



United States Government Accountability Office
Washington, DC 20548

January 18, 2007

The Honorable Mary Peters
Chairperson
National Surface Transportation Policy
and Revenue Study Commission

Subject: Intercity Passenger Rail: Highlights of GAO Report on Need for National Policy and Strategies to Maximize Public Benefits from Federal Expenditures

Dear Madam Chairperson:

The future of intercity passenger rail service in the United States has come to a critical juncture. The National Railroad Passenger Corporation (Amtrak) continues to rely heavily on federal subsidies—over \$1 billion annually in recent years—and operating losses have remained high. In addition, Amtrak will require billions of dollars to address deferred maintenance and achieve a “state of good repair.”¹ These needs for Amtrak come at a time when the nation faces long-term fiscal challenges. As we reported in February 2005, the federal government’s financial condition and long-term fiscal outlook present enormous challenges to the nation’s ability to respond to emerging forces reshaping American society, the United States’ place in the world, and the future role of the federal government.² Addressing the projected fiscal gaps will require policy makers to examine the affordability and sustainability of all existing programs, policies, functions, and activities throughout the federal budget.

Reexamining the federal role and expenditures on intercity passenger rail service will be particularly difficult because opinions differ about what this service should be. Some advocate a greatly expanded federal role and the expansion of intercity passenger rail to relieve growing congestion on highways and airways and (as energy prices increase) to provide more fuel-efficient transport; others believe the federal role should be scaled back, and that at least some federal operating subsidies should be eliminated. Specific proposals vary—while one proposal would keep Amtrak largely intact and provide more funding for capital and other improvements, another proposal would significantly restructure the management and accountability for intercity passenger rail with regional,

¹“State of good repair” is the outcome expected from the capital investment needed to restore Amtrak’s right-of-way (track, signals, and auxiliary structures), other infrastructure (e.g., stations), and equipment to a condition that requires only routine maintenance.

²GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-325SP](#) (Washington, D.C.: Feb. 2005).

state, and local entities making fundamental decisions about what intercity passenger rail services are justified and will receive public financial support. Amtrak itself has proposed a new vision for intercity passenger rail service that would include a greater role for states in planning and developing passenger rail corridors. The former acting president of Amtrak told us that, in his view, Amtrak itself is not a substitute for a national intercity passenger rail policy and that Congress needs to develop such a policy. One of the primary difficulties in reexamining the federal role and expenditures on intercity passenger rail service and developing a clear national intercity passenger rail policy will be reconciling the wide diversity of views about what this service should be and what it should achieve.

On November 13, 2006, we issued our most recent report on intercity passenger rail.³ The objectives of this report were to determine: (1) the characteristics of the current U.S. intercity passenger rail system and the potential benefits obtained from this system, (2) foreign experiences with passenger rail reform and observations for the United States, (3) how well the United States is positioned for reforming⁴ its intercity passenger rail system, (4) challenges the United States faces in overcoming obstacles to reform, and (5) potential options for the future of intercity passenger rail service. In general, we found that the current system is in poor financial condition and does not target federal funds to where they provide the greatest public benefits, such as transportation congestion relief. We also found that foreign experience with reform shows that the United States needs to consider three key elements in attempting any reform: (1) defining national policy goals, (2) defining the roles of government and other participants, and (3) establishing stable funding. The U.S. is currently not well positioned to address these reform elements and there are a number of challenges to be overcome in addressing the key reform elements, including the wide diversity of views in determining the overall goal for passenger rail in the United States and the federal role in achieving this goal. There are four primary options for the future federal role in intercity passenger rail. These are keeping the existing structure and funding of intercity passenger rail, making incremental changes within the existing structure, discontinuing the federal role in intercity passenger rail, and restructuring intercity passenger rail. Our report recommends that Congress consider restructuring the approach for providing intercity passenger rail service in the United States.

³GAO, *Intercity Passenger Rail: National Policy and Strategies Needed to Maximize Public Benefits from Federal Expenditures*, [GAO-07-15](#) (Washington, D.C.: Nov. 13, 2006).

⁴For purposes of this report, the word reform is intended to cover both incremental changes that might be made within the current structure of intercity passenger rail, as well as more significant changes that could be made, including wholesale restructuring in how intercity passenger rail service is provided.

In light of these findings, you asked us to testify before the National Surface Transportation Policy and Revenue Study Commission on January 17, 2007, about issues in our recent report. The enclosure is my presentation to the Commission. A copy of our November 13, 2006, report ([GAO-07-15](#)) can be found at www.gao.gov.

Sincerely yours,

A handwritten signature in black ink, reading "JayEtta Z. Hecker". The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

JayEtta Z. Hecker
Director, Physical Infrastructure Issues

Enclosure



Intercity Passenger Rail:

Highlights of GAO Report on Need for National Policy and Strategies to Maximize Public Benefits from Federal Expenditures

**National Surface Transportation
Policy and Revenue Study Commission
January 17, 2007**

**Statement of JayEtta Z. Hecker
Director, Physical Infrastructure Issues**

Overview

- Background: Long Term Fiscal Challenges
- Objectives
- Scope and Methodology
- Findings
- Options for Reform
- Conclusions



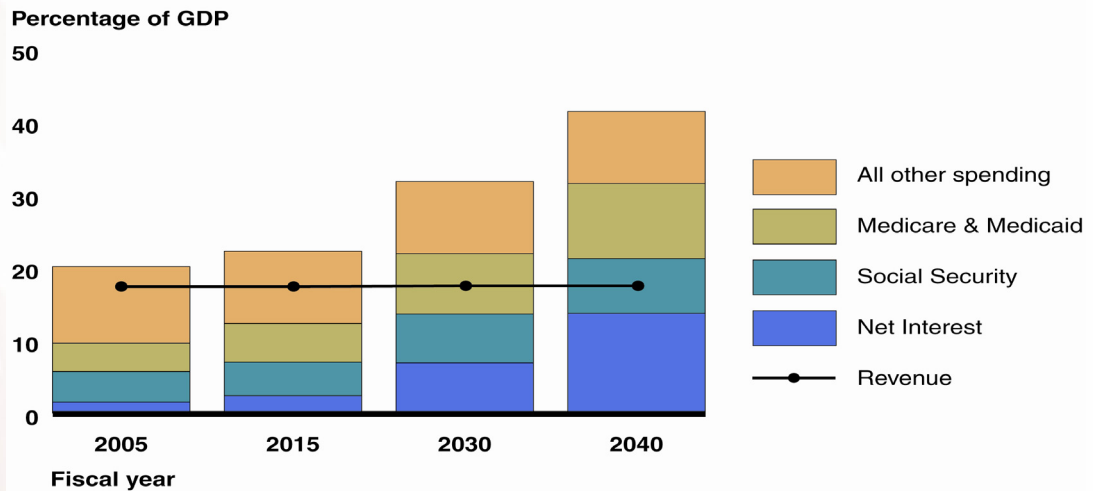
Background: Long Term Fiscal Challenges

- Imprudent and unsustainable fiscal path
 - Known demographic trends and rising health care costs
 - Unsustainable deficits and debt
-

Long Term Fiscal Challenges

Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2005 and All Expiring Tax Provisions are Extended



Source: GAO analysis (August 2006).



Reexamining the base

GAO's 21st Century Challenges report

A strategy for
reexamining the
base of government





Reexamining the base

Generic reexamination questions

Does the program...

1. have a **clear federal role** and mission?
 2. have **outcome-based performance** measures?
 3. **target** areas with the greatest needs and least capacity?
 4. **encourage** S/L governments and private sector to **invest their own resources**?
 5. employ the **best tools and approaches**?
 6. appear affordable and **sustainable in the long term**?
-

Objectives of IPR Review

- Identify the characteristics of the U.S. intercity passenger rail (IPR) system and the **potential benefits** provided by this system.
- Identify **foreign experiences** with passenger rail reform and lessons learned for the United States.
- Assess **how well the U.S. is positioned** to reform IPR service.
- Identify the **challenges** that must be addressed in any reform efforts.
- Identify **potential options** for the future federal role in IPR service.



Scope and Methodology

- Examined characteristics of current U.S. IPR system, including ridership and financial characteristics of Amtrak's routes.
- Collected and analyzed data on restructuring from Canada, France, Germany, Japan, and the United Kingdom
- Interviewed Amtrak, Federal Railroad Administration, state, rail labor unions, freight railroad officials, and others.
- Reviewed studies on passenger rail reform and consulted with international rail experts.

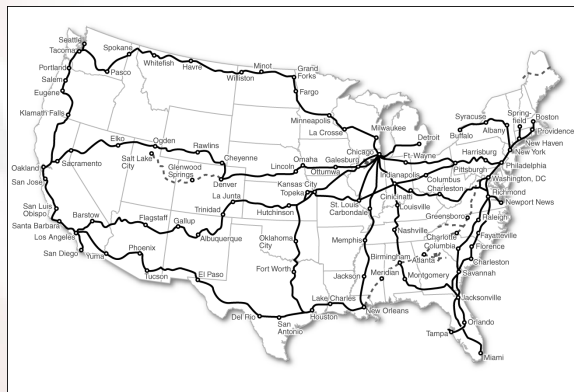


Findings: Characteristics and Value of Current IPR Structure

- Current structure remains in poor financial condition with deferred capital and maintenance projects.
- Amtrak route structure exists largely as it did when it began over 35 years ago.
- Federal resources are being devoted to areas of comparative disadvantage, such as long distance routes.
- Corridor services are a comparative strength and hold the most promise for financial viability and potential public benefits.

Amtrak Route Maps, 1971 and 2005

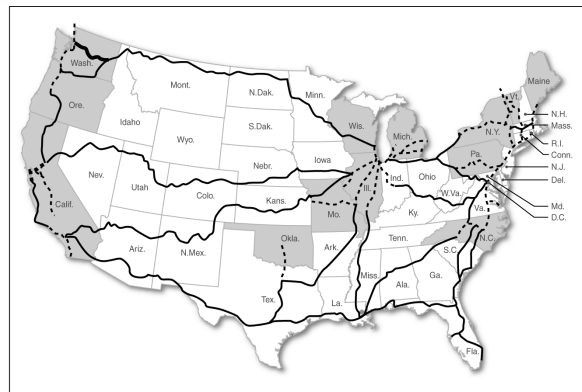
1971



— Amtrak service
- - - - - Non-Amtrak service

Sources: National Association of Rail Passengers; GAO; Corel (map).

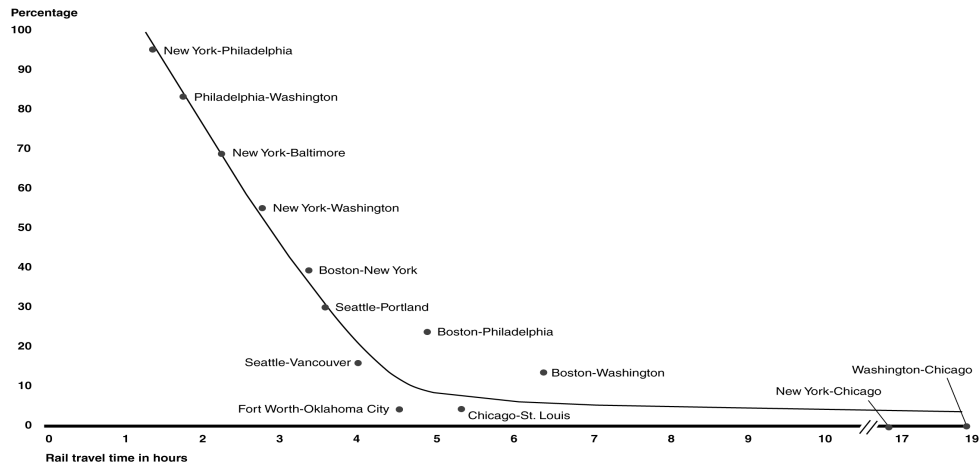
2005



— Long-distance service
- - - - - Corridor service (may also include long distance)
■ States currently providing financial support for Amtrak services

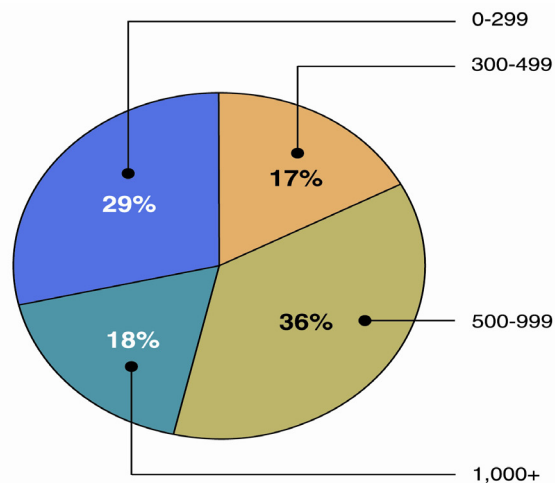
Source: GAO, Corel (map).

Amtrak's Market Share Compared to Air Services – Selected Origins and Destinations



Source: McKinsey & Company.

Trip Distance on Amtrak's Long Distance Routes, Fiscal Year 2005



Source: GAO analysis of Amtrak data.



Findings: Foreign Experiences

- **Foreign countries have employed a variety of approaches in reforming IPR, including:**
 - Shifting from service operator to service regulator or customer and, in some cases, devolving decision-making authority to local and regional governments.
 - Restructuring existing IPR organizational structure and introducing competition and privatization.
 - Changing the public funding structure.

Reform Approaches Used by Site Visit Countries

Approach	Canada	France	Germany	Japan	United Kingdom
Clearly establishing the roles and responsibilities of intercity passenger rail stakeholders					
• Shift from service operator to service regulator/oversight			✓	✓	✓
• Shift away from infrastructure manager, yet remaining full owner		✓	✓		
• Devolving decision-making authority to local and regional governments		✓	✓		
• Shift from service operator to customer	✓	✓	✓		✓
Changing the public funding structure used to support intercity passenger rail					
• Changes in government commitment to funding	✓	✓	✓	✓	✓
• Changes to infrastructure funding mechanisms		✓	✓		✓
• Changes to funding dissemination		✓	✓	✓	✓
Restructuring existing passenger rail organizational structure	✓	✓	✓	✓	✓
Introducing competition/privatization in intercity passenger rail operations			✓	✓	✓

Source: GAO analysis of foreign data.



Findings: Foreign Experiences

- **Foreign countries addressed key reform elements in implementing new approaches:**
 - Established clearly defined national policy goals.
 - Clearly defined government and stakeholder roles.
 - Established consistent; committed funding.
-



Findings: How Well U.S. is Positioned for Reform

- **U.S. not well positioned to reform IPR:**
 - Goals and expected outcomes of current passenger rail policy are ambiguous.
 - Stakeholder roles are unclear.
 - Funding difficulties due to other priorities or lack of consensus.
 - **Amtrak can and has taken action to reduce costs but is not positioned to address broader goals, roles, and funding issues.**
-

16



Findings: Challenges That Must be Addressed

- **Federal role:** What should it be? Federal government has policy and ownership interests
- **Federal-state partnerships:** Role of state participation/Use of financial leveraging/Mechanisms for interstate cooperation
- **Freight railroad issues:** Defining Infrastructure access and cost issues
- **Workforce issues:** Availability of expertise, flexibility and productivity of the workforce/Potential labor protection payments/Status of labor-management laws
- **Private sector issues:** Availability of private sector operators/Costs of private operators/Incentives needed for participation
- **Funding issues:** Availability of funds/Aligning decisionmaking with beneficiaries/Development of Incentives for stakeholder participation and cost sharing



Findings: Challenges That Must be Addressed

- **Response to IPR funding challenges are more complex than providing comparable funding to other transport modes:**
 - Other modes, like highways and airports, receive funds from explicit taxes and user fees.
 - Commitments made to some user-fee based transport modes (e.g., highways) is not sustainable.
 - The magnitude of federal funding for IPR needs to be based on the role IPR does (or could) play in national mobility relative to other transport modes and their public benefits.



Findings: Challenges That Must be Addressed

- **Issues associated with adopting a “user pays” principle:**
 - “User pays” concept would have the full range of system users (e.g., states, public) pay the costs to build and maintain the rail infrastructure.
 - If adopted, a better matching of fees paid to costs incurred by diverse users could provide incentives to make modal choices and select options based on true costs.
 - Amtrak is currently unable to define “true costs” of IPR service due to accounting practices and multiple information systems.



Options for Reform: Components for Defining Federal Involvement in IPR

Component	Description
Set national goals for the system	•establish what federal participation in the system is designed to accomplish •should be specific, measurable, achievable, and outcome-based.
Establishing and clearly defining stakeholder roles	•state and local governments •private participation •ensure that the federal role does not negatively affect the participation or transportation role of other stakeholders
Determine effective funding approaches	•federal funding for future projects involving intercity passenger rail service will require a high level of justification •cost sharing for investment in new infrastructure will maximize the impact of any federal expenditures and investment

Source: GAO analysis.

20



Options for Reform

- **Potential Options for Reform:**
 1. Keep existing structure and funding of IPR.
 2. Incremental changes within existing structure of IPR.
 3. Discontinue federal role in IPR.
 4. Restructure IPR.

Framework for Deciding the Future of Federal Involvement in Intercity Passenger Rail

Four main options	Keep existing structure and funding of intercity passenger rail	Incremental change within existing intercity passenger rail structure	Discontinue federal role in intercity passenger rail	Restructure intercity passenger rail system
Possible implementation of options	Current structure for intercity passenger rail is retained with no significant reform efforts or increase in federal support	Reform existing intercity passenger rail structure incrementally within current structure, with a possible cap on operational support	Exit strategy from intercity passenger rail should outline an orderly transition from federal role for rail, divest major portions of current system and devolve responsibility and support of intercity passenger rail service and the Northeast Corridor to state and local government and other stakeholders	Federal support of intercity passenger rail as more integral to national transportation system, using tools such as franchising, competition, matching funds, or privatization
Applying the three components of federal involvement	Goals: Keep current structure, service levels with no change in federal funding Roles: Existing roles would remain the same Funding: Same level of federal support appropriated annually	Goals: Federal involvement in intercity passenger rail could focus on improved performance Roles: Existing roles would remain the same Funding: Federal funds are used to incentivize improved performance	Goals: Elimination of the federal role Roles: States and local governments must contract with Amtrak or other providers for intercity passenger rail service Funding: Federal government will be responsible for some shutdown costs and face pressure to assume other shutdown costs (such as employee labor protection)	Goals: Restructure intercity passenger rail service to increase the realization of its transportation and public benefits Roles: Federal leadership secures a consensus with all stakeholders to support new vision for intercity passenger rail system Funding: Mechanisms that align intercity passenger rail benefits with costs to all stakeholders

Source: GAO.

Options for Reform

- **Each option has advantages, disadvantages, and challenges.**
 - **Status Quo:** Foregoes benefits from improving the system and could lead to deteriorating infrastructure and aging equipment that would increase costs.
 - **Incremental Change:** Does not address fundamental flaws in the system.
 - **Discontinue:** May reduce services; would require detailed planning; substantial federal expenditures
 - **Restructure:** Allows opportunities for increased transportation and public benefits.



Conclusions

- Long term fiscal challenges require **reexamination of base** of government
- Effective integration of IPR into the national transportation system and targeting federal support to assure performance, results, and accountability, calls for a **change to the current structure of and federal role in IPR.**
- Development of a national IPR policy should have:
 - (1) clearly defined **federal role**,
 - (2) **outcome-based** policy goals,
 - (3) financing that **stimulates investment** by others, and
 - (4) appropriate **accountability** mechanisms.
- The current IPR structure meets none of these goals.



Matter for Congressional Consideration (from November 13, 2006 report)

- Restructure the approach for the provision of IPR service in the United States.
 - Solicit input from all stakeholders, particularly the Department of Transportation (DOT) and the Federal Railroad Administration.
 - Consider the relationship between passenger and freight railroads and the national freight transportation policy being developed by DOT.
-



Intercity Passenger Rail:

Need for National Policy and Strategies to Maximize Public Benefits from Federal Expenditures

GAO-07-15

**Statement of JayEtta Z. Hecker
Director, Physical Infrastructure Issues
January 17, 2007**

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548