter, is OK, but don't ask us to do that.

I would I mention that to show that we've actually talked to folks and we've heard that same thing. The other part of that though is that most of the states are also quick to note that what our bill proposes at a 50 percent capital participation rate is 50 percent more than they have now, which is zero. We think that the Federal

Government ought to be a capital partner with states in making investments in places that they choose.

The CHAIRMAN. Mr. Mead, do you want to respond?

Mr. MEAD. I believe that the long-distance train issue, I think, has been overblown a bit and it isn't my job to carry the Administration's water anywhere and I wouldn't do that. But I think it might be beneficial, just as we have with the highway reauthorization, is to sit down and look at every, each situation. For example, you're pointing to some specific situations. I can't respond to those right now because I'm not familiar with them all, but it does seem to me that the future of intercity passenger rail is going to rise or fall on how much people use passenger trains in this country and the quality of the service and the on-time performance of it and how well the capital infrastructure is, and if we don't pay attention to that because we're focusing on the preservation simply of long-distance trains, I think the future of passenger rail is going to down the tubes and I'd hate to see that happen.

The CHAIRMAN. Well, I thank you both and I appreciate you coming here and testifying and we'll be seeing you again. Thank you.

Our next panel is Mr. David Gunn, who is the President and Chief Executive Officer of the National Railroad Passenger Corporation, and Ms. Claudia Howells, the Rail Division Administrator of the Oregon Department of Transportation. Mr. Gunn, welcome back before the Committee.

Mr. GUNN. Thank you, sir.

The CHAIRMAN. Please proceed.

**STATEMENT OF DAVID L. GUNN, PRESIDENT AND CHIEF
EXECUTIVE OFFICER, AMTRAK**

Mr. GUNN. I haven't been here as many times as Mr. Mead but I—

The CHAIRMAN. I hope you never have to.

Mr. GUNN. I don't think I'd want to. Mr. Chairman and Ranking Member, Hollings, and distinguished Members of the Committee, I want to thank you for the opportunity to testify today on the hearing on the Administration's proposal for Amtrak reauthorization. In the interest of time, I have submitted written testimony.

The CHAIRMAN. Without objection, your full statement will be part of the record. You, too, Ms. Howells.

Mr. GUNN. And I will just make a brief statement if that's permissible. If you look at the Administration's proposal, there are a number of things that I think are troublesome. The idea of engaging in a debate about the future of Amtrak I think is laudable, but this specific proposal, I think, has a number of practical problems in it. It requires a series of very complicated actions and the time lines provided in the proposed legislation I think are very inadequate. For example, you would expect the Amtrak management to create 3 Amtraks in 6 months and I think that that is just administratively very, very ambitious if not impossible.

The other problem that I have with the proposal is that there is no mention or no specific funding provided for in this bill, and I disagree with the philosophy personally on the long-distance trains, but that set aside you have a proposal that is very ambitious.

The CHAIRMAN. What is your philosophical difference on long-distance trains?

Mr. GUNN. I think they are a national service, that they should be provided to these communities. I have ridden most of them. In fact, I'm going to be on the Empire Builder next week, and I find that these trains in the rural areas actually are used, the ridership is growing, and that they are an important service to rural areas. But the proposal contained in the Administration's legislation is just impractical, that's my point, and it is impractical particularly when you look at the condition that Amtrak is in.

I mean, we are struggling to regain fiscal discipline and control, which I think we're doing. We have an enormous backlog of deferred maintenance throughout the system, which we're trying to overcome, and to try to run trains and engage in this sort of reform, to have Amtrak management do both things I think is very, very unwise. So with that I'll turn it over to my compatriot here.

[The prepared statement of Mr. Gunn follows:]

PREPARED STATEMENT OF DAVID L. GUNN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMTRAK

Mr. Chairman, Ranking Member Hollings, and distinguished members of the Committee, thank you for the opportunity to testify at today's hearing on the Administration's proposal for Amtrak reauthorization.

I have read the Administration's proposal. Let me give you my general observations about their plan and approach. I want you to know that the testimony I am presenting today reflects comments I shared with the Board of Directors and employees shortly after the plan was unveiled.

I realize that the Administration's proposal is one of several bills and in many respects the reauthorization discussion is in its early stages. While I have strong concerns about the Administration's plan, I appreciate their intentions through their bill to play an active role in the debate. As you know, Allan Rutter is not only the Secretary's representative to the Board, but he also provides regulatory oversight on a number of fronts as it relates to our operations, not the least of which is the responsibility for managing our Federal grant. He has been a good member of the Board and has been fair to us in his other roles. Therefore, I wish I could offer more positive views on the Administration's proposal.

In short, I believe that the timelines set are unrealistic and the overall approach is unworkable. As you know, the timelines in the bill start with passage of the legislation and extend for six years.

The Amtrak board is given six months to prepare a transfer plan. As I understand it, this requires creating three independent companies:

- Residual Amtrak
- Passenger services operating company
- Infrastructure company

At the end of the first year, the transition must be complete and the companies incorporated, which would require articles of incorporation, by-laws, changes in board structure, and additional management changes.

Also at the end of the first year, you would have to have contracts for service to have been negotiated between the entities. I believe this would be a very complex, and needlessly distracting, undertaking.

Simultaneously, with the above mentioned activities, and by the end of year one, a proposal for an interstate compact for service and maintenance of the Northeast Corridor would have to be presented to the eight Northeast states and the District of Columbia. This arrangement would in essence be controlled by the Department of Transportation through a new Northeast Corridor Compact Commission. My reading of the proposal left me in some doubt as to what will occur if the Compact is not formed. One could infer that absent the compact the Administration would have to propose and submit to Congress new legislation to provide for the continuation of NEC service—intercity, commuter, and freight.

What is clear is that at the beginning of year two, there would be three aforementioned companies: Residual Amtrak; Passenger Services Operating Company; and Infrastructure Company.

The legislation provides for the Federal Government to fund capital grants to overcome deferred maintenance in years three to six, but only if the Northeast Corridor Compact is formed.

It is not clear who would advocate for the ongoing funds necessary to run service and the costs for the creation of these new entities. It is also not clear how this funding would be obtained, but presumably it would be through the appropriations process but without any specific levels of funding authorization for appropriations. All of this occurs with a \$50,000 voluntary severance available to existing Amtrak employees.

As I indicated to the Board in my summary of the bill, one can appreciate the enormity of the task that would be at hand. The Amtrak Board will be attempting to run a railroad, which is in serious physical difficulty. There is apparently no attempt to address deferred maintenance until year three. All the while, Amtrak will be losing skilled hourly workers and a significant portion of management to the severance arrangements or resignations. The Board will be responsible for the operation, safety, and reliability of a company whose assets are deteriorating and whose organization is in turmoil. Key existing vacancies and newly created positions will have to be filled in the surviving companies while the Board will have to continue to address existing financial control issues by a finance department that could be in chaos. Furthermore, every decision the Board makes would be subject to approval by the new Asset Transition Committee of the Department of Transportation to "ensure" that the public interest is being served.

There are many other provisions in the proposed legislation concerning:

long distance routes; liquidating real estate; debt; exclusive rights; common stock and preferred stock, etc. In particular, this bill will radically alter the relationships between Amtrak and commuter authorities who will have to pay substantially more for access to the corridor. Additionally, it proposes stringent new financial standards for long distance trains that will result in the extinction of all long distance trains within three years of enactment if not sooner. Eventually, any route that survived the test would go on the auction block for privatization.

As I said, I realize that the reauthorization of Amtrak is no easy task and there are many different ideas for reforming Amtrak. I also know that none of this will happen overnight. So, I am proceeding to carry out the capital and operating budgets, which were approved by the Board. I recognize that large organizations tend to be resistant to change. It is easy to be critical and sometimes it is human nature to resist change. I am not being critical for the sake of being contrary. But I do not believe that the Administration's plan is workable.

The closest parallel would be the privatization of British Rail, which began in 1993, and the separation of their operations and infrastructure maintenance. In that case, it took years to accomplish and it consumed billions of dollars in government funding. For 25 years the NEC states and Amtrak have worked to improve capacity, reliability and utility for rail passengers. One of the key reasons for its success is that Amtrak largely controls the infrastructure and operations on the NEC.

I will say that I do agree with the Administration's proposal that states ought to pay operating support for services that they request and that there be Federal matching funds for states for capital investments.

Before I conclude, I want to say a word or two on some of Fiscal Year 2003's highlights and give you some preliminary year-end figures. For the first time since 1995, we did not have to seek emergency funding or borrow money to cover our costs and get through the year. Despite the war, blackout, hurricane and weak economy, Amtrak finished the year with an all-time high ridership record. We expect to record nearly 24 million trips, breaking the record of 23.5 million in 2001. Similar to the rest of the travel industry, our ticket revenues will fall short of last year and budget. We expect that our revenues will be about 6 percent below last year and 10 percent below plan. We have made substantial progress overhauling damaged and wrecked cars returning 22 cars to service (when I came to Amtrak we had about 110 wrecked and damaged cars, so we have chipped away about 20 percent of the total), and we have successfully replaced 40 miles of wood ties with concrete ties and replaced old rail with new rail where needed. We have undercut an additional 22 miles of rail. We also have exited the express business and eliminated two routes.

As we look ahead, what is clear to me is that the railroad is in desperate need of investment for both plant and equipment. In the absence of any reauthorization legislation, I am moving forward with a capital plan and reforming Amtrak's internal structure. No matter what happens, work on both fronts must occur. The work

we have begun this year is work that would have been done no matter which plan is adopted and has set the foundation for Fiscal Year 2004, the first year of our five-year capital plan that, with adequate funding, will bring the railroad to a state-of-good-repair.

Again, thank you for the opportunity to testify and I look forward to responding to your questions.

The CHAIRMAN. Welcome, Ms. Howells.

STATEMENT OF CLAUDIA L. HOWELLS, ADMINISTRATOR, RAIL DIVISION, OREGON DEPARTMENT OF TRANSPORTATION

Ms. HOWELLS. Thank you. For the record, my name is Claudia Howells. I'm the Administrator of the Oregon Department of Transportation, Rail Division, and I very much appreciate the opportunity to be here today. It's very flattering that so much is said about the Cascades service and indeed it has been very successful.

To give you a little bit of an idea of where we've grown in actually a very short time, in Oregon alone, and our service by the way runs from Eugene, Oregon, to Vancouver, British Columbia, in Oregon alone in 1993 with only the Coast Starlight we handled 25,000 riders. This most recent year I'm sorry, 2002 we handled 120,000 riders. The entire corridor, including the Coast Starlight, this year will handle very nearly 1 million passengers in a part of the country that is not all that heavily populated.

Our customer satisfaction is very high and we think that there's really no magic in why that's true. We have frequent train service, we'd like to have more frequent train service, we have reliability, we have clean and modern train equipment. Most of the time, if we get someone riding our trains they come back again and again.

It has been a very difficult struggle though for our state. As Senator Smith pointed out, every legislative session has been a struggle to maintain our operating support and it's not because Oregonians don't support rail, it's simply that we have to compete with the most essential of State services. We have received no capital funds for improvements in the corridor since an initial infusion of Federal dollars in 1993.

I'm here to tell you today that without some level of financial partnership with the Federal Government very, very soon we will not be able to sustain service, which would be very sad given the support that we have. We will certainly not be able to grow service or even explore the notion of restoring operations like the Pioneer, which I actually think could be viable if we could actually get back there again.

There are some good things about S. 1501 and even about the growing level of discussion about passenger rail. It's good that intercity passenger rail is recognized as a transportation mode and part of the national transportation system. We also agree that there needs to be a State role in the development and management of the passenger rail system. And finally, most important to us, recognizes the need for State and Federal partnership in funding capital investments in passenger rail corridors.

We are concerned though about the notion that privatization or competition or actually anything you want to call it is something that we can actually work with, certainly given the short time-frame within the bill, or that it actually deals with some very

sticky issues that we as partners with Amtrak fully understand. We could not have begun the Cascades without the legal and the institutional framework that Amtrak provides. Transferring the responsibility of the states or coming up with the notion of multi-State compacts sounds pretty good theoretically, but it could present significant legal, political, and financial challenges to States, particularly when looking at regional multi-state, or in our case multi-national, rail systems.

Compacts among multiple political entities will not be easy. There are also the issues such as access to freight lines and something that I really want to emphasize, the insurance of insurance and liability as well as how you manage a system with multiple political governing bodies. I have no doubt that managing a cross-border system will require some form of separate rail authority, which of course will be another level of bureaucracy and will unlikely save money.

Some of you apparently have heard about our recent experience with contracting for a limited passenger service as part of our Lewis and Clark bicentennial events. We learned a lot of things from that experience, even surprising us. One of the things we actually learned was that we didn't save any money. We had an excellent short-line operator. We had wonderful ridership, in fact ended the season with 88 percent capacity filling the seats. Our revenues were very strong and we still ended up having to come up with privacy subsidy to meet the operating deficit.

By the way, we contracted with Amtrak for the reservation and ticketing system, which worked extremely well, and in fact most of our passengers went through that system either on the Website or through the call-in system, and I think if we would not have had that we would have had a much more difficult time in selling tickets.

We had some illusions about our ability to run systems on our own. I don't think we do anymore. I think we thought we could save money and what we've discovered is running a railroad costs pretty much the same thing no matter who runs it, whether it's privately owned or publicly owned. There are just some things about running trains that are pretty much the same no matter how you do it.

For us, whether it's a private entity or a public entity there are some things we just simply have to have. We need funding for rail infrastructure, we need funding for rail equipment, and we need to recognize that the people who work on board trains need to be fully qualified and well-skilled. Railroading is still a very responsible and very dangerous business.

We also support the continuation of the long-distance trains and I think you've heard a number of reasons why. The Coast Starlight within the corridor functions as part of the schedule, but it also provides a needed link to many communities in southern Oregon. The Empire Builder, oddly enough and I thought the ridership numbers were interesting from Portland, most of the travelers from Portland are actually going to Chicago and not going to points in between. This was actually also true on the Pioneer. Given our own experience, we actually think long-distance trains could increase ridership, decrease public subsidy, if in fact they could be run reli-

ably with modern equipment and in a fashion very much like they way we run our Cascades Corridor.

Again, I thank you very much for the opportunity to be heard today and I am of course available for questions.

Thank you.

[The prepared statement of Ms. Howells follows:]

PREPARED STATEMENT OF CLAUDIA L. HOWELLS, ADMINISTRATOR, RAIL DIVISION,
OREGON DEPARTMENT OF TRANSPORTATION

My name is Claudia Howells, Administrator of the Oregon Department of Transportation Rail Division. In that capacity, I am responsible for the planning and development of Oregon's passenger and freight rail initiatives, as well as for railroad, rail transit and crossing safety oversight and regulation, in partnership with the Federal Railroad and Federal Transit administrations.

I am here today to testify on the Passenger Rail Investment Reform Act (S. 1501), and I very much appreciate being given this opportunity.

Background on Oregon's Passenger Rail Program

Oregon began state funded train service in 1994, as part of a Pacific Northwest Corridor Initiative. In 2000, we added one state-funded roundtrip train, bringing the total round trips between Eugene and Portland to three round-trip trains, including Amtrak's *Coast Starlight*. We also fund Amtrak *Thruway* Motor Coaches, providing connections to the State of Washington's additional train frequencies. In 2002, the state funded corridor trains and buses, exclusive of Amtrak's long distance train, carried 120,000 passengers. The entire Pacific Northwest Corridor, including the *Cascades* and the *Coast Starlight*, carried nearly 1,000,000 people. For a system that has been in existence for not quite ten years in a part of the country that is generally viewed as being in love with automobiles, we believe this is extraordinary.

Public support is solid. Nearly every major newspaper in Oregon, even some survey communities outside the corridor, strongly support the growth of passenger rail, the continuation of state funding, and the continuation of Amtrak. They also stress the need for Federal support.

State funding for our program is very fragile. We managed, again, to maintain barely adequate funding levels and secured a small amount of funds for capital investment, but only because of extraordinary support from our governor and key members of our legislative assembly.

The Passenger Rail Investment Act

The Passenger Rail Investment Act clearly recognizes successes like the *Cascades*, as well as new service in other states. We are very encouraged that the discussion about passenger rail is getting beyond the discussion of what to do about Amtrak. S. 1501 establishes that intercity passenger rail is an essential part of the Nation's transportation system; that it should be treated like all of the other transportation modes and that the states and the Federal Government are legitimate partners in the management and development of passenger rail. S.1501, as well as other proposals, suggest very real progress.

We are also flattered that the Pacific Northwest Corridor has been touted as a model for passenger rail development. I need to tell you though, that it has not been easy, and we are now at the point, despite our success, that if we as a state have to continue to fully support both capital and operating expense, Oregon will likely be the first casualty.

Passenger Rail Funding

As S. 1501 recognizes, we need a stable, reliable Federal contribution as exists with all other modes. There also needs to be parity among the states. Oregon, like Washington, California and Oklahoma, fully pays for our trains. Other states pay only part, or in some cases, none of the operating costs. While we are very sensitive to the need for an adequate transition period for those states that currently benefit from full Federal funding, Oregon cannot continue to fully fund the trains on our own in the interim.

More critical is capital investment. After a one time Federal appropriation in 1991 of \$20 million dollars, we have received no Federal funds to improve the railroad infrastructure. As tenants on a private railroad, we must be good partners able to make the improvements necessary to allow critical freight traffic to move efficiently. This is not a theoretical issue. In 2000, Union Pacific Railroad permitted a second train without Oregon making the needed capital improvements. The resulting train

interference causes operating problems for both the passenger and freight trains on a daily basis.

S. 1501 proposes a 50–50 match, equivalent to the match ratio now required for projects funded through the FTA. We have serious concerns about that proposal. States will always look to invest state dollars where the Federal share is the greatest, particularly in hard economic times. If rail projects are forced to compete with 80–20 or 90–10 federal-state match ratios, as is typical with highway projects, we will have a difficult time competing when dollars are scarce.

Privatization of Amtrak

We strongly caution against a rush toward privatization. Oregon's recent experience with contracting private passenger rail service as part of the Lewis and Clark Bicentennial Commemoration events has shown us there are risks in privatization. We were very lucky. We have a high quality and cooperative short line operator, who operated the trains very, very effectively. We contracted with a separate local food vendor, who could not have done a better job. We had outstanding ridership, ending the season with 88 percent of the seats for the season sold. *We did not save money.* It is wishful thinking to suggest that privatizing passenger rail service will cost less than Amtrak.

Competition could have benefits, but third party operators also cause us concern. Yes, there are very good third party rail operators, but those of us in the railroad business know many dreamers and schemers who would likely bid on routes. Many states have legal requirements to accept the lowest bid. In the railroad business this could be disastrous. The Class I railroads' concerns about this issue are legitimate. Railroadings is not for amateurs.

Governance and Multi-state Compacts

The Pacific Northwest is touted because Oregon, Washington and British Columbia appear to exist as an operating entity. In fact, there is no formal compact. We exist only because Amtrak exists. Multi-state compacts are very difficult to develop. Even simple reciprocity agreements often take years, because, by law, these compacts must be approved by legislative bodies. The drafters of the U.S. Constitution understood full well that interstate commerce should not be left to the states. Imagine, if you will, a similar requirement for the maintenance and operation of the Interstate Highway System.

Is it possible? Perhaps, but it will take time and money to address the myriad of legal issues that such compacts necessarily raise. Furthermore, it would likely require a new bureaucracy, something like a multi-state port authority, to actually operate, or contract for operations of the trains.

Long Distance Trains

Two long distance routes, the *Coast Starlight* and the *Empire Builder*, serve Oregon. For reasons that sometimes elude even me, ridership continues to grow. It tells me that despite years of neglect these trains still serve a purpose. It is easy to talk about how much these trains lose, how much they are subsidized, but the reality is that the long distance system over-all recovers nearly half of the operating costs through passenger revenues. That is very good when compared to most other forms of public transportation.

It is easy to target the long distance trains, but we fully agree with Mr. Gunn. Eliminating the long distance trains will not solve the "Amtrak problem," and may actually make it worse. Transferring the responsibility to the states makes as much sense as transferring the responsibility of the interstate highways to the states.

Having now had the experience of being involved with successful passenger rail service, I believe that the long distance trains could increase ridership and reduce the level of public subsidy, but it will take some investment. The long distance train equipment needs to be modernized. We need to make investments in the track system to improve on-time performance and ride quality. We need to look at certain corridors to increase frequencies, and in those cases look to the states for partnership. As we have learned from the regional trains, more frequencies mean more riders which over-all reduces the per passenger level of public support. We need to invest in stations, not only historical buildings but new stations, and in a way that will generate economic development in those communities.

Rejuvenating the long distance train system provides a tremendous opportunity to reinvest in rural America and sustain what in many places is the only transportation link beyond roads.

Amtrak

As a state partner, I would be less than truthful if I said we and Amtrak had a perfect relationship, but I can also tell you that without Amtrak, the *Cascades*

would never have happened. Amtrak has provided the legal, operating and institutional framework that is necessary to run a railroad. I have confidence that David Gunn has provided a new direction that is refocusing the railroad in the direction it needs to head.

There are issues with Amtrak as it exists today. The Amtrak Board needs better geographic representation. Part of our success in the Pacific Northwest has been our ability to put our stamp on the service we pay for. We need to be able to select our own local food and beverages, develop our own marketing strategy and determine our own color schemes. While that may sound trivial, it is just the kind of thing that sustains the local constituencies needed to support local funding.

But for all of Amtrak's flaws, may I suggest that it would be far easier to fix what is wrong with Amtrak than to start from scratch.

Why Intercity Passenger Rail?

Our ten years in developing passenger rail has made some things very apparent. There is the obvious. Passenger rail offers a transportation alternative for those who cannot or choose not to drive or fly. The real dividends go far beyond that.

- Passenger rail, and railroading generally, provides solid family wages jobs.
- Rail infrastructure improvements are as valuable to the economy as any other construction job. For every million spent, 19 family wage jobs are created.
- Passenger rail capital investment will reduce the cost of time delays for freight and reduce transportation costs for American producers.
- Station improvements, beyond construction jobs, generate economic development and increase property values.
- A commitment to passenger rail would likely encourage more rail equipment companies to locate in the U.S. providing both jobs and competition.

What States Need

States need:

- Federal funding for capital investment consistent with funding for other transportation projects.
- Operating funding equity.
- Control over capital projects.
- Equity among rail passengers nationwide.
- A stable, adequately funded rail service provider.

Conclusion

In closing, I want to emphasize that Oregon needs a Federal partner now. Oregon is not alone. Many states began planning and development when the High Speed Rail Act was passed as part of ISTEA. It has been a promise not kept.

What are we talking about it terms of funding? In Oregon, we could have a high quality passenger rail program, with five round trips a day matching eight roundtrips in Washington for a total investment of \$350 million dollars. \$100 million for track improvements, \$100 million for train equipment, \$100 million for highway-railroad grade crossing improvements, and \$50 million for building or restoring train stations. These are investments with long term economic, environmental and social benefits that will last along time.

Thank you for your consideration and the opportunity to testify before you today.

The CHAIRMAN. Thank you very much, Ms. Howells, and thank you for your perspective. It's very helpful to us as we consider these challenges we face.

Mr. Gunn, everybody applauds, and I among them, your new leadership and your new efforts and your renewed commitment to being forthcoming and candid with the Members of Congress as well as the riding public as the challenges that we face, and I appreciate the job you're doing. But let me tell you why I remain a little skeptical, not of you but of Amtrak. The project for Acela was to be \$1.6 billion, it's now \$2.86 billion. I understand that on any given day there will be 20 trains in the fleet, any given day 7 of the trains are out of commission. According to Amtrak, a few trains are always undergoing maintenance, a few more need to be in-

spected, a few more working fine and held in reserve in case one of the 13 trains running that day breaks down and needs a replacement.

Within the military, if only a little over 60 percent of any piece of equipment was functioning on a daily basis we would call it a national scandal. But here's kind of the anecdote that interests me: Amtrak spokesman led a visitor on a tour of Acela on a recent afternoon and he showed off a new lavatory door on one train. The old ones did not close properly. Some early customers of the premier service would find themselves exposed in lavatories that they thought incorrectly were locked. The situation inspired Amtrak's president, David Gunn, to proclaim in exasperation last year to the Washington Post, "You'd think after 170 years of railroading you could have a crapper door that works."

You know, the interesting thing though is what follows, Mr. Gunn. Bombardier has a sober response. If you're going to use that, said some Bombardier spokesman, David Slack, know that that design is not the original design Bombardier and Alstom came up with, that was a design change that Amtrak requested. So there's, you know, it's a pretty clever statement and it got a lot of attention, a crapper door that works, which would then lead one to believe that people had built the train, but yet we also find out that maybe that change that caused the crapper door not to work was a change that was requested by Amtrak itself.

So we get into layers and layers here that make one at least skeptical, if not cynical, about the future of Amtrak. Acela time after time I mean, I don't need to tell you because I'll be glad to show you the congressional record executives at Amtrak sat there and looked me right in the eye and said, we are on the glide path to economic self-sufficiency. And I said, how could that possibly be? I guess we should have put them under oath because then maybe there should be some perjury charges brought, but everybody knew. It was a dirty little secret. Everybody knew that Amtrak was not and will never be on a glide path to economic self-sufficiency.

So if I don't take everything you say on its face value, Mr. Gunn, I hope you can appreciate that. And I guess my first question is, what is the future of Acela? Are you going to continue to have 7 out of 20 trains stopped? Are you going to continue to have, as Mr. Rob Simmons says, it's totally bogus, it's not a high-speed train, says U.S. Rep Rob Simmons, who sits on the House Transportation, because the trains run from Washington to New York in about 2 hours and 15 minutes, about 15 minutes faster than the older, less expensive Metroliners? What is our prospect on the Acela issue since that seems to have been, in the view of some, the crown jewel of what Amtrak was going to be all about?

Mr. GUNN. Well, first of all, let me just say that I think that Amtrak, in terms of our ability to you're really talking about our ability to manage the railroad I think this year we've done fairly well. We've made some mistakes in the past, there's no question mistakes were made, but if you look at this year's results, I think we're making real progress and I'd be happy to go through that with you, but this is the first year you haven't had a budget crisis. We're coming out of this year—

The CHAIRMAN. Excuse me, I think you said that if you don't get more money that you're going to have to shut down Amtrak. That seems to me you're facing a rather significant crisis.

Mr. GUNN. I did not say that we would have to shut down Amtrak. I said that—what I have said in the past is that \$900 million would be a shut-down number.

The CHAIRMAN. That's what I mean, yes.

Mr. GUNN. That I said, and that's merely math, the operating subsidy is 500

The CHAIRMAN. I wasn't questioning your prediction. I'm just questioning your statement that everything's going fine.

Mr. GUNN. I didn't say it's going fine, Senator, but what I'm saying is that if you look at results, where we are today, we have come in on budget or under budget. We have, as the IG said, we have cash in the bank, we're coming out of the year with cash in the bank. Ridership is going to set a record throughout the system. We have revenues in August are getting stronger gain and they are exceeding last year's revenues—

The CHAIRMAN. Excuse me again, I don't mean to be rude. I was just handed by the staff that you're 363,563 less than last year as of July.

Mr. GUNN. I'm sorry, in terms of?

The CHAIRMAN. Metroliner and Acela Express.

Mr. GUNN. No, I'm talking system ridership. It's the long-distance trains where the ridership is up and on the corridors in the West. The Acela and Metroliners are down but the regionals are up. If you look at the total, ridership for August was 7.3 percent systemwide above last year.

The CHAIRMAN. Again I hate to interrupt, but it says the NEC total is 303,362 down.

Mr. GUNN. I talked about system ridership, Senator. I'm talking about systemwide including long-distance trains. NEC is just the Northeast Corridor. System ridership is up 7.3 percent over last year. I'll be happy to go.

The CHAIRMAN. Thank you.

Mr. GUNN. But you've got to look if you just look at Acela and Metroliner, they are down, but the regional trains in the corridor are up. The corridor's basically flat, but the growth is occurring in the long-distance trains and on the corridors in California and in the Northwest. But the thing that I think we've also been demonstrating, I hope to you and to others, is that we have our costs under control. We're actually our wages, salaries, overtime, and fringes in 2002 were less than 2001, in 2003 they'll be less than 2002 and we're budgeting them flat basically next year. So we're not going to declare a dividend, but we're making progress.

The thing that I'm proudest of is that we have made some real progress, I think, in beginning to attack the deferred maintenance. Despite all of the problems we have, we will have rebuilt seven of our AM-7 electric locomotives this year. We will have rebuilt more than 20 wrecked and damaged cars. We are restoring heavy overhauls of our long-distance cars and Amfleet cars, which serve both the corridor and some long-distance trains. We're going back to a 90-day inspection cycle and we have 2,500 fewer employees, and we did that's half of that is the MBTA.

So I don't want to say that we're out of the woods, that's not what I'm saying, but I think we've made progress, and I think when it comes to the Acela——

The CHAIRMAN. Could I—I'm sorry I have to interrupt you.

Frank I think we've got just a couple of minutes left in the vote.

Senator LAUTENBERG. No, please finish up. I'll submit my questions in writing.

The CHAIRMAN. OK.

Senator LAUTENBERG. But I'm interested in the response to your question.

The CHAIRMAN. OK, go ahead.

Mr. GUNN. Let me just—then I'll finish real quickly on the maintenance piece then go to the Acela. But on the corridor, on the engineering part, we have installed, as of last week we had installed more than 130,000 ties, we have converted 40 miles of timber track to concrete, upgrading the speed on one piece, one 22-mile piece, from 60 miles an hour to 125. I mean, what we have done, I think, is we have demonstrated that we are able to carry out complex maintenance activities under budget. We've really made some progress with the controls we've put in.

Now, this is looking at it from my point of view, the operating point of view, but we will, I think, come out of—if we get half a break next year, if we get the kind of funding that the IG talked about—we will make a real dent in the deferred maintenance in plant and equipment. And it won't make it perfect, but it will give you time to figure out what to do with Amtrak, because obviously this debate is not going to be settled.

The risk we run is if we don't get a chance to do some of this essential maintenance work, and it's all nuts and bolts, there's nothing sexy about it, you run the risk of having some really severe service disruptions, and whether it's long-distance or whether it's the corridor. We really are playing with time here if we don't put some money into the nuts and bolts of the system while we debate where we're going. And that's been my plea is that I think the cheapest thing we can do in the short-run is to give us enough money to replace the worn rail, to fix some of the electrical problems and rebuild our car fleet, the existing car fleet, don't buy new cars, just the car fleet.

The CHAIRMAN. Thank you. We'll be submitting some questions to you for the record, including the status of your lawsuit with the Bombardier people as to how you expect that to come out. We thank you for being here today, and again, everyone applauds your leadership. I hope you understand my skepticism from time to time. Thank you very much for joining us, Ms. Howells. This hearing is adjourned.

[Whereupon, at 4:05 p.m., the hearing was adjourned.]

A P P E N D I X

PREPARED STATEMENT OF HON. JOHN D. ROCKEFELLER IV,
U.S. SENATOR FROM WEST VIRGINIA

Thank you, Mr. Chairman, for holding this hearing on Amtrak's plans. I believe it is imperative for Congress to be realistic about the future of Amtrak. I have been a consistent supporter of Amtrak during my time in the Senate, and despite the efforts of the Amtrak's current leadership to cut costs and improve performance, I believe that the Administration's proposed funding is completely inadequate to meet the needs of this critical national service.

Many Americans directly depend on Amtrak for their transportation needs, and every American indirectly benefits from the rail system's operation. Every passenger taking the train represents one fewer car on our Nation's highways, and that brings decreased congestion, cleaner air, and reduced maintenance costs for these roads, saving all taxpayers money. In addition, rail service provides a critical element of choice in transportation. In our country, it is essential that we have options built into our transportation system to ensure that neither accidents, nor natural disasters, nor terrorist strikes will impede our ability to transport people and goods. Congress should be increasing Amtrak's funding and easing restrictions, instead of hobbling it with impossible objectives and reducing funding to the point where it cannot survive.

I say very respectfully, Mr. Chairman, you are well aware that there is no passenger rail system in the world that earns a profit. Repeated Congressional efforts to privatize Amtrak will not change that fact. For decades, Congress has neglected to authorize the funds necessary to maintain the capital and equipment that are necessary for a world-class rail system. This neglect has come at the cost of reliable service and high-speed trains which are standard in much of Europe and Asia. We must stop dismissing Amtrak as a failing business and begin recognizing it as a crucial national asset. We must see that the nearly \$6 billion required for backlogged capital improvements is provided. Congress devotes, correctly I believe, considerable resources to maintain our Nation's highways, which are a model for the world to admire. We rightly spent billions of dollars to ensuring the continued viability of our national air transportation system after the events of September 11. Amtrak is the only major method of transportation without a dedicated revenue stream to invest in necessary capital maintenance and upgrades.

I am a proud co-sponsor of The National Defense Rail Act. This bill will provide \$2.8 billion annually in funding to Amtrak, which would allow them to not only continue operating, but also to make critical and necessary infrastructure improvements. The Administration's proposal should be recognized for what it is: a death sentence for Amtrak. Before Congress even considers privatizing our national passenger rail system—with the inevitable results being reduced service, congested highways, and dirtier air—we should remedy the problems we have caused through decades of pretending that Amtrak can and should operate as a for-profit business.

Thank you.

PREPARED STATEMENT OF HON. JOHN F. KERRY,
U.S. SENATOR FROM MASSACHUSETTS

Mr. Chairman, I want to thank you for holding this hearing and thank the witnesses for coming to testify. We convene today to discuss the state of intercity passenger rail and the administration's reform legislation, introduced in the House as the Passenger Rail Investment Reform Act. We also need to address Amtrak's budget, which I believe to be inadequate. It is important to note that Amtrak's budget will likely be resolved in the absence of a reauthorization bill. Including a line-item in an appropriations bill to cover Amtrak has become a bad habit. As I stated in April, this is no way to do business. We need to pass the Holling's reauthorization bill and send a message to the administration that there is wide-spread support for

passenger rail in both Houses. Finally, we need to address the four vacancies on the Board of Directors that have the potential to stifle management decisions at Amtrak.

Let me begin by addressing the administration's bill. I have come to the conclusion that the President's proposal is untenable. Instead of investing in Amtrak through budget increases and infrastructure improvements, the President wants to break the railroad apart into three separate entities, two of which would be run privately, and force states to pick up the entire bill for operations and half of all infrastructure projects. It is an attempt to abdicate responsibility for providing a national rail system, and its premise is so unrealistic that no one other than the bill's drafters believe it could work. Indeed, it is the brainchild of an administration that opposes Amtrak and wants to undermine any hope for a state-of-the-art national passenger rail system. Given that the bill creates new bureaucracies, and that most states are struggling financially in the worst economy in a generation, passage of this bill would mean the end of Amtrak as we know it. I strongly oppose this bill and I urge my colleagues to oppose it as well.

Although this legislation is unlikely to pass the Congress, it alters the debate on Amtrak's budget by providing ammunition for members that dislike the railroad. Mr. Chairman, the facts surrounding Amtrak's budget are clear. For the past two years David Gunn has requested what he believed to be the minimum amount that Amtrak would need to operate. Last year he requested \$1.2 billion for FY 2003, and received \$1.043 billion. This year he requested \$1.8 billion, and though the Transportation Appropriations bill has not yet passed the Senate, one can assume that the final figure will be considerably less. The House passed bill included only \$900 million for Amtrak, while the Senate Appropriations Committee included \$1.34 billion in its bill. However, when the bill comes to the floor I will support Amtrak's \$1.8 billion request. It is important to reiterate that this figure represents only what the railroad needs to operate under current conditions, without any improvements to service or infrastructure. Amtrak's long-term viability can only be achieved through comprehensive legislation and a commitment from the Executive Branch.

Finally, I would like to address the vacancies on the Amtrak Board that have left it without a quorum. Although the three remaining members have formed an executive committee which allows for decision making, it is imperative that those vacancies are filled as soon as possible. Amtrak needs a full board of directors to run effectively, and a delay in filling these positions will impair its management structure. In recent weeks major news outlets have suggested that the President has three nominees ready to send to the Senate. Although I will withhold judgement on these nominees until they have the chance to testify, I suspect that they were hand-picked by the administration to help implement its ill-conceived plan for Amtrak.

Mr. Chairman, I believe that a substantial investment in Amtrak will create jobs, reduce pollution, and provide Americans with a reliable transit alternative to driving or flying. There is bi-partisan support for Amtrak on the Commerce Committee, and I hope that translates into passage of the Hollings's reauthorization bill and a better future for passenger rail. Thank you.

PREPARED STATEMENT OF FRANK J. BUSALACCHI, SECRETARY,
WISCONSIN DEPARTMENT OF TRANSPORTATION

On behalf of Governor Jim Doyle and the state of Wisconsin, thank you for the opportunity to submit this written testimony to the U.S. Senate Committee on Commerce, Science and Transportation at its hearing on Amtrak and intercity passenger rail issues.

I am privileged to serve as Secretary of the Wisconsin Department of Transportation, an agency that has responsibility for all modes of transportation. Governor Doyle is a strong supporter of intercity passenger rail development as a part of a comprehensive multimodal transportation program. The Governor's new economic development initiative, Grow Wisconsin, recognizes the need to invest in rail and all modes of transportation. Both he and I call on the Federal Government to provide sufficient funding to Amtrak and to enhance the national passenger rail system.

Wisconsin, along with the state of Illinois, has supported the Amtrak *Hiawatha Service* between Milwaukee and Chicago since 1989. We have partnered with Amtrak and the Federal Government to steadily improve this important mobility and economic development link to Chicago. Last fall, working with Amtrak, we increased the number of frequencies from six to seven round trips. The *Hiawatha* is now the busiest line in the Nation outside of California and the Northeast Corridor. It also has the best on-time performance in Amtrak's system.

This summer, the *Hiawatha Service* posted double-digit percent increases in ridership compared to last year's counts. In June, July and August of this year, Amtrak averaged over 1,320 passengers per day for the corridor. Customers were attracted to the service's reliability, as over 95 percent of *Hiawatha Service* trains arrived on-time so far this year. Recent surveys document customer appreciation for the trains' fast trip time (89 minutes) and availability of service (seven daily round trips).

Wisconsin is partnering with the Federal Government to make continued improvements in the *Hiawatha Service*. With the support of Senator Herb Kohl, the state of Wisconsin is constructing a new passenger rail station at Milwaukee's General Mitchell International Airport and is rehabilitating and redeveloping the Amtrak Station in downtown Milwaukee. The village of Sturtevant is preparing to construct a new depot to replace its existing station—again with federal funding support.

In addition to the *Hiawatha*, connectivity to the Amtrak national system is also provided by the *Empire Builder Service*. The *Empire Builder* serves the Wisconsin cities of Milwaukee, Columbus, Wisconsin Dells, Tomah, and La Crosse and provides connectivity from Wisconsin to the Pacific Northwest and points along the way.

The *Hiawatha Service* and all other intercity passenger rail routes are threatened by a lack of Federal funding for Amtrak. Congress needs to provide Amtrak with sufficient funding to maintain existing operations and address basic capital needs. Cuts in Federal funding could jeopardize this vital transportation service in Wisconsin.

The Intercity Passenger Rail Report released earlier this year by the American Association of State Highway and Transportation Officials (AASHTO) documents over \$17 billion in capital needs over the next six years for state-sponsored passenger rail improvements in all parts of the country. This national report highlights the Midwest Regional Rail Initiative, a nine-state plan for a 3,000-mile high-speed rail system hubbed in Chicago. In Wisconsin, this plan extends high-speed service from Milwaukee to Madison and the Twin Cities.

With improvements we have already made, I believe the Milwaukee-Chicago Corridor can serve as an anchor for future high-speed rail development in the Midwest. A high-speed extension of Amtrak's *Hiawatha Service* to Madison would be an effective demonstration of state-of-the-art passenger rail service. Preliminary engineering and environmental work has already been completed for this project and it is ready to go. However, we absolutely need a major Federal funding share to make this a reality.

A long-term Federal capital funding program is needed to advance intercity passenger rail service throughout the United States. Funding is needed for capital investments in new equipment and infrastructure improvements. These capital investments are needed for increased frequencies, speeds, and passenger amenities, as well as for improved schedule reliability in the face of heavy freight traffic.

Such a program must include a mechanism to insure that funding can be reliably provided over multiple years. Like other major transportation infrastructure projects, passenger rail corridor improvements can take several years and new equipment can take up to three years from order date to delivery.

States are willing to pay their fair share, but we believe the capital program should be modeled on the Federal highway and transit programs, which have statutory 80/20 federal/state cost shares. States have developed a great deal of experience in delivering major transportation infrastructure projects under existing Federal transportation programs and states should be responsible for passenger rail project selection and project management. Until the capital program investments for enhanced service are fully in place, the Federal Government should share the cost of operations with the states.

These concepts provide what I believe to be a basic framework for a new federal-state partnership to move America's passenger rail system into the 21st Century. Some of these concepts are reflected in S. 1501, the Administration's "Passenger Rail Investment Reform Act." While the S. 1501 recognizes that a national capital program is needed for infrastructure and equipment, there are a number of problems with the bill from Wisconsin's perspective.

First, S. 1501 turns over the financial responsibility for Amtrak's long distance service to the states. This is unacceptable and unworkable, given the interstate nature of long distance trains like the *Empire Builder*, which runs from Chicago through Wisconsin to the Pacific Northwest across eight states. These long distance trains provide connectivity between regional corridors and provide an integrated national network. They should remain a Federal responsibility. It is difficult to envision the formation of a compact made up of eight diverse states reaching from the Pacific Ocean, across the Rocky Mountains, the Great Plains, and into the heart of the Midwest. It was for such undertakings that our founding fathers originally envi-

sioned the need for a Federal Government. More pragmatically, the current fiscal condition of state governments across the country prevents even the consideration of such a concept.

Wisconsin DOT also has concerns about the capital program envisioned under the bill. A 50/50 federal/state grant share for capital funding is not consistent with other Federal capital programs for transportation. A level playing field is needed for the equitable development of all transportation modes.

Most importantly, the lack of a specific authorizing amount for the capital program in the bill suggests a lack of Administration commitment to fully fund the program. The bill is structured so as to require the passage of an annual appropriation for the program, which does not assure funding for multi-year projects. Witness the Amtrak appropriations process where historically appropriations have barely been 50 percent of authorized amounts. As I noted previously, AASHTO has identified \$17 billion in passenger rail capital needs over the next six years.

Finally, the bill assumes that the states will begin providing 50/50 capital cost share funding for equipment on all *existing* Amtrak operations. This includes long distance and state-supported services such as the *Hiawatha Service* in Wisconsin. Currently, this is solely a Federal responsibility. If this responsibility were to revert to the states, the cost implications could be significant. For example, the two train sets operated by Amtrak on the *Hiawatha Service* Chicago-Milwaukee corridor are in need of replacement at a cost that could run over \$20 million per set.

S. 1501 does recognize the important role of the states in the provision of transportation services in the United States. However, the federal/state partnership as envisioned by the Administration tilts the responsibility for passenger rail service too far in the state direction, given the fundamental interstate nature of intercity rail service. The bottom line from a public policy perspective is that since intercity passenger rail service is not that dissimilar from the interstate highway system, it should be funded using a similar federal/state funding model.

I appreciate this opportunity to share our views on this important national transportation issue. Wisconsin and other states throughout the country stand ready to continue this dialogue as we move together towards an enhanced national passenger rail system.

PREPARED STATEMENT OF HENRY HUNGERBEELER, DIRECTOR, MISSOURI
DEPARTMENT OF TRANSPORTATION (MoDOT)

We are encouraged the administration's bill encourages competitive bidding and recognizes the importance of a national capital investment program for infrastructure and equipment.

However, there are many concerns with the bill that make it less than optimal for Missouri.

First, the operating burden for the national passenger rail system is being placed on the states. The national passenger rail system provides national transportation utility. Missouri does not have the resources to participate in a state compact to operate and fund its national routes, specifically the Texas Eagle and the Southwest Chief, in addition to the state supported route between St. Louis and Kansas City. Missouri does not have a dedicated funding source for passenger rail, and from 1979 through June 2003 has provided \$67,900,005 from the state's general revenue to provide service between St. Louis and Kansas City.

The bill provides for only fifty percent Federal funding for equipment on existing routes; currently 100 percent of this cost is provided at the Federal level.

The bill provides for funding only half the capital cost for passenger routes. This is not consistent with the assistance provided to other modes of transportation.

There is no authorizing amount for the capital program, leaving states to question the actual commitment to passenger rail.

Missouri has experienced other very significant issues not directly related to capital and operating costs in providing passenger rail service. Trackage fees and access rights between Amtrak and the host railroad are not extended to other passenger rail providers. In addition, the bill does not address the freight railroad infrastructure needs. Another significant and costly item is providing insurance to the host railroad equivalent to the total indemnification currently provided by Amtrak.

Although Missouri is encouraged the administration is addressing the national passenger rail system, the importance of a national system and the necessary financial commitment for operating and capital costs are not recognized. We also believe other significant issues such as trackage fees and insurance should be addressed.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO
DAVID L. GUNN

FY 2004 Funding

Question 1. Mr. Gunn, you have been quite adamant about your request for a \$1.8 billion appropriation for Fiscal Year 2004. How would a \$900 million appropriation force a shut down if the repayment of your \$105 million government loan is again postponed and Amtrak has a \$200 million capital carryover?

Answer. Amtrak will require \$744M to support operations in FY04 and an additional \$126M for debt service payments not included in operations. At a \$900M appropriation level, that leaves only \$30M for capital investment. The Northeast Corridor infrastructure alone is not sustainable at that level. As the infrastructure deteriorates, the maintenance costs increase dramatically. This is exactly the position Amtrak finds itself in today. In addition, a significant portion of the mandatory maintenance required to run the fleet will be completed along with the capital overhaul program. If sufficient capital were not available to complete the overhauls, the maintenance would be still be required and would increase operational expenses well beyond the \$900M funding level. The infrastructure and equipment is old and in many instances verging on failure. It is only a matter of time, absent an adequate level of investment, before a failure occurs that will shut down some or all of the Northeast Corridor.

The capital carryover from the FY03 appropriation was \$108 million, not the \$200 million referred to above. The \$108 million carryover is obligated and projected to be spent by the end of December 2003.

FY 2003 Financial Results

Question 2. Mr. Gunn, you mentioned in your statement that Amtrak will report record ridership for Fiscal Year 2003 of nearly 24 million. With a subsidy of \$1.05 billion, that works out to a cost of \$43.75 for every passenger carried. If Congress were able to increase your appropriation next year to the level you have requested, how many additional passengers does Amtrak expect to gain?

Answer. Your question is a red herring. I have requested \$1.8 billion for Amtrak for Fiscal Year 2004 to prevent the imminent deterioration of the system to a point where Amtrak could no longer operate a safe and/or reliable service. As you know, the \$1.8 billion would begin to address the tremendous backlog of capital maintenance projects that has developed over the years primarily due to Congress's refusal to sufficiently invest in Amtrak as well as the fantasy of operational self-sufficiency that Congress required Amtrak to follow in its 1997 reauthorization. If Amtrak were to receive the funding that I have requested in our five year plan, we would return the railroad back to a state of good repair. I presume that more travelers would then choose to ride our trains because we would be able to provide a more reliable and efficient intercity passenger rail service.

Question 3. Again, you have stated that Amtrak will report record ridership for Fiscal Year 2003. But what happened to Acela ridership, our \$3 billion dollar investment? Through July (10 months of Amtrak's fiscal year), ridership was down 364,000 riders, and revenue was down 12.4 percent compared to the same period last year.

Answer. There are several factors that contributed to Acela's ridership downtrend in FY03 when compared to FY02. First and foremost, the poor economy—underscored by an unemployment rate of at least 6 percent for most of 2003 and the highest unemployment rate in nearly a decade—caused a 12 percent reduction in total travel (by all modes) in the northeast region versus the 2001 high water mark, and a 22 percent reduction in total business travel (by all modes) in the northeast region versus the 2001 business travel high water mark. Acela's ridership is nearly 90 percent business travel, and as such, sensitive to economic fluctuations. Despite these adverse market conditions, Acela ridership was only 8.6 percent below FY02. Consequently, Amtrak's air-rail market share (based on Jan-March 03 which is the most current quarter available) is 53 percent in the NY/DC market and 36 percent in the NY/Boston market vis-a-vis pre-Acela (1999/2000) Amtrak shares of 36 percent and 18 percent, respectively.

Secondly, continuing reliability issues around the Acela trainsets have also contributed to some FY03 ridership losses. Because of the unpredictability of the equipment, not only was Amtrak unable to run the full complement of service that was originally planned for FY03, but we actually ran 7 percent fewer departures in FY03 than in FY02 (Acela/Metroliners combined 10,898 FY03 departures vs 11,651 FY02 departures), most of which affected the NY/DC segment where demand is highest. Also, the equipment's performance contributed to Acela's FY03 OTP of 71 percent, a full eight point reduction from FY02's 79 percent. However, Acela's ridership

losses due to service/equipment issues were not all lost to Amtrak, as many of these trips diverted over to Regionals. As you noted from the monthly ridership and revenue reports sent to your committee, the Acela ridership loss through July was 364,000 riders. However, Regional ridership increased by 184,000 riders during the same time frame as many Amtrak customers shifted to the Regional trains that, in FY03, were punctuated by good reliable service, with many if not more departures than Acela, and less expensive fares.

And lastly, FY03 was characterized by several events-all external to Amtrak-which had negative consequences on all modes of domestic travel, including Acela: the war, the February blizzard in the northeast, the August power blackout, and September's Hurricane Isabel.

Question 4. Given that you expect Amtrak to report record ridership for Fiscal Year 2003, does that mean we can also expect another record for operating losses? Through July (10 months of Amtrak's fiscal year), Amtrak's loss was already over \$1 billion and was \$178 million *worse* than the same period last year.

Answer. Amtrak's preliminary net loss (net loss without adjustment for depreciation, OPEB's or state capital payments) for FY03 was \$1.2 B or \$113M worse than for FY02. As stated above, this was driven by the \$152M revenue shortfall resulting from the poor economy and from other events in FY03 external to Amtrak, which negatively impacted all modes of travel.

However, operating expenses were \$46M favorable to FY02 primarily due to staff reductions and reduced discretionary spending. This improvement would have been even greater if it were not for higher costs resulting from accounting treatment changes in FY03 for certain mechanical activities previously classified as capital expenditures.

Versus recent history, FY03 results were approximately \$3M better than FY01 results and \$34M better than plan.

Administration's Intercity Rail Plan

Question 5. You mention in your statement that your testimony reflects comments you shared with the Amtrak Board. Does your statement today represent the views of the Board or your personal views?

Answer. The statement that I offered represents my views on the Administration's proposed plan for Amtrak. I shared these views with my Board of Directors and they were aware that I would testify before your Committee on this subject. I do not know whether my views are shared by some or all of the remaining members of Amtrak's Board.

Question 5a. Once the new Board is put in place, will the views Amtrak presents on Capitol Hill be those of the Board (even if the Board strongly endorses the Administration's plan)?

Answer. If the new Board wishes to make its collective views known on Capitol Hill, the appropriate Amtrak representatives will present those views when and where it is appropriate to do so.

Question 5b. If the new Board should vote to initiate restructuring internally, including making changes to Amtrak's route structure, would you comply with the Board's actions?

Answer. If the Board, after review of all of the facts and information available, exercises its fiduciary responsibility to the Corporation and determines that a change to Amtrak's route structure is appropriate, the President and CEO, whoever that is, would be obliged to carry out those wishes. The Board is the governing body of Amtrak with full authority to make such decisions.

Question 6. Amtrak has been critical of privatization. But under Federal law (section 24301 of Title 49 of the U.S. Code) isn't Amtrak a "for-profit corporation" and "not a department, agency, or instrumentality of the United States Government"? What, then, does the Administration's plan privatize which you find so alarming?

Answer. Yes, you are correct in that Amtrak was created in 1971 to be a private corporation organized under the laws of the District of Columbia. My criticism of "privatization" relates not to the question of whether Amtrak is a government entity or private corporation, but rather to the questions of whether Amtrak or any other intercity passenger rail carrier can make a profit, in the traditional sense of the word private. Let me be clear about one thing: intercity rail service will never again be profitable in the traditional sense of the word. There will always be a need for subsidy. The decision then falls on who is that subsidy to be paid to.

Question 7. Why do you believe the plan would "radically alter the relationships between Amtrak and commuter authorities"?

Answer. I'm glad the question is asked. Transferring operational control of the Northeast Corridor from Amtrak to eight states that provide commuter rail services

over the Corridor (plus the District of Columbia) would be, in my view, a disaster. Since 1976, Federal policy has recognized that the important national interest in developing and maintaining high speed rail service between Washington and Boston would be best served if Amtrak, the operator of that service, was also responsible for operational control and maintenance of the Northeast Corridor. This arrangement has worked well for all parties. High speed rail service was firmly established and improved between Washington and New York, and more recently extended to Boston. At the same time, the number of commuter trains operating along the Northeast Corridor has more than doubled. To the best of my knowledge none of the states to who this control would migrate to, have endorsed this approach. In fact, most have ardently opposed such a change.

Today much of the Northeast Corridor is at capacity. If control of the Corridor, and primary responsibility for funding it, is effectively shifted from a single entity responsible to the Federal Government to local commuter authorities, those commuter authorities will (quite understandably) favor their own services, and local rather than national interests, when it comes to allocating peak hour capacity, determining priority of trains, and making decisions regarding infrastructure investments and maximum speeds.

Finally, the Administration's plan would not provide any funding to address urgent deferred maintenance needs until the third year following enactment, and there is no indication of what level of Federal funding would be provided to address these needs or future capital requirements.

Question 8. I understand that Amtrak told the Amtrak Reform Council several years ago that Amtrak would separate operations from infrastructure on an accounting basis so that Amtrak could better identify the costs relating to the Northeast Corridor. Why has this never been done? Are you willing to begin accounting separately for the Northeast Corridor infrastructure for the new fiscal year?

Answer. At ARC's request, Amtrak worked to develop a methodology to delineate operations from infrastructure. I understand that data was shared with the ARC at that time. Since then, the ARC has ceased to exist and management has changed at Amtrak. Since I have started at Amtrak we have made public information about the company's financing and internal structure well beyond what was provided before. Last year, Congress through the appropriations process required that Amtrak receive its funds from the FRA through a grant process, which we have done. This requires a significant amount of detailed reporting. I think the information about what we spend and where we spend it is clear and available.

Question 9. Does Amtrak have any restructuring plan of its own or does Amtrak simply plan to continue operating the same trains . . . over the same routes . . . with millions more in operating losses . . . forever?

Answer. Forever is a long time but during the past year and a half, Amtrak has:

- Undertaken a major management restructuring resulting in 2,400 less employees;
- Implemented major financial reforms that have taken the company from the verge of bankruptcy and recently enabled it, for the first time since 1995, to complete a fiscal year without borrowing or obtaining emergency funding to cover operating expenses;
- Developed a Strategic Plan that details the investments that are required to bring its infrastructure and equipment to a state of good repair; and
- Refined its long distance train operations (eliminating two trains) in connection with the rationalization of its mail and express business;
- Undertake a number of large maintenance projects designed to begin restoring a state of good repair on platform equipment.

Significant future changes to Amtrak's route structure would require:

- Policy direction from Congress through reauthorization; and
- Funding to cover the significant startup and/or shutdown costs of restructured routes.

Question 10. For some time, Amtrak insisted that it owned very few stations. I believe the number cited was less than 20. But when pressed, Amtrak finally provided the Committee a list showing that it still owns over 100 train stations. Wouldn't it make sense for station ownership, maintenance, and even the manning of the stations to be a local responsibility? After all, the airlines don't own and operate the airports.

Answer. Amtrak serves 519 stations, of which it owns 82 buildings or shelters. An additional 53 stations that Amtrak owns are exclusively served by commuter

trains and are leased to state DOT's, local transit agencies and others. Most of these are in Pennsylvania. The leases require that the local agency assume full responsibility for maintenance and improvements. Most of the station structures that Amtrak owns were conveyed to the company by predecessor railroads. Nonetheless, Amtrak supports the principle that stations should be locally owned and maintained, with the exception of large stations that incorporate office space or other support functions; that generate revenue through the lease of retail space to offset operating expenses, or that require skilled, safety-trained maintenance staff in some close-quartered, high traffic environments. An obstacle to the transfer of station buildings to local ownership is the lack of dedicated funding, similar to funding mechanisms in the airline industry, that could be used to as a source for state and local improvements to stations.

Question 11. In your view, could any of the long distance trains be converted to linked corridors that could attract more riders and lower operating losses along the lines of Mr. Mead's suggestion? For example, could the Texas Eagle be transformed into linked corridors between Chicago and St. Louis; St. Louis and Little Rock; Little Rock and Ft. Worth; and Ft. Worth and San Antonio?

Answer. Amtrak strongly supports the development of short distance corridors. Several of the current long-distance routes could, over time, form the basis for the development of connected corridors. However, as is demonstrated by the successful corridor development efforts in California and elsewhere, developing such corridors requires significant capital investment in freight railroad infrastructure, equipment, and equipment maintenance facilities, as well as funding for operating subsidies.

It is also important to note that converting long distance trains into short distance trains covering segments of the same route would serve only a small portion of the passengers who utilize those long distance trains, and therefore would increase operating losses. Most passengers on long distance trains are taking relatively long trips that are not confined to points within a single short distance corridor.

Ridership patterns on the Texas Eagle illustrate this. During FY2002, the Eagle carried an average of 246 passengers per trip. Of these passengers, 54 per trip took trips confined to the Chicago-St. Louis segment, an existing state-supported "corridor" on which Amtrak operates three round trips per day. However, on average, only 29 of the 192 passengers (15 percent) south of St. Louis took trips that both began and ended within one of the "corridors" suggested in the question. The other 85 percent took trips that crossed corridor boundaries. None of these "through" passengers, who provide the vast majority of the trains' revenues, would be served unless the four "linked corridor" trains connected with each other. However, such connections would require middle of the night arrivals and departures at corridor endpoints that would defeat efforts to develop additional short distance ridership.

Question 12. Could you provide the Committee a detailed explanation of Amtrak's potential labor protection exposure due to restructuring and the specific events that trigger labor protection. For example, when Amtrak cut the Kentucky Cardinal at Indianapolis, was any labor protection obligation incurred?

Answer. Predicting potential labor protection exposure is difficult in general, but in particular absent specifics on what future restructuring proposals might provide both with respect to service changes and employment opportunities for employees.

Amtrak has two (2) labor protection scenarios. The first is the arbitrated labor conditions which replaced Appendix C-2 pursuant to the terms of the Amtrak Reform and Accountability Act of 1997. The trigger in this labor protection is train or route discontinuance below "tri weekly" service. The second is labor protection for shopcraft employees who are adversely affected by a transfer of work across seniority districts or abolishment closure of shops.

Labor protection was triggered for employees associated with the Kentucky Cardinal, south of Indianapolis, when this route was discontinued. Three (3) employees were certified as protected and, since none lost employment, they are eligible to file for income loss only, if any, during their protection period. One employee has two years' protection; two have three years' protection. This is because the Kentucky Cardinal was a very small operation and its elimination had very little impact on our workforce.

Question 12a. Are all Amtrak union employees subject to labor protection, or are there some exceptions? Please be specific as to the employees involved, their number, and what different severance provisions may apply.

Answer. All agreement-covered employees are subject to the labor protection due to train or route discontinuance below "triweekly." As of the end of August, the number of employees so covered was almost 18,000.

Shopcraft employees working primarily in the maintenance of equipment function are subject to the transfer of work across seniority district lines (and abolishment/

closure of shop rule). As of the end of August, the number of employees so covered was 5,000.

Question 13. In a follow-up question from the full Committee's last hearing on Amtrak, I asked "If Amtrak is able to use its Federal subsidy to cover overhead, how can there be fair and open competition with the private sector?" Your response began with the statement that "The current statutory scheme is not intended to create 'fair and open competition' between Amtrak and private entities that wish to operate selected intercity passenger rail services currently operated by Amtrak". If other companies ready, willing, and able to operate intercity service, why should they not be able to compete with Amtrak on a fair and open basis?

Answer. As stated in the prior Amtrak response quoted in the question, a number of statutory changes would be required to create "fair and open competition" between Amtrak and other entities that wish to operate intercity rail passenger service, including:

- Making all such entities subject to Railroad Retirement taxes, as Amtrak is; and
- Giving these entities the same statutory access rights that Amtrak possesses to use tracks and facilities owned by freight railroads and regional transportation authorities.

Question 13a. Is Amtrak opposed to competition?

Answer. No.

Northeast Corridor High-Speed Rail Project

Question 14. What is the status of Amtrak's litigation with Bombardier and what progress has been made to settle the lawsuits through mediation?

Answer. After litigating issues relating to the proper forum for the case for the past two years, Amtrak is currently at the beginning of the litigation process with Bombardier. In addition, since May of 2003, the parties have been engaged in mediation in an effort to settle the disputes among the parties. A stay on litigation was agreed to by the parties to permit them to focus on settlement efforts. To date, no settlement or resolution of disputes has been reached though we continue to talk among the parties. The stay on litigation between the parties was set to expire on November 3, 2003 but was extended through to January 2, 2004.

Question 14a. What evidence can you provide that Amtrak is participating in mediation in good faith?

Answer. Due to a confidentiality arrangement between the parties, Amtrak is not permitted to disclose the details of the mediation sessions or to reveal or opine on the positions of the parties therein.

That said, I am confident that Amtrak has acted with the utmost of good faith. We have expended considerable time and resources and devoted effort at the highest levels within Amtrak to resolve the disputes between the parties.

Question 15. What is the current status of the Northeast High-Speed Rail Improvement Project and when, if at all, does Amtrak expect to meet the goals of this project (particularly the 3 hour trip time from Boston to New York City)?

Answer. All construction for the Northeast High-Speed Rail Improvement Project (NHRIP) on the Amtrak-owned portion of the Boston-to-New York line has been completed except for the following:

Boston-New Haven

- Replacement of Niantic Moveable Bridge (entire new structure)—In Amtrak 5-year Capital Program. Environmental documentation complete, RFP for design advertised.
- Replacement of Thames River Moveable Bridge (moveable bascule span being replaced with new vertical lift span)—In Amtrak Capital Program. Environmental documentation and design complete. Construction scheduled for summer 2004.
- Guilford (CT) Sidings-Tracks 3 and 4. Track 4 is under construction and scheduled for completion by December 2005. Construction of Track 3 has been deferred in accordance with our agreement with Connecticut Department of Transportation to alter Shore Line East commuter service patterns, making completion of the siding unnecessary at this time.
- Switch heaters for some industrial tracks. Amtrak has proposed an alternative method.

- Minor catenary installations, primarily on secondary tracks in the Boston commuter territory. Much of this work is planned for completion in coordination with other non NHRIP projects to minimize track outage related delays.
- Advanced Civil Speed Enforcement System (ACSES): All ground installations complete for Phase I. Coordinating final cut-overs for ACSES in commuter territories with completion of on-board equipment installations to commuter equipment. Phase II under development. The manufacturer is reviewing certain design elements found to be underperforming in Phase I prior to initiating Phase II installation.
- Shell Interlocking (New Rochelle, NY). Design complete and procurement underway. Estimated completion by 2008.

Hell Gate Line (New Rochelle, NY to Harold Interlocking in Queens, NY)

- Manor Interlocking-Construction scheduled for FY 2005.
- Catenary and Catenary Pole Replacements—Scheduled for completion by FY 2007
- Curve Modifications -Included in catenary replacement program
- Direct Track Fixation over Hell Gate Bridge—Scheduled for FY 2008

The 56-mile portion of the Boston-New York route between New Haven, CT and New Rochelle, NY is operated and controlled by Metro North Railroad. Amtrak is currently paying Metro North \$15–20 million per year towards the following projects:

- New Haven Station-All construction complete
- Stamford Station—Scheduled for completion December 2003
- Catenary (overhead wire) Replacement-Multiyear program underway
- Bridge Replacement Projects-Multiyear program underway.
- Curve Speed and Signal Improvements -Coordinated with catenary and bridge replacements

The work that remains to be done on Metro North is significant in terms of both scope and the funding required from both Metro North and Amtrak. Amtrak is unable to predict when Metro North will complete it.

Running Times

As part of the development of the high-speed service, Amtrak prepared a projected three hour Boston-to-New York schedule (two hours and 45 minutes trip time, plus 15 minutes of recovery time for en route delays) using a computer program known as a 'TPC' (Train Performance Calculator). The TPC was prepared based upon the planned NHRIP infrastructure improvements (including improvements on the Metro North portion of the route), four intermediate station stops, and the equipment performance specifications developed by Amtrak that bidders on the train set procurement were required to satisfy.

Current schedule times (approximately three hours and 25 minutes for trains making the planned four stops) do not achieve the three hour goal. The primary reason for this are (i) failure of the equipment to meet specifications, which is the subject of litigation between Amtrak and Bombardier, the equipment manufacturer, (ii) the projected infrastructure improvements times on the Metro North segment that have not been completed, and (iii) inadequate funding to complete certain of the infrastructure projects listed above on the Amtrak-owned portion of the route that would eliminate or reduce speed restrictions.

Completion of the remaining projects that impact speeds on the Amtrak-owned portion of the Boston-to-New York route will reduce running time by approximately three minutes. Completion of the remaining work on the Metro North segment will permit additional reductions in running time that have not yet been quantified or negotiated with Metro North. Because the high speed train sets do not meet specifications, achieving the three hour goal would require equipment modifications.

Question 16. Amtrak claimed that this project would provide \$180 million in net income to its bottom line and help the Corporation achieve operational self-sufficiency. What have been the actual financial results of this project?

Answer. In early 1998, Amtrak forecast the following results for FY 2001–2002's Northeast Corridor High Speed Rail versus 1997's existing Northeast Corridor:

- Gross incremental revenue of \$290 to \$300M
- Debt service of \$45 to \$55M
- Incremental operating expenses of \$50M

- Net incremental benefit of \$180 to \$200M

For FY2002 Amtrak's Northeast Corridor performance to these measures was:

- Gross incremental revenue of \$287M
- Debt service of \$34M
- Incremental operating expenses, utilizing the FRA definition, of \$37M
- Net incremental benefit of \$216M

Question 17. Amtrak claims it has recently adopted various "best practices" for managing future infrastructure projects. What best practices have been adopted and how will they improve project management?

Answer. For major construction programs performed by outside contractors, Amtrak uses the management model that was developed for the \$900 million Fire and Life Safety project in the six tunnels in New York. The business model incorporates normal best practices in the development and management of large scale construction projects.

The project scope is developed by the effected stakeholders including but are not limited to commuter agencies, Federal Railroad Administration, municipalities, and civil emergency response agencies. The program office estimates the cost of the project and develops a cost and resource loaded schedule. When approved, the project is submitted for design and the stakeholders review these designs. When design is final a project manager is assigned, risks are identified, a base line schedule developed and the budget is then finalized. The project manager is solely responsible for management of all contractors, the project scope, schedule and budget. The project manager reports project progress and performance utilizing DOT acceptable earned value methods and systems to the program office on a monthly basis. All budget variances are tracked and explained, along with areas of concerns being identified for resolution.

Professional construction management firms (CM) are employed for day-to-day project management. Their compensation varies with the results they achieve. They can earn no profit, if a project goes poorly, or double their standard profit, if a project goes very well. For the CM to double its profits, the total cash cost of the project including the CM fee must be substantially below the original cost estimate.

The Fire & Life Safety Program Office has direct oversight on all projects and is staffed with a program director, finance manager, project integration manager, contracting officer, document control officer and an independent auditor. This office reports monthly to all stakeholders on program performance, project performance and financial performance. This office maintains all construction and commercial documents and is responsible for stakeholder interface.

A separate report is available on the current financial and completion status of the F&LS program.

For projects performed by Amtrak forces, Amtrak has implemented a new planning and project management system for 2004. For the approximately 500 projects planned for 2004, the system consists of a clear scope of work, detailed cost estimates, a project schedule and monthly cash flow estimates. A project manager is responsible for the project from estimate to close out. Project monitoring consists of weekly reporting of physical progress and cost as well as a comparison of projected final cost vs. budget. Monthly reporting consists of the same reporting as weekly, plus explanations of cost and schedule variances and a review of schedule and projected cash flows. The combination of clear project scope, detailed estimates and weekly monitoring give Amtrak Engineering a strong control over in-house work.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO
KENNETH M. MEAD

Question 1. Mr. McCain. Mr. Mead, what did the Nation get for its \$8.4 billion investment in Amtrak over the past six years? Amtrak's ridership only increased 14 percent over this period and its operating losses soared.

Answer. Of the \$8.4 billion, \$6.2 billion came from the Federal Government and \$2.2 billion was secured through external borrowing. Operating expenses, including RRTA payments and debt principal, consumed \$3.8 billion of the Federal funds. The remaining \$2.4 billion, along with the \$2.2 billion in borrowing, was spent on capital investment in infrastructure and equipment. This investment enabled implementation of high speed rail service on the Northeast Corridor including electrification of the track from Boston, Massachusetts to New Haven, Connecticut, and acquisition of the Acela train sets and maintenance facilities. Other capital investment during this period included improvements in conventional services in the Pacific Northwest

and California and acquisition of two Talgo train sets being used in the Pacific Northwest. While unable to address its growing backlog of capital needs during this period, Amtrak did maintain a minimum reliability of service over the system.

Finally, between 1998 and 2003, Amtrak's cash operating loss increased by \$118 million, \$77 million of this came from increased interest expenses from the external borrowing of \$2.2 billion to supplement its capital investment.

Question 2. Mr. McCain. Mr. Mead, your statement notes that only 16 percent of Amtrak's passengers rode the long-distance trains in 2002, and that the long-distance trains accounted only for 30 percent of Amtrak's revenue. What percentage of Amtrak's operating loss is associated with the long-distance trains?

Answer. Based on the estimated 2003 fully allocated costs developed by the Federal Railroad Administration in coordination with Amtrak, approximately 76 percent of Amtrak's fully allocated operating loss (excluding depreciation and interest) is associated with the long-distance trains. However, two issues affect this percentage. First, the only service that shows an operating profit without state operating subsidies is the Acela/Metroliner service. If this profit is excluded and the calculation is made only on conventional service, long distance makes up 69 percent of the loss. (See attachment). Second, state contributions to the corridor services are included in the fully allocated loss calculations creating the impression that the cost of operating these services is actually less than it really is. Also, it should be noted that it is not likely that discontinuance of the long distance services would save an amount equal services would need to be borne by the remaining routes.

Question 3. Mr. McCain. Mr. Mead, you recommend against separating Amtrak's train operations nationally from the Northeast Corridor infrastructure. Is your concern that there needs to be centralized decision-making on the Corridor about operations and infrastructure, and if so, can't this be accomplished in a manner that would still allow for some degree of separation? Would your recommendation preclude subcontracting out maintenance, train operations, and other services?

Answer. We recommend that the Northeast Corridor be maintained as an integrated railroad. Operations in the rest of the country may be split off and operated separately. With regard to the Northeast Corridor, some or all operations could be subcontracted as the competition for such subcontracts may yield savings. The point, we believe, is that management of the infrastructure and operations on the Northeast Corridor be maintained in a single entity.

Question 4. Mr. McCain. Mr. Mead, help put into perspective the cost of the Administration's proposal to the states. How does the \$1.2 billion funding responsibility in the Administration's plan compare to what cities and states spend annually on transit?

Answer. Transit funding in 2001 (the most recent full year for which data are available) is broken down as follows:

FV 2001 Transit Funding
(\$ in millions)

Funding Source	Operating	Capital	Total
Passenger Fares and Other	\$9,319.5	\$0.0	\$9,319.5
Local Funds	7,393.3	4,345.1	11,738.4
State Funds	5,127.3	1,011.1	6,138.4
Federal Funds	231.7	6,354.0	6,585.7
<i>Total</i>	<i>\$21,528.8</i>	<i>\$11,710.2</i>	<i>\$33,239</i>

Source: 2001 National Transit Profile

Local and state sources provided nearly \$18 billion in funding for transit in 2001. Thus, the \$1.2 billion is less than 7 percent of the local and state funding for transit in 2001.

Question 5. Mr. Mead, what implications would restructuring some long-distance trains into corridor feeder services have for capital costs?

Answer. Restructuring some long-distance trains into corridor feeder services is likely to decrease capital costs for those services while capital costs for corridor services are likely to increase. Long-distance train capital costs will decrease as dining, baggage, and sleeper cars are retired rather than maintained and rebuilt. However, to realize the full potential of the corridor services, capital spending for infrastructure and rolling stock will likely need to increase to improve transit times and frequencies.

Question 6. Mr. McCain. Mr. Mead, in your statement, you suggest that some long-distance trains may need to be funded indefinitely because they are not conducive to being restructured as feeder service. My concern, in addition to the high operating losses on these trains, is that this approach would treat those trains differently and frankly more favorably. Can't we find a way to treat all the states and all of the trains the same way for purposes of cost-sharing?

Answer. Choosing to retain some of the long-distance services for national interests and fund them at the Federal level is clearly a policy decision that should be made in the context of reform and reauthorization. In my opinion, it is appropriate to ask states to directly contribute to services in which they can decide the frequency and amenities and that clearly serve their constituents. It does not, however, make sense to ask them to carry the entire burden or to fund a service over which they have little or no control and only minimally serves their constituents. If restructuring of some of the long-distance routes is successful (losses are reduced and ridership increases) and states see the benefits of focusing on corridor development, it is possible that restructuring other long-distance routes could be re-considered.

Question 7. Mr. McCain. Mr. Mead, I'm not sure I agree with your suggestion that the complexity and detail requirements for an application for capital funding should depend on the amount of funding being requested. Wouldn't this encourage states to segment major projects into small pieces that might understate the significance of the overall project and the larger project's total price tag?

Answer. We would not support such segmentation. We believe regulations could be written that prohibit such manipulation of the application process and that provide strong Federal oversight of it.

ATTACHMENT

Estimated Fully Allocated Contribution/(Loss) FY 2003

[\$ in millions]

Amtrak Route	Excludes Depreciation and Interest	Amtrak Route	Excludes Depreciation and Interest
(1)	(2)	(1)	(2)
<i>Corridor Routes</i>		<i>Long Distance (LD) Routes</i>	
1 Acela Express/Metroliner	\$69.7	1 Silver Star	(\$30.1)
2 Ethan Allen Express	(2.7)	2 Three Rivers	(33.9)
3 Acela Regionai/NEDNermonter	(50.0)	3 Cardinal	(12.8)
4 Twilight Shoreliner	(15.2)	4 Silver Meteor	(20.6)
5 Maple Leaf	(4.6)	5 Empire Builder	(45.4)
6 The Downeaster	(5.1)	6 Capitol Limited	(23.5)
7 Clocker Service	(6.3)	7 California Zephyr	(52.9)
8 Keystone Service	(17.9)	8 Southwest Chief	(68.3)
9 Empire Service	(35.3)	9 City of New Orleans	(17.7)
10 State House	(13.0)	10 Texas Eagle	(29.0)
11 Hiawathas	(11.0)	11 Sunset Limited	(34.5)
12 Wolverine	(17.6)	12 Coast Starlight	(37.6)
13 Lllini	(1.7)	13 Lake Shore Limited	(40.6)
14 Illinois Zephyr	(2.2)	14 Palmetto	(29.7)
15 Heartland Flyer	1.4	15 Crescent	(32.8)
16 Pacific Surfliner	(18.4)	16 Pennsylvanian	(24.9)
17 Cascades	(10.4)	17 Auto Train	(12.4)
18 Capitols	(6.3)	<i>Total Long-Distance Trains</i>	<i>(\$546.6)</i>
19 San Joaquins	(11.0)	LD % of Total	76%
20 Adirondack	(3.3)	LD % of Total Excl ACELA/Metroliner	69%
21 International	(2.1)		
22 Kentucky Cardinal	(7.5)		
23 Mules	(1.0)		
24 Pere Marquette	(1.4)		
25 Carolinian	(3.3)		
26 Piedmont	(0.5)		
<i>Total Corridor Trains</i>	<i>(\$176.5)</i>		

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN B. BREAUX TO
KENNETH M. MEAD

Mr. Breaux. Mr. Mead, the Administration's proposal shifts half of the capital costs and all of the operating costs to the states where passenger rail will be operated.

Question 1. Has your office conducted any studies or surveys to calculate what it will cost a state to maintain passenger rail in their state?

Answer. Each state will ultimately need to define the level of service it requires and then work with Amtrak or other operators to determine the cost of that service. To do this type of analysis at this point in time would require too many assumptions regarding the appropriate level of service and the costs. For these reasons, we have not performed such an analysis.

That having been said, the Federal Railroad Administration (FRA) worked with Amtrak earlier this year to estimate the fully allocated contribution/(loss) for each Amtrak route for Fiscal Year 2003.¹ Based on those fully allocated estimates, the shorter distance corridor trains were projected to lose a total of \$177 million excluding depreciation and interest and long distance trains were projected to lose a total of \$547 million excluding depreciation and interest. Although FRA did not report these costs on a state by state basis, the following table shows some examples of the fully allocated costs for corridor trains that operate within one or two states and those that operate over the Northeast Corridor.

Table 1.—FY 2003 Estimated Fully Allocated
Net Profit/(Loss)
Excluding Depreciation & Interest

State(s)/ Corridor	Train	(\$ in millions)
NEC	Acela	\$69.7
NEC	Regional	(50.0)
NEC	Clocker	(6.3)
CA	Capitols	(6.3)
CA	Pacific Surfliner	(18.4)
CA	San Joaquins	(11.0)
NC	Piedmont	(0.5)
IL/MI	Pere Marquette	(1.4)
OK/TX	Heartland Flyer	1.4
IL/WI	Hiawathas	(11.0)

A summary of FRA's projected FY 2003 fully allocated costs for all of Amtrak's trains is included as an attachment. We have not developed a mechanism to allocate the operating and capital costs of any of these services on a state-by-state basis.

Question 2. Mr. Breaux. Mr. Mead, how will states be able to judge whether it is feasible for them to join a multi-state compact or to commit to financing passenger rail within the state?

Answer. A state's determination of feasibility will be dependent upon what continuing service it wants, how much it can afford, and what benefits will be achieved. If the benefits outweigh the costs, the states will either fund the service themselves or join a multi-state compact.

Attachment

¹ These calculations were included as Appendix 1 in the Deputy Secretary of Transportation's, Michael Jackson, statement before the Commerce, Science, and Transportation Committee, U.S. Senate, April 29, 2003.

ATTACHMENT

Estimated Fully Allocated Contribution/(Loss) FY 2003

Excluding Depreciation and Interest (\$ in millions)

	Amtrak Route	FY 2003 Contr/(Loss)
	(1)	(2)
<i>Corridor</i>	1 Acela Express/Metroliner	\$69.7
	2 Ethan Allen Express	(2.7)
	3 Acela Regional/NED/Vermont	(50.0)
	4 Twilight Shoreliner	(15.2)
	5 Maple Leaf	(4.6)
	6 The Downeaster	(5.1)
	7 Clocker Service	(6.3)
	8 Keystone Service	(17.9)
	9 Empire Service	(35.3)
	10 State House	(13.0)
	11 Hiawathas	(11.0)
	12 Wolverine	(17.6)
	13 Illini	(1.7)
	14 Illinois Zephyr	(2.2)
	15 Heartland Flyer	1.4
	16 Pacific Surfliner	(18.4)
	17 Cascades	(10.4)
	18 Capitols	(6.3)
	19 San Joaquins	(11.0)
	20 Adirondack	(3.3)
	21 International	(2.1)
	22 Kentucky Cardinal	(7.5)
	23 Mules	(1.0)
	24 Pere Marquette	(1.4)
	25 Carolinian	(3.3)
	26 Piedmont	(0.5)
	<i>Total Corridor Trains</i>	<i>(\$176.5)</i>
<i>Long Distance</i>	1 Silver Star	(\$30.1)
	2 Three Rivers	(33.9)
	3 Cardinal	(12.8)
	4 Silver Meteor	(20.6)
	5 Empire Builder	(45.4)
	6 Capitol Limited	(23.5)
	7 California Zephyr	(52.9)
	8 Southwest Chief	(68.3)
	9 City of New Orleans	(17.7)
	10 Texas Eagle	(29.0)
	11 Sunset Limited	(34.5)
	12 Coast Starlight	(37.6)
	13 Lake Shore Limited	(40.6)
	14 Palmetto	(29.7)
	15 Crescent	(32.8)
	16 Pennsylvanian	(24.9)
	17 Auto Train	(12.4)
	<i>Total Long-Distance Trains</i>	<i>(\$546.6)</i>

WRITTEN QUESTIONS SUBMITTED BY HON. JOHN B. BREAUX TO
HON. ALLAN RUTTER

The Administration's proposal would require states to substantially increase their financial support of Amtrak. I suppose the logic is that those states that wish to have passenger rail service should have to pay for it. States are facing serious budgetary constraints as their tax bases erode in a soft economy and as the Federal Government provides less and less support for all sorts of public programs. In fact, the Alabama state legislature recently voted to reduce its funding by 18 percent, meaning that funds for school textbooks, for healthcare, and for police patrols will be substantially reduced. (*Washington Post*, "Alabama Lawmakers Cut Budget 18 percent," September 26, 2003). Alabama is not alone in this budget battle; Louisiana is also facing these difficulties.

Question 1. How does the Administration expect that states who are having to cut funds for things like health care, education, and police protection are going to find additional funds for passenger rail?

The Administration's proposal would necessitate the formation of state compacts to maintain passenger rail service along corridors that travel through the states in the compacts.

Question 2. What advantages are to be gained from having a passenger rail system that is comprised of several disparate rail corridors rather than one, consolidated national system?

Question 3. What happens in the formation of the state compacts when one state along the corridor refuses to join the compact? Wouldn't this system give some states the incentive to refuse to participate in a corridor compact simply to pressure its neighboring states into picking up the whole tab for the costs of operating a rail corridor that benefits all of the states on the corridor?

The witness did not respond.

WRITTEN QUESTIONS SUBMITTED BY HON. FRANK R. LAUTENBERG TO
HON. ALLAN RUTTER

Question 1. You sit on the Board of Amtrak and represent the Secretary of Transportation. Do you agree with the approach that Mr. Gunn is taking in terms of stabilizing the railroad? Or is there something you feel he could be doing better?

Question 2. Administrator Rutter, you are the Nation's top safety enforcer for our railroads. Is a \$900 million Federal appropriation for Fiscal Year 2004 adequate to address all of the safety defects cited by FRA inspectors? If not, which of Amtrak's operations/infrastructure will be most vulnerable to safety defects? How much does Amtrak need to spend on capital maintenance and improvements to ensure a safe railroad operation?

Question 3. I understand that the Administration has recently released the names of three people that it intends to nominate for the Amtrak Board. Were these individuals selected by the Administration for the purpose of sitting on the Board to oversee the dismantling and break-up of the carrier? Were they selected for their acceptance of the Administration's vision of Amtrak?

The witness did not respond.

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