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OVERSIGHT HEARING ON AMTRAK

HEARING

BEFORE THE

SUBCOMMITTEE ON SURFACE TRANSPORTATION AND MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

FEBRUARY 23, 2000

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ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

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OVERSIGHT HEARING ON AMTRAK

WEDNESDAY, FEBRUARY 23, 2000

U.S. SENATE,
SUBCOMMITTEE ON SURFACE TRANSPORTATION AND MERCHANT MARINE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room SR–253, Russell Senate Office Building, Hon. Kay Bailey Hutchison, chairman of the subcommittee, presiding.

Staff members assigned to this hearing: Ann Begeman and Charlotte Casey, Republican professional staff; Carl Bentzel, Democratic counsel; and Debbie Hersman, Democratic professional staff.

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

Senator HUTCHISON. I am going to call the meeting to order.

We meet today on a very important purpose, to review the progress of Amtrak in meeting its goal of operational self-sufficiency by the end of 2002. This is the first hearing we have had on Amtrak's progress since passage of the Amtrak reform legislation in 1997 and since the first report of the Amtrak Reform Council, which was released on January 24 of this year.

Railroads have played a major part in the history of America, the vital link between the East and the West. Railroads are part of our past and I hope will be part of our future. In that regard, I believe Amtrak can and should be a vital part of our integrated transportation system in the future.

Amtrak serves 45 States. It operates over 22,000 route miles. In 1998 it served 21 million passengers. And if you include Amtrak's contract commuter services, it serves an additional 54 million passengers.

I am pleased to find that Amtrak is meeting its financial goals. In fact, they have exceeded their own business goals. In fiscal year 1999, Amtrak revenues reached a record $1.8 billion, a 7 percent increase over the previous year. In the first quarter of this year 2000, revenue increased 8 percent.

One note of personal pride in these results is the performance of the Texas Eagle. A few years ago, I worked with Amtrak and our State legislature to save this route from extinction. Ridership increased on this route 17 percent in the last quarter.

I think this is a tribute to Amtrak's renewal, essentially a shift in attitude from that of a government agency to a quasi-business entity. It is also a testimony to Amtrak's improved working relationships with States and localities.

This shift in attitude is also reflected in the private sector's view of Amtrak. Moody's has recently announced that it is upgrading the bond rating for Amtrak, based partly on the notion that Amtrak will indeed be operationally self-sufficient by 2003. Clearly, this is good news. But there are still concerns about Amtrak's path to self-sufficiency.

The GAO has raised concerns about Amtrak's glidepath to end Federal subsidies. They have reported that Amtrak needs to increase its progress by fivefold in order to meet the goal of no longer needing Federal operating funds.

A key component of this success is mail and express package contracts, which I hope you are going to address, Governor Thompson, in your testimony.

Concerns have also been raised by the Amtrak Reform Council about the accounting methods that Amtrak is using. First let me say that I appreciate what the reform council is doing. I met with you, of course, when you were meeting in Dallas. I believe you are a good reality check for Amtrak.

In order for Amtrak to succeed, we cannot delude ourselves with purely rosy scenarios. We must have critical analysis of Amtrak's performance.

ARC contends, for example, that while revenue is up, Amtrak's core business of intercity passenger rail performed marginally worse in 1999. Further, ARC raised questions about ridership. It suggests that despite a sustained economic expansion in this decade, Amtrak is serving approximately the same number of customers today as it was in 1990.

The Amtrak Reform Council has also suggested that Amtrak is wearing many hats, perhaps too many hats. It is everything from a passenger rail company to a real estate company to an equipment and manufacturing company. These are good questions that need to be answered, if Amtrak is truly to succeed.

Second, I want to address the accounting issue raised by the ARC report. I want to be clear. I do not think that Congress, in writing the Amtrak Reform Bill, envisioned that Amtrak, our national railroad, should be treated differently than other public transit agencies.

I believe Congress intended that Amtrak would continue to receive capital funds from the Federal Government. And I believe that covering the cost of depreciated assets should be part of capital funds, despite the Amtrak Reform Council's view that this is in conflict with generally accepted accounting principles.

I think the same can be said of progressive overhauls. Congress has explicitly allowed progressive overhauls to be part of capital funds since 1993. The committee report, Report 105–85, accompanying the reform legislation of 1997 states that the bill directs Amtrak to eliminate its need for Federal operating support by the end of the 5-year authorization.

Further, we have the statement of Congressman Chip Pickering of Mississippi. Speaking as a former staff member of this subcommittee, he states, "At no time during the legislative history was

Amtrak ever asked to present its operating needs in the manner defined in the ARC report."

Let us look at the practices that have been in effect before and after the bill. Since 1993, Amtrak has had explicit authority from the Congress to use capital funds for progressive overhauls. For 28 years, Amtrak has recorded the full value of depreciation as an operating expense, but this is a non-cash expense and is not funded as part of operating subsidies.

I think the intent of Congress is absolutely clear. And past practices and appropriations bills have been clear on this subject.

I am also told that Houston Metro, the rapid transit authority there, uses capital formula grants to make progressive repairs to its buses, such as engine replacements. They do this with the explicit approval of the Federal Transit Administration.

Further, I am told that 3 years ago, the Federal Transit Administration even broadened its rules to allow capital funds to be used to upgrade transit facilities. As for depreciation, Houston Metro uses its capital formula grants to purchase replacement assets for assets that have been depreciated.

I do not think we need this issue to be a distraction. I hope to clarify that operational self-sufficiency under the 1997 reform bill is just that, self-sufficiency for operating funds. But traditional capital funding will continue, and it will contain the components of depreciation and progressive overhauls. I do not think Amtrak should be held to a different standard than other transit service in America.

Let me conclude by saying that I hope all the parties at the witness table will continue to work together to make Amtrak succeed. My definition of success for Amtrak is that it is a national railroad that will provide opportunities for States and compacts and rapid transit agencies at a local level to all come in and feed off that national system.

An eastern corridor system is not a national system. A western corridor system is not a national system. It must be truly national for it to have the support of the Federal taxpayers. I believe that it will continue to benefit all Americans.

For rural areas, rail service, when combined with buses, is a vital link to the rest of the United States. For heavily congested urban corridors, rail service is clearly an answer to relieve the gridlock.

So I want to thank every one of you who are here today. All of you are key to the success of Amtrak. And I look forward to hearing your testimony.

And with that, I would like to call on my colleague, Senator Kerry from Massachusetts, if you would like to have an opening statement.

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

Senator KERRY. Thank you very much, Madame Chairwoman. I would like to make a few comments at the outset. First of all, I appreciate your holding this hearing. And I appreciate your leadership on this.

And I thank all of the members of the panel for coming here to share their thoughts and observations with us today.

This is an incredibly important subject for us. It is one that is really under-focused on and under-invested in, in my judgment, under-discussed in the context of the needs of our country.

One of the privileges of membership in the U.S. Senate, depending on which committee you are on, is to be able to see some parts of the world in the context of our responsibilities. And when you see Japan or France or Germany, Switzerland, other transportation systems, Great Britain, they put the world's technological economic leader to shame.

It is astonishing to me that some people in our country are still fighting the concept of this kind of transit being viable and important to our nation. It is just stunning to me. And it is even more frustrating and confusing when you measure what is happening on the roads all across America.

We are wasting more productivity hours, billions of dollars lost to people sitting in traffic jams, not to mention the fuel cost to a nation at a time when fuel is once again becoming a concern to our country, as it will, I say, increasingly over the next years, not to mention that exits on most highways in most parts of the country where we have seen technological revolution, whether it is Houston, Los Angeles, New York or Boston or Florida, many other places, you cannot move, folks. You cannot get from here to there.

And it is awfully hard to move products from here to there. We could be doing a much, much better job of planning and thinking about our overall national transportation needs and grid. And it is absolutely without question that whether we are smart to invest in it now or forced to do it in the future at a greater expense and with much greater difficulty, because of the problems of lack of rights of way and the difficulties of "not in my backyard" and all other things that we will then fight, we will face this question broadside in this country at some point in time.

Far be it better that we were smarter to do it now, when we still have that capacity, than do it later.

And it is such a simple question, Madame Chairwoman, of supply and demand and of marketing.

When people get on an airplane—now there is great hassle between airlines. How much leg room do you get, how quickly do you get there, how long does it take to get to the airport, how much time are you wasting with delays, how much time is there locked in at the gate and the ground holds, as we try to get our system up to par.

Well, with the Acela Express now coming on line, though not as fast as we would like for reasons of equipment, but in terms of the electrification, we have a ride that is under 4 hours from New York to Boston. And it has been our dream for years to press that down to 3 hours.

I guarantee you, when you get it down to 3 hours, you are going to see a lot less people trudging out to LaGuardia or to New York, to Logan, fighting the big dig and the other stresses of getting there. And they are going to jump right from mid-downtown city to mid-downtown city and do it in less time and probably in greater comfort, with cellular capacity, with all of the amenities in terms of the modern communications and data transmission, as well as food and so forth.

Now all of this leads me to want to underscore that if we do not invest sufficiently, if we do not make those rides worth riding, if we do not fulfill the promise in terms of the quality of service, we can have a self-fulfilling prophecy here. We can kill the railroad.

And those who say we do not really want or for some reason are not committed to it, we will reap the benefits of their dooms day prophecies because it will become inevitable.

On the other hand, we could decide that we want to be better than Japan or Germany or France or any other country and have a rail system that is second to nobody. That takes capital investment. No rail system operates without some kind of subsidy. Not one railroad on the planet operates without subsidy. And yet we are somehow adopting the principle without economic value that suggests that that is going to happen.

Now we all voted for it, because that was the only way to get some money into the system and make it happen. But let me just stress a couple of things, and I will be very quick.

When Congress passed the Amtrak Reform and Accountability Act, we did not require—and I want to confirm what the Chairwoman has said, that we did not require Amtrak to adhere to the generally accepted accounting principles for the measurement of operational self-sufficiency. We did not intend to. We did not try to. And that was not the effect of what we passed.

And I know I speak with some authority on this, as does the Chairwoman, because we were both deeply involved in the drafting and negotiating in 1995, 1996, and 1997. I opposed then, and I oppose now, as I have just said, the fundamental principle that underlies this, that you are going to have a first-rate railroad in this country with the kind of rail bed and rolling stock investment that we need, without some kind of assistance.

But that aside, it is wrong to hold Amtrak to a higher standard than any other passenger railroad in the world. And I do not agree, as a matter of policy, that Amtrak should be required now, after we reached a compromise, that we are now, in the absence of the legislative funding that we have said we were going to provide, going to change the rules in midstream.

For some reason, the Amtrak Reform Council wants to change the rules in a way that are adverse to the capacity of Amtrak to meet the very standards we aspire to meet. And that is not what I had in mind in 1997. It is not what I think the Chairwoman had in mind. It is not what the Congress had in mind. It is not supported by the legislative intent. And yet, that is what is sought here.

The fact is that never in the past has Amtrak proposed to change the funding of progressive overhauls or to begin to recover non-cash expenditures, such as depreciation, from operating revenues.

Amtrak has presented its business plans to us. It has always included progressive overhauls as a capital need. And likewise, the non-cash item of depreciation was absent in those presentations.

Never has Congress or the ARC responded by telling Amtrak its assumptions were wrong. And no one has ever told Amtrak until now that the rules were changing.

Congress was well aware of Amtrak's plans and intended to hold Amtrak to them, that Amtrak must achieve operational self-sufficiency. But it is simply wrong to change what we intended now 26 months later in a way that somehow makes the capacity to achieve that operational self-sufficiency impossible.

I am also concerned that Congress fails to live up to its commitment, which is critical to the capacity of Amtrak to even pretend to come close to meeting its goal.

Specifically, in 1997 we authorized $5.1 billion in capital for Amtrak. So far, we have only appropriated half that amount. And when you do not appropriate the amount of money to a business that it needs in business terms to take the best advantage of pricing, contracting, long-term planning, then you make it much tougher for any business to operate.

So in light of our failure to live up to our part of the bargain, I am frankly astonished that Amtrak has done as well as it has done. I look forward to the completion of the effort in the Northeast Corridor.

But I could not agree more strongly with the Chairwoman. The Northeast Corridor does not make a national railroad. We have significant other obligations on a national basis, which will hugely benefit the long-term interests of our nation. And it is long since time that we got about the business of delivering our part of that bargain.

Thank you very much, Madame Chairwoman.

Senator HUTCHISON. Thank you, Senator Kerry. I appreciate very much your remarks. I agree with you.

I just want to clarify one point. And that is, all of these transit agencies that do progressive overhauls as capital expenditures use GAAP financing—I mean, GAAP standards. The generally accepted accounting principles are used in all of their reporting.

But it has become well settled in our laws, in our appropriations processes, in our transit administrations, that you can use GAAP principles and still have progressive overhauls as a capital expenditure.

So I think it is very important that we settle this once and for all with our testimony and our discussion, because I do not think there needs to be any change to the law for this to be absolutely within Congressional intent and within the law that we have written.

So having said that, I would like to ask Senator Cleland if he had an opening statement.

STATEMENT OF HON. MAX CLELAND, U.S. SENATOR FROM GEORGIA

Senator CLELAND. Thank you very much, Madame Chairman.

Let me just say this is a pretty special day for me. I just want to congratulate our chairman, John McCain, on a wonderful showing in Arizona and Michigan. I am proud of him as our chairman. I am proud of him as a member of the Senate. I am proud of him especially as a fellow Vietnam veteran.

Senator KERRY. Is this another Democrat for McCain?

[Laughter.]

Senator CLELAND. For the McCain majority here.

Let me just say it is wonderful to welcome all of our members of our panel today, but especially Catherine Ross, Dr. Catherine Ross, who has taken over a marvelous position and an incredibly fine operation in Georgia, one that I think will be a pioneer effort in helping us in this country find our way out of the morass of urban sprawl and into the light of day of a balanced transportation system in America.

Just skipping ahead a little bit, excerpting from your testimony, Dr. Ross, you mention that "I am proud to tell you today that in-state passenger rail is getting back on rail in Georgia, and we expect to provide Georgia's intercity commuters a real choice in rail by 2003, about 30 years since the famed train, the 'Nancy Hanks,' linking Atlanta and Macon to Savannah, was decommissioned."

You say, "For too long, Atlanta literally buried its passenger railroads by building its downtown automobile viaducts and highways on top of its famous rail yards and relying solely on the automobile for surface transportation. Atlanta is still Terminus, its original namesake, only for passenger air travel. But we can no longer keep up with surging growth in Georgia by adding more concrete ribbons to our landscape. Our people want transportation choices that are convenient, reliable, affordable and that protect our quality of life. Soon, Atlanta and greater Georgia will be known for their 21st Century rail network. Following the creation of the Georgia Regional Transportation Authority last year, Georgia took a new look at its transportation needs for the 21st Century and saw a number of factors that could point toward a passenger rail revival."

I think that is what we are beginning to experience here in this country, and none too soon. I think we are beginning to see a renaissance of rail in this nation. The famed Iron Horse of the 21st Century can be a key to resolving two of our most challenging problems in the 21st Century: urban sprawl and gridlock.

For too many of our citizens, congestion is becoming a daily battle, not only on our highways but in our skies. In my own backyard, Atlanta has the very worst traffic congestion of any southern city. And commuters there drive an average of 34 miles a day, the longest commute in America.

And Atlanta's Hartsfield Airport, now the busiest airport in the world, is experiencing crippling delays. In fact, FAA data indicate that Hartsfield's passengers collectively experienced over 6.4 million minutes of delay between January and November of last year. 1.2 million of those minutes were mine. It seems that way.

[Laughter.]

Senator CLELAND. That computes to an astounding well over 4,000 days in lost time wandering around the Atlanta Airport.

As congestion and tempers continue to build, passenger rail more and more becomes a cost-effective option for transportation planners across the country. And after all, other nations more densely populated than ours have already recognized the potential of high-speed rail.

Taiwan, for example, plans to invest $13 billion in high-speed rail work. France has announced plans to invest $20 billion in its high-speed network. Japan and Germany have also made investments in high-speed rail a national priority.

Here in the United States, various States have taken the lead in promoting high-speed rail development, something I am sure Dr. Catherine Ross, Executive Director of the Georgia Regional Transportation Authority, will soon inform us of.

But I would just like to emphasize that the unfairness of the Federal Government holding States to high environmental standards on the one hand and then blocking those same States from spending Federal transportation funds on Amtrak, which would enable them to meet those high standards, I think is unfair.

I am co-sponsor with Senator Lautenberg of legislation to allow Amtrak to expand its bonding capacity by some $10 billion so you can expand the network of fast trains and our latest technology we use in this country to the Midwest and to the South, particularly into my home State of Georgia.

That is why I am such a strong supporter of this kind of legislation, S. 1144, which gives States the flexibility to spend Federal transportation funds on passenger rail, if they decide it is in their best interest to do so.

I would note that in addition to 35 Senate co-sponsors, the National Governors Association, the National League of Cities, the Council of State Governments, the U.S. Conference of Mayors, the National Council of State Legislatures, they have all come out in support of this legislation. I think it is a clear indication of how strongly States feel about the issue.

In conclusion, I would just like to say that as population density, congestion and air quality in parts of the United States begin to resemble those in other parts of the industrialized world, the advantages of passenger rail will become as apparent to U.S. planners as they already are to French, German, Japanese and Taiwanese transportation experts.

It is imperative for the Federal Government to play a leadership role in fostering the development of passenger rail. The future of our entire transportation system and, therefore, of our economic growth and development, depends on it.

Thank you very much, Madame Chairman.

[The prepared statement of Senator Cleland follows:]

PREPARED STATEMENT OF HON. MAX CLELAND, U.S. SENATOR FROM GEORGIA

Madame Chairman, I'm particularly happy to be here today because I believe we are about to experience a renaissance of rail in this nation. We all know that railroads were the dominant transportation force in the 19th century. Now in the 21st century, the "Iron Horse" can be key to resolving two of our most challenging transportation problems: sprawl and gridlock.

For far too many of our citizens, congestion is becoming a daily battle, not only on our highways, but in our skies. In my own backyard, Atlanta has the very worst traffic congestion of any Southern city, and commuters there drive an average of 34 miles a day. And Atlanta's Hartsfield Airport, now the busiest airport in the world, is experiencing crippling delays. In fact, FAA data indicate that Hartsfield's passengers collectively experienced over 6.4 million minutes of delay between January and November of last year. That computes to an astounding 4,470 days in lost time.

As congestion and tempers continue to build, passenger rail, more and more, becomes a cost-effective option for transportation planners across the country. After all, other nations, more densely populated than ours, have already recognized the potential of high speed rail. Taiwan, for example, plans to invest $13 billion in high speed rail work. France has announced plans to invest $20 billion in its high speed network. Japan and Germany have also made investment in high speed rail a national priority.

Here in the United States, various states have taken the lead in promoting high speed rail development—something that I'm sure Dr. Catherine Ross, Executive Director of the Georgia Regional Transportation Authority, will soon address. But I'd just like to emphasize the unfairness of the federal government holding states to high environmental standards, on the one hand, and then blocking those same states from spending federal transportation funds on Amtrak, which would enable them to meet those high standards. That's why I'm such a strong supporter of S. 1144, which gives states the flexibility to spend federal transportation funds on passenger rail if they decide it's in their best interest to do so.

I would note that in addition to 35 Senate co-sponsors, the National Governors' Association, the National League of Cities, the Council of State Governments, the U.S. Conference of Mayors, and the National Council of State Legislatures have all come out in support of S. 1144. I think this is a clear indication of how strongly states feel about this issue.

In conclusion, let me just emphasize that as the population density, congestion and air quality in parts of the U.S. begin to resemble those in other parts of the industrial world, the advantages of passenger rail will become as apparent to U.S. planners as they already are to French, German, Japanese, and Taiwanese experts. It is imperative for the federal government to play a leadership role in fostering the development of passenger rail. The future of our transportation system, and therefore of our economy, depends on far-sighted national statesmanship.

Senator HUTCHISON. Thank you, Senator Cleland. And I thank you for mentioning our Chairman's victories last night. I am certainly supporting Governor Bush, but I have the highest regard for our Chairman. And we all wish him well, of course.

And I also want to mention that he has encouraged us to have hearings to keep the Committee going. He is very much in touch with us. And I was very pleased to be able to have this hearing with his consent, because this is such an important issue.

So with that, I thank all of you for waiting. We have a terrific panel today. It is the group all sitting there that I think will be the difference between success and failure in Amtrak. And I hope we are all pulling in the same direction.

I would like to first call on the great Governor of Wisconsin, Governor Tommy Thompson, who is also Chairman of the Amtrak Reform Board. He is accompanied today by George Warrington, of course, the President of Amtrak, who I think is doing a terrific job, also.

And, Governor Thompson, I want to thank you for taking your valuable time to be chairman of this board. It was very important that we had a chairman who did want Amtrak to succeed and someone who had the experience that you have. And I very much appreciate your adding that to your many duties as Governor of your great State. Welcome.

STATEMENT OF HON. TOMMY THOMPSON, GOVERNOR OF WISCONSIN, CHAIRMAN OF THE AMTRAK REFORM BOARD; ACCOMPANIED BY GEORGE WARRINGTON, PRESIDENT, NATIONAL RAILROAD PASSENGER CORPORATION

Governor THOMPSON. Well, thank you very much, Madame Chair. It is a tremendous privilege and honor for me to be here.

And I first would like to thank you, Senator Kerry and Senator Cleland, for your wonderful statements. I could not agree with you more. And I thank you so very much for your passion, your enthusiasm for Amtrak. And I also want to thank you for holding this hearing.

I also would like to congratulate John McCain for his win yesterday.

And like you, Senator Hutchison, I support Governor Bush.

We have two great candidates, and I know we are going to win now that Senator Cleland has joined——

[Laughter.]

I am very enthusiastic, as you all know, I am passionate about Amtrak. I am proud of our people, our employees, our product, and especially our performance, and, yes, our promise. I am proud of the way we are becoming a more successful, a market-based, customer-focused enterprise. Why? Let us take a look at Amtrak.

The track record for 1999, total revenue reached an all-time high last year of $1.84 billion, which is a 7-percent increase over 1998. Ridership for the first time ever has increased for 3 consecutive years. It is up to 2 percent over last year, but 10 percent over the last 33 years, a 10-percent increase in ridership.

We exceeded our business plan—yet, we had the previous year—this time by over $8 million. As you know, the business plan targets represent our glidepath to operating self-sufficiency. For 2 years in a row we have met and surpassed our business plan. We have exceeded those goals.

Real estate and telecommunications ventures have returned a profit to Amtrak of $106 million, another record high. Mail and express, as you mentioned, Senator Hutchison, has increased $100 million, up 18 percent from the prior year. And there are many more financial accomplishments to herald.

But let us turn to some of the other issues. Business partnerships, this year we signed major agreements with BNSF, which is a freight railroad, UPS, Dynamex, Express Trak, the Post Office and Dobbs International Service. These partnerships alone will generate more than $20 million in new revenue annually and $28 million in long-term savings. So overall, it is a $48 million swing.

And there is also our very important State partnerships, which demonstrate to you, Congress, this country's hunger for more and higher speed intercity rail.

Capital investment partnerships with our States generated more than $300 million last year, Senator Kerry, another record.

In Oklahoma, after a 20-year absence, a national railroad system of passenger rail service, we introduced the Heartland Flyer going from Oklahoma City to Fort Worth, Senator Hutchison. For those of you who think that Amtrak is for densely populated corridors of the Northeast, think again. The Heartland Flyer carried nearly 27,000 passengers last year in its 6 months of operation. We exceeded our own projection by 30 percent.

The Texas Eagle, which we all are very happy about, saw a ridership growth of over 9 percent. In California, increased frequencies on the San Joaquins, as well as the Capitols corridors, resulted in a ridership increase of 18 percent. They carried more than half a million people last year.

New equipment and additional frequencies on the Cascades service in the Pacific Northwest resulted in a 12 percent ridership boost. On the Keystones in Pennsylvania, ridership increased by 18 percent to nearly 1 million customers.

We launched an Acela Regional on January 31 this year, reducing the travel time from Boston to New York by nearly 1 hour and one-half. The response has been absolutely tremendous. Ridership has grown by 25 to 35 percent since January on the Acela Regional.

New services that are poised to launch, Los Angeles to Las Vegas in the fall of 2000; Boston to Maine—Senator Olympia Snowe will be happy about that—in January 2001.

These are facts, just plain unvarnished facts. They show a dedication to running this company more like a business, as you, the Congress, has rightly demanded. They show a dedication to improving the bottom line, which is improving even faster than we had expected.

But most importantly, as you can see from the ridership increases, these increases are huge in the world of transportation. In the launch of new service, these performance indicators show a dedication to our core business, the business of providing a world-class intercity, passenger city rail system. And that in turn results in a better bottom line.

Another fact: This success is being recognized by those without biases and without enthusiasm, who have just an objective financial interest. It is being recognized on Wall Street, where both Moody's Investor Service, as well as Standards and Poors, have upgraded Amtrak's credit rating, something which would have been unheard of 2 years ago. And Moody's went as far as to state that it expects Amtrak to be operationally self-sufficient by 2003.

I know my friend, Mr. Gil Carmichael, who is sitting next to me, will say that the ARC has not made a finding. And he truly is my friend and someone I have a great respect for. I guess that is why I was disappointed personally in the Amtrak Reform Council's recent report on Amtrak.

I take issue with the ARC reporting that while America's intercity transportation system has expanded almost beyond recognition, Amtrak has simply managed to survive.

Though I do not disagree with their statistical analysis showing Amtrak losing two-tenths of 1 percent of the intercity travel market per year to the airlines, automobiles and buses, I do take issue with them never bothering to explain the way this happened. It is funding, pure and simple, as Senator Kerry said.

Funding for rail has declined 78 percent, 78 percent in comparison to funding for the other modes. But Amtrak has still managed to hold onto its market share. I think that is pretty darned impressive, though the Council's report indicates that they believe otherwise.

Simple economics says that if you do not spend the funding on increased capacity, how can you expect increased ridership? Take, for example, our experience in California, in the Northeast, where we put on new equipment and increased frequencies, thus adding capacity. Ridership has skyrocketed.

In America we have increased funding for the roads and the highways, thereby increasing highway and airport capacity, but we have ignored passenger rail. Last year, Amtrak received $571 million in support compared to approximately $30 billion in direct subsidies for the highways, $11 billion for aviation, $5 billion for mass transit. Yet the ARC never acknowledges this funding disparity.

The report also chose to ignore many of the economic benefits that intercity passenger rail service offers to the States. As I look around this hearing room, I recognize many States represented on this subcommittee which have uniquely benefited from our Amtrak service.

I know, Senator Hutchison, you can tell how mail and express service has significantly improved the economics of the Texas Eagle.

I know that Senator Burns can tell you that in Montana, Amtrak is often the only way to reach the highlands during the winter season.

In Maine, I am sure Senator Snowe can relate to you her State's excitement over soon-to-be introduced Boston-to-Portland service and the benefits it is going to bring to Maine's tourist industry.

I am sure Senator Cleland can tell you how Amtrak will help them in their efforts to bring cleaner air to Atlanta.

The Council's report, the argument about what constitutes operational self-sufficiency, I believe, is just plain wrong. I do not believe it is consistent with the Congressional intent by wrongly contending that progressive overhauls, the cost of depreciation be added to Amtrak's measure of operating self-sufficiency.

The ARC could affect Amtrak's private financing relationships, which I think is really sad. Everyone knows that adding those measures effectively dooms our chance at Amtrak to be self-sufficient. Who wants to invest in a company that is already doomed?

I have great respect for Gil. But I am here to testify in front of you today, and I want to tell you that we cannot reach the new target that was created by the ARC. By contending that the cost of depreciation and progressive overhauls be added to Amtrak's measure of operating self-sufficiency, the ARC has absolutely raised the bar too high.

So let us just touch on that issue very briefly. And I will conclude very quickly, Senator.

Amtrak has never, never in its 29-year existence, requested nor received Federal operating funds for the cost of depreciation, never. Adding this non-cash cost to the glidepath now, 26 months after the bill was enacted, makes it impossible, makes it absolutely impossible, for us at Amtrak to achieve our goal that we are currently on target to meet.

The ARC's other contention is that progressive overhauls be included in the paradigm of operating self-sufficiency. This is also unfounded. Since 1993, Congress has allowed Amtrak to fund progressive overhauls with capital funds. In 1997, the ARAA said nothing to the contrary.

Very simply, for the 5 years the whole issue of operational self-sufficiency for Amtrak was being debated, never, not once, was depreciation of progressive overhauls ever included; never.

And never did a committee or a Member of Congress direct us to do otherwise. The ARC's contention that we now add these two new costs to our operating glidepath is entirely inconsistent with what the Act says and with the legislative history and with Amtrak's past practice. I hope we can put that issue to rest today.

And I thank you for your testimony. I have run out of time, although I would like to fill you in on all the excitement, both inside and outside of Washington for intercity rail.

Twenty-seven Governors wrote to the President requesting full funding for Amtrak to the 2001 budget request. Thirty-five co-sponsors, Senator Cleland, along with you and many of you on this panel, are pushing for S. 1144, which seeks to cure an inequity that has existed since 1991 and would give States the rights to spend Federal funds on intercity rail if they decide it is the best transportation solution for the region.

Another 30 co-sponsors on S. 1900, the high-speed rail, the Investment Act that gives us the power and the opportunity to put the capital in high-speed trades, an innovative financing proposal which would provide significant funding for the development of high-speed rail corridors across the country. All of these things, Senator, leads me to the conclusion to go back to where I started.

Yes, Madame Chair, I am passionate. I am enthusiastic about this company's progress and, even more, its potential. In the 1997 Act, you gave us a mandate, to become operationally self-sufficient while preserving the national system of the highest quality. And all of you talked about that. And so far, we as a Board have lived up to that mandate. We believe that we have earned the right to your continued support.

I thank you, Madame Chair, for giving me this opportunity, the extra 2 minutes, to finish up. I thank you so very much for this opportunity. I thank you for holding this hearing. And yes, we will make you proud of the national railroad system, if we are given the opportunity and the flexibility to achieve it.

[The prepared statement of Governor Thompson follows:]

PREPARED STATEMENT OF TOMMY THOMPSON, GOVERNOR OF WISCONSIN, CHAIRMAN OF THE AMTRAK REFORM BOARD

Madam Chair and Members of the Subcommittee:

I deeply appreciate the opportunity to appear before this distinguished Subcommittee to talk about one of my favorite subjects—Amtrak. As I am the first to admit, when I was initially approached by the Speaker of the House to serve on the Amtrak Reform Board, I thought long and hard before accepting. I knew that Amtrak was in what the General Accounting Office (GAO) and the Inspector General of the Department of Transportation (DOT IG) called a "precarious financial condition," and it is not my habit to tilt at windmills. At the same time, I also knew that Congress and the country wanted a thriving national passenger rail system, and I certainly was aware of the fact that my own state depends on Amtrak for jobs, for transportation, and for economic development. In the end, of course, I accepted the White House's offer, and now, 17 months into my chairmanship, I can confidently say that signing on board Amtrak was one of the best decisions I've ever made.

I'm enthusiastic about Amtrak. I'm enthusiastic about our people, our product, our performance and our promise. I'm proud of the way we're becoming a successful, market-based, customer-focused enterprise.

Unfortunately, people sometimes mistake genuine enthusiasm for glib salesmanship or cynical spin doctoring. In my own case, for example, I've been accused of presenting a "rosy picture" of Amtrak because I'm such an enthusiast. The implication of that criticism is that if I'd just stick to the facts, and leave my enthusiasm out of it, Amtrak's prospects would not be nearly as impressive as I've made them out to be.

Very well, then. Let me just stick to the facts. The plain, unvarnished facts—on Amtrak's track-record for 1999.

I'll start with overall performance. FY 1999 was a record-setting year for Amtrak. The corporation's total revenue reached an all-time high of $1.84 billion, a 7 percent increase from the previous year. Revenue growth has helped Amtrak exceed the bottom-line target set in the corporation's business plan for the second consecutive year—this year by $8 million—keeping Amtrak on course to achieve operational self-sufficiency by 2003. And, for the first time ever, Amtrak's ridership has increased for three consecutive years, due to growing demand. Total ridership exceeded 21 million in 1999, up 2 percent from last year and 10 percent since it began rebounding three years ago.

There are other factual accomplishments for FY 1999, as well:

- Capital investment partnerships with states garnered a record $300 million. In partnership with cities, Amtrak refurbished or renovated ten stations nationwide, began a $53 million expansion and reconstruction of the Seattle King Street Station, dedicated a $19 million locomotive maintenance facility in Los Angeles and broke ground on a $14 million service and inspection facility for passenger cars.
- To improve its bottom line, Amtrak entered into business partnerships with Dobbs International Services, Burlington Northern Santa Fe, United Parcel Service, the United States Postal Service, ExpressTrak, and Dynamex. These partnerships are expected to generate more than $20 million in additional annual revenue and $28 million in long-term savings.
- The corporation's real estate and telecommunications ventures returned profits of $106 million, a record high.
- The mail and express business, which involves the transportation of time-sensitive shipments, produced $98 million in revenue for FY 1999, up 18 percent from FY 1998.
- Based on its "expectation that operational self-sufficiency will be achieved," Moody's Investor Service improved Amtrak's credit rating to A3, reflecting a stable outlook. Standard and Poor's publicly assigned Amtrak a triple "B" issuer rating.
- In the area of customer service, Amtrak trained 16,500 employees to begin implementation of the American travel industry's first-ever service guarantee.

And we're growing. In 1999, we reintroduced the Oklahoma to Fort Worth Heartland Flyer, which exceeded our ridership projections by more than 30 percent, carrying nearly 27,000 passengers last year, proving again that intercity passenger rail isn't only for the densely populated Northeast Corridor.

- In Texas, with your help Senator Hutchison, a local marketing effort and mail/express business on the Texas Eagle has contributed to passenger revenue growth of over 20 percent.
- In California, Amtrak increased the number of round trips on the San Joaquins and Capitols corridors. The result was the highest ridership ever for the Capitols—up 18 percent, to 540,000.
- In the Pacific Northwest, Amtrak introduced new equipment and added frequencies on the Cascades service, resulting in a 12 percent ridership boost.
- In the Northeast Corridor, Amtrak set the third consecutive ridership record for Metroliners, with over 2.2 million passengers in FY 1999.
- In Pennsylvania, Amtrak attained the greatest ridership increase ever on the Keystone Corridor—18 percent—for a total of nearly one million customers.
- In Maine, Amtrak began preparations for the Boston-Portland service.
- Finally, Amtrak secured funding commitments from the private and public sectors to initiate rail service between Los Angeles and Las Vegas by fall 2000.
- Those are the facts, unvarnished.

Let me turn now to one of Amtrak's most urgent priorities, developing new, high-speed rail corridors across the nation. Corridor development so far has been state-driven, and in early 1999 Amtrak created a new High Speed Rail Department to help lead efforts in 36 states, by working closely with these states in the planning, construction, equipment acquisition, and implementation of high-speed rail projects.

Of course, the most imminent of these efforts is in the Northeast. In 1999, Amtrak completed the electrification of the Northeast Corridor, a 156-mile section between New Haven and Boston. This made possible the first step in the high-speed rail program—the launch of Acela Regional on January 31, 2000. Featuring all-electric service and refurbished equipment, Acela Regional trains reduced the journey between Boston and New York by as much as an hour and a half. The response has been tremendous. Compared to the former Northeast Direct trains, ridership has grown 25 to 35 percent on the Regional trains to date.

All this activity has generated significant support for Amtrak all across the country. Let me give you some examples:

- Over half of my colleagues, 27 governors from across the nation, and both political parties urged President Clinton to fund Amtrak at the authorized level of $989 million in FY 2001.
- The National Conference of State Legislatures also urged President Clinton to fund Amtrak at the authorized level, as did 15 Members of the Congressional

Black Caucus, the AFL–CIO's Transportation and Trades Department, and a bipartisan group of 26 of your Senate colleagues, including some of you. More than one quarter of the Senate wrote to the President saying we want to see Amtrak succeed and grow. And I'm proud to say that the President's FY 2001 budget submission to Congress responded to the call to action.

- For the first time in the three annual budget requests that have occurred subsequent to the passage of the ARAA, the President has, for the first time, requested the level of funding for Amtrak authorized by law. Let's not forget—the whole operating self-sufficiency test was predicated, among other things, on Amtrak receiving the authorized levels of capital funding contained in the bill. To date, Congress has provided about 50 percent of the authorized amount.
- In addition, the National Governors' Association, the U.S. Conference of Mayors, the National League of Cities, the Council of State Governments, and the National Council of State Legislatures have joined 35 Senate cosponsors, including EPW Chairman Smith, Subcommittee Chairman Voinovich, this Subcommittee's Chair, Senator Hutchison, and our distinguished Majority Leader, in support of S. 1144, the bill that would grant states the long-awaited flexibility to spend federal transportation dollars on passenger rail.
- 29 Senators are also co-sponsoring S. 1900. The bill, introduced by Senator Frank Lautenberg of New Jersey, would amend the Internal Revenue Code of 1986 to allow a credit to holders of qualified bonds issued by Amtrak and gives Amtrak the authority to sell $10 billion in high-speed rail bonds over the next 10 years.

I could go on—but I hope I've already made my point. If I'm enthusiastic about Amtrak, it's not because I'm painting some sort of rosy scenario. It's because we are keeping our commitment to Congress and the American people to run Amtrak like a business and to achieve solid financial improvement. And many others, including many of you, are as enthusiastic about the growth of passenger rail as I am, as evidenced by your support for these legislative and funding initiatives.

Of course, 1999 had its disappointments as well as triumphs. No one is more anxious than I am to put the Acela Express trains into service. Because of the success Acela Regional is enjoying, I'm sure Acela Express will surpass our expectations. But I would remind everyone that high-speed trainsets in the Northeast are a new technology, and we owe it to the American people to see to it that this new technology meets our high standards. Only when it has done so will we announce a starting date for Acela Express. That is our responsibility, and we intend to live up to it.

Talking about responsibility, I would be remiss if I did not address one of the other issues that brings us here today. Sitting by my good friend Gil Carmichael, Chair of the Amtrak Reform Council (ARC) and Ken Mead, Inspector General (IG) for the U.S. Department of Transportation, I want to publicly thank them both for the attention they have devoted to Amtrak over the last 18 months. Both the IG and the ARC have offered new perspective and valuable insight. We welcome their advice on how to succeed and have incorporated some of their recommendations into our Strategic Business Plan. Ken helped us think through some critical financial issues and decisions this year, and we have the utmost respect for his advice and counsel. Gil has also offered some valuable recommendations, particularly in the area of mail and express—a line of commercial business that I think we all recognize as a critical element to our financial success. But we also differ on some issues, and one of them is the very core of all that we do.

We were given a mandate by Congress to achieve operating self-sufficiency by FY 2003. When the new Board first met, that challenge—adherence to the "glidepath" and attainment of operating self-sufficiency—was the first issue we discussed. It is of paramount importance. It is the foundation on which all our business decisions rest. And never, ever was there any ambiguity attached to what Congress meant. It meant we had to become independent of the federal operating support and begin fiscal year 2003 without requesting one dime from the federal government for our operations, with the exception of excess mandatory railroad retirement costs.

More than two years after the law was passed, and sixteen months after I became Chairman of the Board, a new definition has been proposed by the Council. I am not going to go into the legal explanation—we have already laid that out in our response to the ARC's report, which they graciously included in the Executive Summary. And I am sympathetic to Mr. Carmichael's dilemma—he has told me that this new definition is the result of his lawyer's analysis of the law, and absent any clear Congressional intent, he cannot reach another conclusion. It is my hope that you who are sitting behind the dais, who wrote this bill and voted for its passage, will today clear up for the Chairman of the ARC any concerns he may have, and restate the Congressional intent. It was made clear in five years of business plans, five years of testimony, and five years of annual reports. But it would be helpful to hear it from the Subcommittee again today. The glidepath never included depreciation, which is a non-cash cost, and progressive overhauls, which are funded with capital. Consequently, operational self-sufficiency never encompassed either of these accounting principles either. And clearly the law does not say otherwise.

I can assure the distinguished Members of this Subcommittee that we are well on our way toward achieving operational self-sufficiency by 2003, and I think I have given you some of the facts that back up that statement. Yes, there have been obstacles in the track—and no doubt there will be more. And there are also those who will criticize our every move, and do everything in their power to make sure that the predictions they've been making these past 29 years about our inevitable demise come true. The bottom line, however, is this: Congress and the American people gave us a mandate in 1997. So far, we have lived up to that mandate. We believe we have earned the right to your continued support.

Thank you, Madam Chair. I stand ready to answer any questions you may have.

Senator HUTCHISON. Thank you, Governor Thompson.

Mr. Gil Carmichael was chosen to chair the Amtrak Reform Council. We very much appreciate your willingness to do that. And Mr. Carmichael was the former Federal rail administrator, so he does have a lot of rail experience.

And we appreciate what you are doing and look forward to talking to you further. Mr. Carmichael.

STATEMENT OF GILBERT E. CARMICHAEL, CHAIRMAN, AMTRAK REFORM COUNCIL

Mr. CARMICHAEL. Thank you, Madame Chair.

Governor Thompson and I served on the Amtrak Board together for 4 years. And I think he knows this about me, that I am a strong believer in a national rail passenger system. And I have been elected twice by my Council with the understanding that I was pushing for a healthy, successful Amtrak and a national rail passenger system. I would just like to set that straight.

If there is anybody that I would classify as a major proponent of Amtrak and the national rail passenger system, I would so classify myself.

I am going to try to summarize this testimony we have for you. And, as I listened to the Senators speak and listen to Tommy speak, I will do my best to kind of blend it together.

First off, the Act created the Council, the Amtrak Reform Council. And so our life is inside that Act, and our mission is inside that Act. And as Chairman, and all my members, the ten other members of the Amtrak Council, know where I am coming from.

There are some on there that would just as soon see Amtrak shut down. But the Amtrak Council is working as a team. And I think I can literally speak for them and their desire to help Amtrak be successful.

Our mission is straightforward. It comes straight out of the law. We want to improve rail passenger service in America, and we want Amtrak to succeed. And we will—as a Council, you have told us in creating us, that you wanted us to—make constructive recommendations of how to help Amtrak reach its mission.

So the Council is not a trigger-happy group. And we are not focusing on a finding, on making a finding. If we were, we would not be so concerned that Amtrak have sufficient capital to be successful over the long term. That is why we are so concerned with the standard by which Amtrak is measured.

Now this standard is in the law. The statute mentions no standard other than GAAP. As we read the law and as my attorney, our chief counsel, reads the law to us, he cannot find any other standard to use except GAAP. And when you look at GAAP, it says depreciation and progressive overhauls are expenses. That is just a standard corporate GAAP interpretation.

It requires that a company be able to fund its basic operating expenses, including the replacement of capital used in its annual operation, called depreciation. You start with a new locomotive. You wear the locomotive out. You set up depreciation to replace the locomotive.

Depreciation is a non-cash expense in the sense that it does not have to be paid immediately. But ultimately, the equipment, the worn-out equipment, is consumed and must be replaced. Thus, Amtrak's operating expenses, including depreciation, have to be fully funded.

Now, we have no argument. If Amtrak cannot produce the revenues to replace the locomotive, then the Federal grant funds have to be used to replace the locomotive. We are not arguing that. It [Amtrak] just cannot fund that under the law, as it is written.

Amtrak chairman and president Graham Claytor in 1992 addressing this same Committee, I think, said any company that does not put in the capital to more than match its depreciation is slowly liquidating itself. Our concern about this issue is, the way the law is written, we have no other way to go except to show and to demonstrate what the depreciation is and what the operating costs are. We need guidance here.

The single exception to GAAP that the law that created us recognizes is for Federal funds provided to reimburse Amtrak for the excess mandatory railroad retirement taxes.

Amtrak has so many employees in the railroad industry that they get an unnatural amount of the burden of railroad retirement. And I personally am in agreement that excess railroad retirement should not be a burden on Amtrak. And the Reform Act recognizes that and sets it up that way.

All right. Amtrak—as we listened to Tommy speaking for the corporation—maintains that Congress has determined that Amtrak does not have to cover its depreciation as it is a non-cash cost that historically has not been funded by Federal grants. We have no argument with that. But we cannot find it in the law, and so we cannot interpret it that way.

That Federal grants are necessary to provide funding for Amtrak's capital expenses, we agree with that. If they do not have the revenue stream to do it, then if the government wants Amtrak to stay in business, they have to fund it; and that Amtrak should have the flexibility to use capital funds for equipment maintenance, based on recent practices documented in the language of the Appropriation Committee reports.

The financial implications: The chart on page five of my testimony shows that if Amtrak's operations are to be fully funded, if we are to apply GAAP to it, $752 million would have to be appropriated in 2002 to cover the operating cost, including $185 million for the excess mandatory railroad retirement tax. If forced to use the GAAP, we are going to have to keep saying that figure.

The Council brings this to your attention because we want Amtrak to be funded as a going concern, not one that is burning up its assets.

What we are saying is, to do that, the Congress must provide for these costs to be covered. Congress has to come up with the $752 million, because Amtrak cannot come up with it.

The remedy: So the remedy to us today, the resolution of this issue is up to Congress, which is why the Council is raising the issue at its earliest possible opportunity.

I am very happy we have this hearing so I can show you this dilemma and say: Please give us guidance and give us an answer on how to do it. The clearest guidance, if the standard is not GAAP, would be to amend the law, identifying any operating expense Amtrak does not have to cover from operating revenues.

Progressive overhauls and depreciation: If Congress says that, we have no problem moving on with that and no disagreement with that, then authorizing an appropriation for necessary capital funds to cover these costs.

So what we are asking for is: Please define this and please remember that you have to put up the money for it. The Council respectfully awaits guidance from the Congress at this time, and we are here.

I kind of feel like the messenger. Do not kill me.

[Laughter.]

Amtrak's financial progress toward self-sufficiency and the impact of the Acela Express delay: Amtrak's progress toward meeting the goals of the Reform Act has been slow to start. It is on a line like this on a 5-year line, slower the first 2 years, gradually increasing, and then rapidly increasing. Its core business is what we are worried about more than anything else.

The Amtrak National Rail Passenger System: Its core business is performing at lower than planned levels. But higher revenues from its commercial business have kept the corporation on plan. So it is still on its glidepath, because it is bringing in these other revenues.

The planned improvements for fiscal years 1998 and 1999 were not ambitious. All the major performance improvement in Amtrak's 5-year plan, in the October 1998 5-year plan, are back loaded. In 2000 and 2001, we really have to see a rapid growth in their revenues if they are to meet their goals.

To make an informed judgment about Amtrak's financial performance and its future funding requirements, the Council is asking Amtrak, and needs to receive from Amtrak, and assess if Amtrak's new strategic plan must be adjusted, because the Acela is delayed. That [Acela] revenue is not going to be in this year, apparently.

So we need the adjusted strategic business plan and how that will be covered, which should include Amtrak's plan for offsetting the financial impact of this Acela Express delay. We need its MBNA, its analysis of routes and services. We need its long-term capital plan for the entire passenger system.

What does Amtrak need in the next 12 years for the total national passenger system, not just the southern portion of the Northeast Corridor, which is an infrastructure division of Amtrak? We just received that this week. And Amtrak expects to require $12 billion over the next 25 years just for the south half of the Northeast Corridor, as I believe that report put out last week stated. So that is just for the infrastructure division. That is not for the national rail passenger system.

After we receive and evaluate these plans, we will have a clear, updated picture of Amtrak's financial situation that we can provide to the Subcommittee. The Council will then be able to provide recommendation to Congress on a long-term funding policy for rail passenger service. If they will give us this information, we will give you some recommendations back.

The Council's first annual report—and I will try to make this quick—the first annual report looked at Amtrak as an institution. We just looked at this big organization sitting out here, headquartered in Washington, D.C., and operating across the United States. It [the report] did not have any answers in it. It did have a lot of questions.

When we looked at the institution that Amtrak is—and this is what this new reform board inherited, primarily—we found a very large and flawed organization. It is a huge organization with many different lines of business that has not been effective in managing the core business of operating a national system of passenger, mail and express services.

We are very worried about all of these other things keeping Amtrak and Amtrak's management from concentrating on the passenger, mail and express business out there, the national system that everybody is testifying for. We counted over 12 major functions that Amtrak is trying to carry out.

And as you said, Madame Chair, there may be some things it should not be doing in that area, if it is distracting the management and the capital from the main business of passenger, mail and express.

So in the next 8 months, I think—10 months—this Council is going to make some very good, strong recommendations of how to help Amtrak focus on its core business and be self-sufficient. That is enough on that annual report now.

Our program next year is to give the Amtrak Board and this Committee strong recommendations of how to help these last 2 years be very productive and reach the self-sufficiency.

So we will be investigating issues that will allow us to make recommendations that help Amtrak meet its Reform Act financial performance goal. Now it is going to be tough love. It is not going to be sweet love. We are going to be talking tough and making recommendations.

And I feel they are going to be—as long as I am Chairman, they are going to be very constructive recommendations, not any destructive ones. I will not stay as Chairman if they start being anti-national rail passenger system. I know where I am coming from there.

One final important thing I would like to bring up—and I will quit with this—the railway unions have made it a priority to abolish this Council. Last year they caused an amendment to be introduced in the House to cut the Council's funding by some 40 percent. Fortunately, the funds were restored in conference.

Our vice chairman, Paul Weyrich, finds the opposition of Labor amazing. And I do, too, for one simple reason. The Council is a bipartisan, independent commission that supports the responsible expansion of intercity rail passenger service.

If the Council's views are followed, there will be more passenger service, not less. Everything I have been talking about here is about the core business of passenger, mail and express service. We think it has to grow and grow fast. And you have to add people if you are going to grow.

So that is where this Council is coming from. So I agree with Paul Weyrich. Labor needs to come help us. We need Labor's advice, and we need Labor's view of how to make Amtrak grow and be successful.

I hope you know, Madame Chair and Senators, that we are very sincere in this area. I am going to make sure that in our Council meetings—we are very open. I do not have any trouble operating in a public way. And I want Labor totally involved in helping guide us and give us advice and direction.

So thank you for your invitation. We need your guidance. And I would be pleased to answer any questions.

[The prepared statement of Mr. Carmichael follows:]

PREPARED STATEMENT OF GILBERT E. CARMICHAEL, CHAIRMAN, AMTRAK REFORM COUNCIL

Madam Chairman, it is a pleasure to be here today on behalf of the Amtrak Reform Council to address the three issues on which you have requested comment: the Council's First Annual Report, issued on January 24, 2000; the delay in the delivery of Amtrak's new Acela Express equipment and the impact of that delay on Amtrak's financial performance; and the Council's most current assessment of Amtrak's financial performance vis-à-vis the goals of the Amtrak Reform and Accountability Act of 1997, which I will refer to as "the Reform Act." I am accompanied today by Tom Till, the Council's Executive Director.

With your permission, I will provide a summary of my views and will submit my full statement for the record.

The Objectives of the Council

Madame Chairman, it is important that you and the members of your Subcommittee understand the Council's objectives. As we read the law, our purpose is to improve rail passenger service by evaluating Amtrak's performance and making recommendations to Amtrak for improvement. The law further provides, should the Council ever make a financial finding that Amtrak will not meet the goal of the Reform Act, the Council should recommend to the Congress an action plan for a restructured and rationalized national system of intercity rail passenger services.

The Council is not focusing on the issue of a finding, but is making every effort to identify and recommend strong measures that will help Amtrak meet the goals of the Reform Act and thus avoid any financial finding. We have begun that process, and it will continue as long as I am Chairman of this Council.

The Council's First Annual Report

When Congress enacted the Amtrak Reform and Accountability Act of 1997, which requires that Amtrak operate without "Federal operating grant funds" by the end of FY2002, the Congress established the Amtrak Reform Council as an independent, bipartisan oversight body of 11 members, charged with, among other tasks, monitoring Amtrak's progress in improving its financial performance to achieve the goals of the Act. The Council is required to report on its activities in annual reports to the Congress, the first of which it issued on January 24, 2000. The complete report is available on our website at (www.amtrakreformcouncil.gov) under the heading "First Annual Report" and printed copies are available by contacting the Council's office in Washington at (202) 366–0591.

In releasing this first annual report, the Council stated that "This year's report does not reach any conclusions about Amtrak's long-term future. It provides a picture of the Amtrak organization as it exists today, it presents the Council's perspective on Amtrak's performance to this juncture, and it raises questions and issues that the Council believes should be addressed in its future efforts and, ultimately, by the Congress." The report also made clear that it is a statutorily required Annual Report and not in any sense a finding, and, were the Council at some future date to make such a finding, it would be the subject of a separate report.

The major findings of the Council's report are indicated below.

Amtrak's Broad Range of Complex Functions. The Council's first annual report focused on understanding Amtrak as an institution and assessing its performance. The Council has determined—after careful analysis and deliberation—that Amtrak performs an exceptionally broad range of complex functions that go far beyond its core business of operating passenger, mail and express services. In addition to its transportation operations, Amtrak operates and maintains infrastructure, and it remanufactures and repairs passenger coaches and locomotives. Amtrak does substantial business as a contractor or potential contractor for domestic rail commuter services and foreign passenger services and it also functions as a real estate management and development company. Aside from these business functions, Amtrak also functions in certain respects as if it were a federal agency. The Council will address its concerns about Amtrak's need to focus on its core business in order to improve its financial performance.

Measuring and Monitoring Amtrak's Financial Performance. The Council's analysis of Amtrak's financial performance made it clear that although Amtrak's did meet its Plan for FY 1998 and FY 1999, this was not of great significance for two reasons. First, Amtrak's core business of passenger, mail, and express was below planned levels. Second, the major improvements that Amtrak must make in order to meet the financial goals of the Reform Act are back-loaded into the years FY 2000 and FY 2001. This is the reason for the Council's concern that Amtrak focus on raising the revenues and controlling the costs of its core business, which is essential to its meeting the plan. Because of its importance, I will discuss separately the standard by which the Reform Act requires the Council to measure Amtrak's financial performance in meeting that Act's financial goals.

The Three Statutorily-Assigned Tasks. Amtrak was not able to provide to the Council in the timeframe necessary for the report the detailed information the Council needed to fulfill its statutory reporting requirements regarding productivity improvements and the evaluation of Amtrak's routes and services. We are working with Amtrak, and when the information is provided, the Council will prepare and submit reports to the committee.

Regarding Amtrak's use of TRA funds, because the Council did not have the resources to analyze the more than 81,000 transactions that Amtrak had carried out involving TRA funds through May of last year, the House Transportation and Infrastructure Committee requested the GAO to analyze this matter. Our report indicated that the Council had found, on a preliminary basis, that Amtrak had not, to that date, used a significant amount of funds for the high priority, high-return capital projects that will be needed to improve Amtrak's financial performance to meet the goals of the Reform Act.[1] After the GAO report is released, the Council will review its findings, and will submit a brief supplementary report to the Congress, if appropriate.

Recommendations for Improvement that the Council has forwarded to Amtrak. In November 1999, the Council made its first recommendations to the Amtrak Board including (i) setting up Mail & Express as a separate business unit or profit center; (ii) segregating the operations of the NEC fixed plant as a profit center within the NEC Business unit with its own income statement, balance sheet, and capital plan; and (iii) improving Amtrak's management and business planning process by identifying and quantifying risks and opportunities; developing contingency plans; identifying minimum business plan objectives; and implementing a program for annual cost savings in Amtrak's corporate overhead.

Issues and Next Steps. The Report identified key areas on which the Council intends to focus its work efforts over the coming year. In one sentence, Madam Chairman, the Council's program for this year will be to develop recommendations to assist Amtrak—in any way the Council can—to meet the Reform Act's financial performance goal. We will keep the Subcommittee informed of our major activities.

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[1] See pages 35 through 38 of the January 24, 2000 First Annual Report of the Amtrak Reform Council, "A Preliminary Assessment of Amtrak,"* for a discussion of the TRA funds. The Annual Report is available on our website at (www.amtrakreformcouncil.gov).

* The information referred to has been retained in the Subcommittee files.

The Standard For Measuring Amtrak's Financial Performance Against the Goals of the Amtrak Reform and Accountability Act of 1997

The Council believes, based on Section 203 of the Amtrak Reform and Accountability Act, that Amtrak's ability to operate "without federal operating grant funds" should be measured by using Amtrak's financial statements, which are prepared according to generally accepted accounting principles, and which assume that Amtrak is a "going concern" which will remain in business indefinitely at the same business volume and level of technology. Former Amtrak Chairman Graham Claytor, one of the most respected executives in the transportation industry of the last century, said it very well when he stated, "Any company that does not put in the capital to more than match its depreciation is slowly liquidating itself."

I have appended to my statement a legal and legislative analysis that provides the basis for the Council's position concerning the measurement of Amtrak's financial performance. The finding of this analysis is that the statute requires that the standard be based on Amtrak's income statements prepared using generally accepted accounting principles. The only exception is the exclusion of excess mandatory railroad retirement taxes from the self-sufficiency test because this provision was written into the Reform Act.

Amtrak proposes, instead, that federal appropriations acts and historical practices in place in FY1997, result in an implied test of operating self-sufficiency that literally depends on Amtrak's not needing cash from "federal operating grant funds" after FY2002. Amtrak's proposed test excludes the funding of several expenses, which are estimated to total $567 million in FY2002, that have been (and Amtrak assumes will continue to be) funded by "federal capital grant funds," even though they are included as operating expenses in Amtrak's GAAP financial statements. Both approaches exclude federal funds authorized and appropriated to reimburse Amtrak for excess mandatory Railroad Retirement Taxes.

The Council is making a very important point, which is not aimed at Amtrak, but at the Congress: for measuring Amtrak, it is less important to focus on the words that are used to define the standard than it is to understand clearly what those words mean in terms of a necessary federal financial commitment to intercity rail passenger service. Whether it is called funds for capital or funds for operating expenses, our report points out that, by Amtrak's own projections, the Corporation will need $752 million in federal funding in FY2003 to maintain or replace its existing assets and for other necessary expenses before the first dollar of capital for incremental capital additions or improvements can be provided. Whatever it needs in "new capital" will have to be provided on top of that.

The difference between the two approaches is demonstrated in the chart below. Under Amtrak's approach, Amtrak would meet the standard for operating self-sufficiency in FY2002 while still requiring federal grants of approximately $752 million, which includes, in addition to the authorized payment of $185 million for excess RRTA, $80 million for equipment maintenance, which is categorized as "progressive overhauls," and approximately $487 million for renewing and replacing its assets.

Comparison of Amtrak's Intrepretation of the Appropriate Measurement Test of Operating Self-Sufficiency with GAAP Accounting

Amtrak's Intrepretation of the Appropriate Measurement Test of Operating Self-Sufficiency	FY 1999	FY2000	FY2001	FY2002	Assuming Full GAAP Accounting FY2002
Revenues (a)	1,866	2,184	2,396	2,501	2,501
Expenses	(2,796)	(3,092)	(3,215)	(3,253)	(3,253)
Operating Profit/(Loss)	(930)	(908)	(819)	(752)	(752)
Progessive Equipment Overhauls	76	77	78	80	
Depreciation/Noncash Expenses (b)	370	469	499	487	
Budget Gap	(484)	(362)	(242)	(185)	(752)
Excess Mandatory Railroad Retirement Taxes (c)	166	172	179	185	185
Test For Self Sufficiency	(318)	(190)	(63)	0	(567)

(a) Financial projection amounts are taken from Amtrak's October 12, 1998 Strategic Business Plan

	FY 1999	FY2000	FY2001	FY2002
(b) Non-Cash Expenses				
Depreciation (Baseline Outlook Amounts)	360	459	489	477
Certain Emplyee Benefit Related Expenses	10	10	10	10
Total Depreciation/Noncash Expenses	370	469	499	487

(c) Excess mandatory Railroad Retirement Taxes (RRTA) estimates prepared by Amtrak include the employees' share of excess mandatory RRTA. Other governmental entities believe that lower amounts of excess mandatory RRTA should be funded to Amtrak. However, Amtrak has indicated that it has calculated this amount using consistent methodology since 1991 in accordance with Congressional direction.

Madam Chairman, it is important for the Congress to recognize that, whatever its decision about the rules for permitting Amtrak to use capital funds for operating expenses, including the replacement and renewal of its capital asset base under depreciation, the federal funding must be provided to make that work.

It is against this backdrop that I can now provide comments on the issue of Acela and on Amtrak's current financial performance.

The Acela Delay and its Financial Impact on Amtrak's Financial Performance

Our knowledge about the technical causes of the Acela delay is limited to information provided by Amtrak. Causes of delay are not a major focus of activity for the Council or its staff. Our focus is on the financial impact of the delay, and on actions Amtrak expects to take to offset that financial impact. Because we have not yet received Amtrak's most recent five-year Strategic Business Plan, which will provide Amtrak's projections on the impact of the Acela delay, we cannot present an analysis to the Subcommittee today. When we have the information and have made that assessment, we will provide it to the Subcommittee. We can say, however, that since the initiation of Acela Express service was expected to have significant financial benefits for Amtrak, the delay will almost certainly impose difficulties that will require Amtrak to make significant adjustments to lower its costs and to raise revenues from other sources. There is no doubt that Acela is critical to Amtrak's plans to achieve self-sufficiency.

You may remember from your appearance at our outreach hearing in Dallas this past November, that there is a proposal before the Council that the Council recommend to the Congress that Amtrak's deadline for financial self-sufficiency be delayed by a year so that the financial results of a full year of Acela Express operations can be accurately measured before the Council determines whether Amtrak will meet the financial performance goals of the Reform Act. A final decision as to whether that recommendation be made to the Congress will be addressed at the Council's meeting next month.

Amtrak's Financial Performance vis-à-vis the goals of the Amtrak Reform and Accountability Act

Amtrak's financial performance during the first two months of FY2000 follows the trends established in the past two years. That is, performance that, on the whole, meets the Plan supported by higher-than-planned financial performance by non-core business elements which make up for lower-than-planned revenues from Amtrak's core business of passenger operations.

Amtrak's November 1999 financial statements (which were prepared on or around January 27, 2000) reported that Amtrak was approximately $2.1 million ahead of its Strategic Business Plan for the first two months (October and November 1999) of FY2000, during which time its expenses totaled approximately $464 million and its revenues totaled approximately $315 million. A positive variance of approximately $2 million is immaterial relative to both revenues (approximately 0.6 percent of revenues) and expenses (approximately 0.4 percent of expenses). Furthermore, without a $3.1 million positive variance from "Contributed Support Capital" (related to the progressive overhaul program funded by portion of the approximately $2.2 billion of the Taxpayer Relief Act (TRA funds)) during the first two months of FY2000, Amtrak's positive variance of approximately $2 million would have been a negative variance of approximately $1 million.

For the first two months of FY2000, Amtrak's total system ridership was 0.8 percent ahead of Plan and 1.2 percent ahead of FY1999. Passenger miles, seat miles, and load factor, however, were all below the Plan [2] for FY2000 and below FY1999 actual levels, reflecting a trend towards shorter average passenger trips due to weaker long distance traffic. Increases in core revenue per seat mile reflect the shift to shorter average passenger trips and ticket price increases.

Madam Chairman, if the Council is to provide a perspective on Amtrak's financial performance, we also need to evaluate its estimates of future capital investment requirements for at least the next 3–5 years. We have gotten the first element of those estimates from Amtrak, which this week released its 25-year capital funding program for the southern portion of the Northeast Corridor, amounting to some $12 billion, half of which Amtrak expects to come from the states. Additional estimates are needed, and we expect that at least some of them will be forthcoming, as part of its new Strategic Business Plan and the accompanying analysis of its routes and services using its new Market Based Network Analysis tool.

With this data, the Council will, for the first time, be able to provide the Congress with a clear picture of the capital and operating requirements that will be needed to support intercity rail passenger service for the future. Information and analysis of this type is essential if the Congress is to have a sound basis for policymaking about this vital issue.

Madam Chairman, this concludes my statement. I will be pleased to answer any questions you or the other members of the Subcommittee may have.

APPENDIX

The Standard for Measuring Amtrak's Financial Performance Against the Goals of the Amtrak Reform and Accountability Act of 1997

The Council has a statutory obligation under the ARAA to evaluate Amtrak's performance and make recommendations for achieving further cost containment, productivity improvements and financial reforms. ARAA Sec. 203(g). A major element of monitoring Amtrak's financial performance is determining whether, in the Council's judgment, Amtrak will be able to meet the statutorily-prescribed goal to "operate without Federal operating grant funds appropriated for its benefit" after FY2002. 49 U.S.C. 24101(d). In making its judgment, the Council must define a clear standard consistent with the requirements of the ARAA for measuring Amtrak's financial ability to operate on a sustainable basis without the need for federal operating assistance after FY2002.

[2] Although Amtrak's Board of Directors reportedly approved Amtrak's Strategic Business Plan (Plan) for the period starting October 1, 1999 (FY2000) in December 1999, it has not yet been provided (in any form, summary or otherwise) to the Council. The written Plan should include underlying business strategies and assumptions as well as monthly financial projections. Such strategic business plan detail is needed for the Council to evaluate the reasonableness of the Plan and the likelihood that Amtrak will achieve it, as well as facilitating the Council's evaluation of Amtrak's actual financial performance relative to its Plan for FY2000.

The ARAA establishes Generally Accepted Accounting Principles as the Appropriate Standard

The Council believes that the ARAA specifically establishes the standard that the Council is required to use: generally accepted accounting principles (GAAP). Section 203(g) of the ARAA specifically requires that in making its evaluation and recommendations with respect to Amtrak's performance, the Council "shall consider all relevant performance factors, including . . . appropriate methods for adoption of uniform cost and accounting procedures throughout the Amtrak system, *based on generally accepted accounting principles. . . .*" (Emphasis added.) Section 204 of the ARAA further requires that the Council "shall take into account . . . Amtrak's performance," as measured under the requirements of Section 203(g), in determining whether "Amtrak's business performance will prevent it from meeting the financial goals [of the ARAA]" or whether "Amtrak will require operating grant funds" after FY2002. The ARAA provides no standard other than generally accepted accounting principles by which the Council is to measure Amtrak's financial performance.

Further, the Council believes that GAAP is the appropriate standard for it to use to measure Amtrak's financial performance under the provisions of the ARAA. Amtrak prepares its financial statements in accordance with GAAP, and Amtrak's independent auditors have taken no exception with Amtrak's accounting and financial reporting practices in this regard. Moreover, GAAP is generally employed by the accounting profession and financial community to evaluate the financial condition as a going concern of for-profit corporations, which is Amtrak's status under its federal charter. 49 U.S.C. 24301(a).

Progressive Overhauls are operating expenses under GAAP that cannot be federally funded after FY2002 under the provisions of the ARAA

The ARAA provides that, after FY2002, "no funds authorized for Amtrak shall be used for operating expenses other than those prescribed for tax liabilities under section 3221 of the Internal Revenue Code . . . that are more than the amount needed for benefits of individuals who retire from Amtrak and their beneficiaries (i.e., 'excess Railroad Retirement payments')." 49 U.S.C.24104(a). The ARAA makes no exception other than for excess Railroad Retirement payments from the prohibition against continued federal subsidy of Amtrak operating expenses after FY2002. As noted, the Council believes that it is required to use GAAP in applying the prohibition against federal operational subsidies of Amtrak after FY2002 as set forth in Section 24104(c).

Amtrak disagrees with the Council's position that the Council is required to use GAAP in applying the prohibition against continued federal subsidization of Amtrak operating expenses after FY2002. Amtrak instead takes the position that its expenses for "progressive overhauls" of equipment can continue to be funded from federal capital funds after FY2002 even though these expenses are indisputably "operating expenses" under GAAP and are recorded by Amtrak as operating expenses in its financial reports. ("Progressive overhauls" are defined by Amtrak as routine annual car inspection and repair work and scheduled part replacements performed every 1 to 3 years; they are essentially maintenance (i.e., operating) expenses under GAAP).[1] Amtrak's position is premised on the Congressional practice, commencing in FY1993, of including funds for Amtrak "progressive overhauls" of equipment in "capital grants" rather than "operating grants" even though the expenses for progressive overhauls are reported by Amtrak as operating expenses.[2]

The Council disagrees with Amtrak's contention that there is an implied exception for continued federal subsidization of Amtrak operating expenses for "progressive overhauls" in the ARAA. First, the fact that progressive overhauls have been funded in recent years through capital grants rather than operating grants cannot be determinative of their status. If funds for Amtrak operating expenses could simply be included in federal capital grants after FY2002, the prohibition against future federal funding of Amtrak operating expenses would become meaningless: it would simply be a shell game of moving operating expenses into capital grants instead of funding them separately. (For FY2000, Amtrak in fact requested and received only a federal capital grant with flexibility to use it for certain operating expenses under the special Federal Transit Administration definition of capital expenditures.)

Second, and most determinative, the prohibition in Section 24104 against federal funding of Amtrak operating expenses is specific and categorical, and provides for only one exception: excess railroad retirement payments. The categorical prohibition also directly squares with the legislative intent of the ARAA, which was to require Amtrak to become "operationally self-sufficient" after FY2002.[3] Implicit exceptions to specific statutory commands are not favored in the law, and the Council believes that if Amtrak expected to continue to request federal funding for progressive overhauls after FY2002, it was incumbent upon it to obtain a specific exception for such operating expenses, such as that applicable to excess railroad retirement payments.

The Council would also point out that continued federal funding of Amtrak operating expenses for progressive overhauls after FY2002 is not only counter to the statutory goal that Amtrak wean itself from federal operating subsidies, but is, as Amtrak has specifically acknowledged, counterproductive in the long run with respect to Amtrak's need for continued federal capital funds to renew and expand its infrastructure and equipment. As Tom Downs, former President of Amtrak observed "[S]hifting some equipment overhaul costs . . . from the operating to the capital budget . . . is akin to eating your seed corn—using scarce capital dollars to maintain, rather than replace, worn out assets—and undermines our ability to invest in our future." [4]

Amtrak also contends that, because its "glidepath to self-sufficiency" and Strategic Business Plans were before the Congress during the ARAA deliberations and assumed continued federal funding of progressive overhauls, that Congress must be presumed to have endorsed Amtrak's assumptions. This argument, however, ignores the statutory scheme. Congress did not in fact endorse (or implicitly incorporate into the ARAA) any specific assumptions of Amtrak's "glidepath" nor the Strategic Business Plans upon which it was based. Congress in fact delegated an evaluation of Amtrak's Strategic Business Plan to an "independent assessment" to be conducted by the Department of Transportation, Inspector General (DOT/IG). ARAA, Section 202. After reviewing Amtrak's Strategic Business Plan, the DOT/IG criticized many of the assumptions underlying the Strategic Business Plan. The DOT/IG also specifically concluded in its assessment that "progressive overhauls" could not be federally funded after FY2002 under the provisions of the ARAA.[5]

(The General Accounting Office also concurs that Amtrak may not use federal funds for progressive overhauls after FY2002 under the ARAA.[6])

Depreciation is also an operating expense under GAAP that must be recovered for Amtrak to be operationally self-sufficient after FY2002

The Council also believes that the cost of depreciation is an operating expense under GAAP that Amtrak must recover after FY2002 for it to be found "operationally self-sufficient" under the ARAA. Amtrak agrees that depreciation is an operating expense under GAAP. Amtrak, however, takes the position that this expense must be ignored for purposes of the operational self-sufficiency test because it "is a non-cash expenditure" and "is not funded as part of a federal operating contribution."

The Council disagrees with Amtrak's position that the cost of depreciation can be ignored under the ARAA. Under GAAP accounting, there is a recognition of the cost of capital associated with an enterprise in the form of depreciation. Depreciation is a non-cash charge against revenues designed to represent the estimated value of capital assets consumed or made obsolete during the period of time that the revenues were generated. In theory, an enterprise reserves a portion of its revenues equal to the depreciation charge to fund the repair and/or replacement of its capital assets. These investments are essential if an enterprise is to remain a going-concern at its current level of activity and technology. If an enterprise cannot cover its cost of depreciation, it is self-liquidating.

This point has been expressed most forcefully by Amtrak itself. As Graham Claytor, former president of Amtrak has testified: "Any company that does not put in the capital to more than match its depreciation is slowly liquidating itself. . . ." [7]

The Council accordingly believes that it is absolutely essential that Amtrak make provision for and recover its depreciation expenses after FY2002 if it is to be considered "operationally self-sufficient" in any meaningful sense of the term. If these expenses are not recovered, Amtrak will not be able to operate on a sustainable basis after FY2002; instead, it will be slowly liquidating itself.

The Council, however, recognizes that, unlike "progressive overhauls" which can only be viewed as an operating expense under GAAP, federal grants to Amtrak to replace assets consumed can also be categorized as true capital investments because they are used to purchase capital assets. Federal funds for Amtrak asset replacements have, to the Council's knowledge, always been provided through capital grants.

The difficulty as the Council sees it, however, is that the ARAA makes no specific provision for continued funding of Amtrak's capital needs, including to replace its assets. If the Congress were to speak clearly on the issue and commit itself through authorizing legislation to provide sufficient capital grant funds on a reliable, long-term basis to cover Amtrak's cost of capital consumed (i.e., depreciation), then the Council would recognize such funding commitments in determining if Amtrak will be operationally self-sufficient after FY2002.

Endnotes to the Appendix*

1. See Department of Transportation and Related Agencies Appropriations for 1995, Hearings Before a Subcommittee of the Committee on Appropriations, House of Representatives, Part 4, at 741.

2. Congressional funding of "progressive overhauls" through capital grants originated from the exigencies of Amtrak's enormous deferred equipment overhaul backlog in the early 1990's and from furloughs or planned furloughs of equipment maintenance employees at that time for lack of funds. See Department of Transportation and Related Agencies Appropriations for 1993, Hearings Before a Subcommittee of the Committee on Appropriations, House of Representatives, Part 5, at 754; Department of Transportation and Related Agencies Appropriations Bill, 1993, House Report, Committee on Appropriations, H. Rep. 102–639, at 136; Department of Transportation and Related Agencies Appropriation Bill, 1993, Senate Report, Committee on Appropriations, S. Rep. 102–351, at 149; Senate Report, Committee on Appropriations, Supplemental FY1993, S. Rep. 103–54, at 33. To avoid further furloughs and increasing backlogs of heavy overhauls, Congress chose to fund both capital and non-capital overhauls through capital grants. Reflective of the purpose of such funding, the Committee report language at the inception of this practice does not refer to "progressive overhauls" as such, but rather uses broad language to describe the expenses as "long-term equipment overhaul work" (Senate Report 102–351, at 149 (FY1993 Amtrak appropriation), *supra*); "capital equipment overhauls" (House Report 103–105, at 1 (Second Supplemental Appropriations, FY 1993)) or as necessary to "avoid further furloughs of employees at Amtrak's Indiana and Delaware maintenance and car overhaul facilities." (Senate Report No. 103–54, at 33 (Amtrak Supplemental Appropriations, FY1993)).

3. S. Rep. 105–85, at 1; see also Congressional Record, at S11930 ("At the end of 5 years there will not be operational subsidies by the taxpayers of Amtrak. We have all agreed to that.") (remarks of Sen. Hutchison). (daily ed. 11/7/97)

4. Senate Hearing Before Subcommittee of Committee on Appropriations, FY1995, S. HRG 103–810, Pt. 1 at 590 (3/24/94); see also *id.* at 592–593, 621; House Hearing Before Subcommittee of Committee on Appropriations, FY1997, Pt. 2, at 735–736 (noting Mr. Down's goal of moving expenses of progressive overhauls from capital account to operating account beginning in FY1997.)

5. See November 23, 1998 DOT/IG *Summary Report on the Independent Assessment of Amtrak's Financial Needs Through Fiscal Year 2002,* at 3, 21, n.14; see also DOT/IG October 28, 1999 testimony Before the House Subcommittee on Ground Transportation, at 2, 4, 6; DOT/IG March 10, 1999 testimony before Senate Subcommittee of Committee on Appropriations, FY 2000, S. HRG. 106–221, at 197–198.

6. See July 1999 GAO Report, *Intercity Passenger Rail, Amtrak's Progress in Improving Its Financial Condition Has Been Mixed*, at 12, 22.

7. Hearing Before the House Subcommittee on Transportation and Hazardous Materials, Serial No.102–111, at 45; see also Senate Hearing Before a Subcommittee of the Committee on Appropriations, FY1993, S. HRG. 102–725, Pt. 2, at 124 (4/9/92); see also exchange between Sen. Lautenberg and Gil Carmichael (FRA Administrator), id. at 236–237 (concurring with Claytor statement that "if you invest less than your depreciation you are liquidating" and characterizing this observation as a "truism").

Senator HUTCHISON. Thank you, Mr. Carmichael. I very much appreciate exactly what you said. I appreciate the constructive suggestions that you will make in the future, in addition to the constructive criticism that you have made.

I think it is important that we have those kinds of suggestions, as you are looking at it. We do not just need an auditor. We need someone who is raising the points to say here is what you would suggest are the better priorities.

I still want to discuss, and will ask more questions later, why it is inconsistent to have generally accepted accounting principles, but also be able to overhaul the units. I want to discuss this matter with the APTA representative, because every transit agency uses generally accepted accounting principles.

*The Endnote Reference Material has been retained in the Subcommittee files.

On the other hand, we have always had progress overhauls as capital expenditures. So I want that to be cleared up, hopefully without any more Congressional action. And so that is on my agenda for the question period.

I will now call Mr. Kenneth Mead, the Inspector General of the U.S. Department of Transportation, who has been in that position for approximately 3 years.

Thank you, Mr. Mead.

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

Mr. MEAD. Thank you, Madame Chair, Senators Cleland, Wyden, Senator Snowe.

I would like to touch on five subjects briefly. These include the operating results of Amtrak high-speed rail and its depreciation and progressive overhaul issues. Something you just said, I think, ought to be the proper focus. There is a difference between the accounting treatment of this matter and what the Federal Government can properly fund. They are two different things, but sometimes they tend to be merged in the discussion.

I would also like to touch on a life-safety issue. I would like to put on the Committee's radar screen an issue pertaining to the tunnels under New York and Penn Station, actually tunnels going from New York to New Jersey, and also under Penn Station. There are six of them. And I believe there are a couple of issues about them that the Committee needs to be aware of.

Before getting into my overview, I would like to say a word about OIG's relationship with Amtrak. I think it is important in any big undertaking to have a good working relationship with all parties involved. As you know, we have a statutory responsibility to report periodically on how Amtrak is progressing on its glidepath.

I have to say that I think a major reason for the progress we have made has been the forthcoming and forthright attitude, full disclosure on the part of the Amtrak Board, its president, and the senior staff at Amtrak.

I cannot think of a single instance where an obstacle has been placed in our path. And that is a good working relationship. And I just wanted to say that for the record.

It is very meaningful. A couple of times there have been bumps in the road. We differ from time to time with Amtrak.

But the President of Amtrak, Mr. Warrington, has called us up and said, "You need to know about this issue that is developing. What do you think about it?" The record should reflect this.

Five months into this year, we believe it is still possible for Amtrak to achieve operating self-sufficiency by the due date, 2003. But delays in the startup of the high-speed rail service are going to make that difficult. Frankly, we see Amtrak moving in the right direction on almost every front, but the heavy lifting still lies ahead.

On Amtrak's operating results, over one-half of the $692 million in projections we found to be at risk in Amtrak's business plan represented investments in projects that were to have a payoff later. But it is imperative that Amtrak begin to realize the payoffs of these investments. Small steps made in 1998 and 1999 must now be replaced with large strides.

A couple of points about Amtrak's performance in the first quarter of 2000, I think it shows progress, but it also shows that the strides are slow in coming. Overall passenger revenue was almost $10 million better than this period last year, but still more than $9 million behind their plan.

Amtrak West passenger revenues were higher by $2 million than the first quarter last year, but they also fell short of targets by $1 million. And even with the high-speed rail delays, Northeast Corridor passenger revenues were up 7 percent over last year and $2 million better than plan. The express business is also growing, with revenues almost $2 million better than the first quarter last year.

A problem, though, has been intercity, which comprises most of the long-distance trains. In the first quarter, intercity fell short of its passenger revenue targets by nearly $11 million. And its passenger revenues were more than $2 million shy of the same period last year.

I think that the market-based network analysis that you have all heard so much about from Amtrak is to the intercity component of Amtrak to what high-speed rail is to the Northeast Corridor. So it is quite important.

On high-speed rail, Amtrak is now projecting that Acela Express service will start this July. That is a delay of about 6 months. Whether this happens or not is going to depend on Amtrak resolving a number of testing issues and pushing the manufacturer to adhere to a strict delivery schedule.

Amtrak expects $142 million in lost passenger revenues to be offset by expense savings and late delivery penalties. We agree these offsets are likely, but only if there are no further delays.

Make no mistake about it, high-speed rail is the cornerstone of Amtrak's business plan. And the relatively small financial impact this year should not detract from how important it is to Amtrak's future to bring this program home soon.

We know there has been some discussion about whether Amtrak might need another year on its glidepath because of delays. We think it is premature to make this call. We will report back. A year from now we think we will be in a lot better position to make an assessment about how long that glidepath will be and whether there needs to be an adjustment.

Now I would like to move to the yardstick for self-sufficiency. It captures the depreciation and progressive overhaul issues.

Capital funding: The law eliminates operating subsidies after 2002, but technically it is silent on whether capital funding is going to be provided. If Amtrak makes its operating self-sufficiency mandate, it will not be by much, and clearly not by enough to cover even its bare-minimum capital needs.

If the truth be told, most people familiar with this legislation knew that at the time that the legislation was passed. Amtrak has never represented that it will not need capital grants subsequent to the glidepath. I would like to make that clear. Amtrak cannot continue to operate any part of this railroad nationally, intercity, Amtrak West, or the Northeast Corridor without capital assistance.

Capital depreciation: The ARC's position is that because depreciation is defined as an operating expense by accounting standards—and they are correct in that—that it ought to be included in Amtrak's calculation of self-sufficiency. But capital depreciation essentially represents capital replacement costs. And it has historically been funded by the Congress through capital grants, not operating subsidies.

Another way of looking at this: to require Amtrak to include depreciation expenses in its calculation of operating self-sufficiency will effectively make self-sufficiency by 2003 impossible. Even more fundamentally, it would have guaranteed that result when the President signed this into law. It is kind of ironic. You have to wonder why Congress would pass this law, if the result was preordained.

Progressive overhauls: They are limited equipment overhauls performed each year as a complement to the comprehensive, heavy 4-year overhaul program. Again, it is correct that progressive overhauls are defined by accounting standards as an operating expense. Technically that is true.

But based on our work, we think that allowing Amtrak to use Federal funds for both progressive and heavy overhauls puts the railroad in the best position to make overhaul decisions based on what is best for the condition of its rolling stock.

What we are concerned about is if Congress were to say "You cannot use Federal funds for progressive overhauls," Amtrak would not do them. They just would not do them. And they would wait for 4 years. Then the heavy overhauls would cost more, and the quality of the ride and efficiency and reliability factors would deteriorate. We have seen this happen with Amtrak before. I do not think we want a repeat.

Finally, I would like to move to this fire and life safety issue. I believe you all have a handout.*

Do you have one?

Senator HUTCHISON. Yes. If you could be very brief on this, because we are going to——

Mr. MEAD. I will be. I just want to put this on the Committee's radar screen.

There are about $654 million worth of unfunded fire- and life-safety needs in New York, Penn Station and the river tunnels. I brought these pictures along to illustrate two of the more prominent needs for ventilation and evacuation. In the event of a serious tunnel fire, the existing systems are not ones that anybody would want to contend with.

The exit stairs shown in the first two pages of the photos—these are the stairs that people would use to exit these tunnels and the same stairs that the fire and rescue people would use to get down into the tunnel. As you can see, the stairs are ten stories, there is no railing, and there is enough room for only one person.

So I just want to join with the Long Island Railroad, New Jersey transit and Amtrak in saying that this is a fairly important issue as we move down the road.

And thank you for the extra time, Madame Chair.

[The prepared statement of Mr. Mead follows:]

*The information referred to has been retained in the Subcommittee files.

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

Madam Chair and Members of the Subcommittee:

We appreciate the opportunity to testify on Amtrak's financial outlook. Last October, we provided our views in testimony before the House Transportation and Infrastructure Subcommittee on Ground Transportation. Our overall assessment at that time was that with strong leadership, intense management, and favorable economic conditions, it would be possible, albeit difficult, for Amtrak to become operationally self-sufficient by 2003.

Five months into Fiscal Year (FY) 2000, we still believe that it is possible for Amtrak to achieve operating self-sufficiency, although the delays in Acela Express service will pose additional obstacles. Amtrak's success will require aggressive pursuit of projects such as the service improvements identified in its Market Based Network Analysis and implementing high-speed rail service between Boston and Washington that is not only fast, but reliable. A year from now, if high-speed rail has begun and other market based service changes have been implemented, we will be able to tell you with greater certainty whether Amtrak is likely to achieve its Congressional mandate in 2003.

Today, we would like to present our views on Amtrak's Fiscal Year 1999 and first quarter 2000 financial results, the financial impact of delays in the high-speed rail program, the "yardstick" for measuring self-sufficiency, Amtrak's capital funding needs and spending plans, and the critical fire and life-safety needs in Penn Station-New York and the Hudson and East River tunnels.

• **Amtrak's Financial Results.** The financial results for FY 1999 show that Amtrak has made some progress, but still indicate the need for major improvement. Amtrak's audited 1999 operating loss of $916 million, including depreciation, was $56 million more than its 1998 loss and the largest in Amtrak's history.[1] Amtrak's test for self-sufficiency, however, pivots on its cash losses rather than its operating losses. In 1999, the cash loss was $579 million, $54 million higher than the 1998 cash loss and $19 million worse than Amtrak projected for 1999.

On the positive side, Amtrak's systemwide passenger revenue grew by almost 6 percent in 1999, although this was short of Amtrak's goals by $31 million, or about 3 percent. Systemwide ridership increased by 2 percent from 1998 levels, led by growth of better than 3 percent in both the Northeast Corridor and Amtrak West business units. Intercity ridership decreased by 1.6 percent, due in part to fare increases, reservation system glitches, and residual effects from the Bourbonnais accident last March. Nevertheless, all three business units posted increases in passenger revenues ranging from 2 to 11 percent.

In the first quarter of FY 2000, passenger revenue, while almost $10 million better than the first quarter of FY 1999, was still more than $9 million behind plan. Most significantly, Intercity passenger revenues fell $11 million short of plan, and $2 million worse than the same period last year. Intercity ridership also fell 7 percent short of plan and 4 percent below the same period last year. These shortfalls were partially offset by a strong 7 percent increase in passenger revenues in the Northeast Corridor, which came in $2 million ahead of plan despite the delays in high-speed rail. Overall, Amtrak recorded an operating loss of $240 million. While these results indicate progress in some areas, Amtrak will have to see much more improvement in the remaining three quarters if it is to remain on its glidepath.

Amtrak has been able to mitigate passenger revenue shortfalls in both 1999 and the first quarter of 2000 through means such as reimbursable work[2] and one-time sales of real estate, but these opportunities are limited. Amtrak is clearly moving in the right direction, but the heavy lifting is still ahead.

• **High-Speed Rail Delays.** Amtrak is currently projecting at least a 6-month delay in the start-up of Acela Express service. The delays were caused by suspension and oscillation problems in the wheel trucks discovered during testing on the high-speed trainsets and locomotives. Amtrak, the Federal Railroad Administration, and the manufacturer have made progress in resolving these issues; however, work continues on remaining issues that must be resolved before the trainsets can be operated at their designed speed of 150 miles per hour. The current delays and the

[1] Amtrak's reported operating loss for 1998 was $930 million, which included the full amount of retroactive labor payments attributable to the years 1996 through 1998 (per newly settled labor agreements). After allocating these costs to the years in which they were incurred, the 1998 operating loss totals $860 million.

[2] Maintenance work performed for commuter and freight railroads, and state and local agencies for which Amtrak is reimbursed.

associated lost passenger revenues are projected to be $142 million this year. While this loss will make it more challenging for Amtrak to achieve its financial goals in 2000, it is too early to tell what impact it will have on Amtrak's self-sufficiency mandate.

This year's revenue loss will be mostly mitigated by operating expense savings, interest savings, and contractor penalties for late equipment delivery. The balance is expected to be offset by new leasing agreements valued at about $44 million. The fact that the current delays will have a minimal effect on Amtrak's 2000 operating results should not detract from the critical significance of the high-speed rail program. High-speed rail is the cornerstone of Amtrak's business plan, and its success is critical to Amtrak's ability to reach self-sufficiency. The offsetting savings, penalties, and leasing actions are sufficient in the short term, but compensation is no substitute for implementation. Amtrak should move as quickly as possible to begin service, but should not do so until it is certain that this service can be operated with consistent reliability.

On a final note, we are aware that there has been some discussion about whether Acela delays might necessitate an extension of Amtrak's glidepath by one year. Our view is that it is premature to make this call. In a year, we will be in a better position to judge the impact of the delays on Amtrak's timeframe for reaching self-sufficiency.

• **Amtrak's "Yardstick" for Self-Sufficiency Needs to Be Clearly Defined.** The Amtrak Reform and Accountability Act of 1997 (ARAA) precludes Amtrak from using Federal funds for operating expenses after 2002, except for excess contributions to the railroad retirement fund (RRTA). It is silent, however, on several key issues. We believe clarification is necessary so that Amtrak, the Congress, the Administration, and the Amtrak Reform Council (ARC) can all measure Amtrak's progress using the same set of standards.

• **Capital Funding After 2002.** While precluding use of Federal funds for most operating expenses, ARAA does not specifically indicate the Congress' intent to provide capital funds after 2002. If Amtrak makes its mandate in 2003, it will not make it by much; clearly not enough to cover its minimum capital requirements. Even with the currently projected Federal capital funding, Amtrak will fall $244 million short of meeting its minimum capital needs in 2001 and 2002. Without funds to cover such costs as debt or mandatory safety improvements, Amtrak will not be able to continue to operate the railroad. It would be pointless for Amtrak to reach operating self-sufficiency in 2003, if the absence of capital funds in that year would effectively shut down the railroad.

• **Capital Depreciation.** The ARC has stated its position that Generally Accepted Accounting Principles (GAAP) are both logically and legally the standards that should be used to measure Amtrak's operating self-sufficiency. Because capital depreciation expenses are operating expenses, a strict application of GAAP would require Amtrak to include depreciation, essentially the cost of replacing capital, in its calculation of operating self-sufficiency. This would require Amtrak to cover the costs of capital replacement from its fare box after 2002. Although we agree with the ARC that GAAP standards are the appropriate ones to use in examining Amtrak's finances (and we have always done so in our assessments), we disagree that depreciation expenses should be included in the self-sufficiency calculation. Congress has historically funded replacement of capital assets through capital grants, not through the operating subsidies that ARAA seeks to end. In addition, requiring Amtrak to include depreciation in its calculation of operating self-sufficiency would effectively guarantee that Amtrak would not reach its mandate by 2003 and, in fact, would have guaranteed that result when the law was passed in 1997.

• **Progressive Overhauls.** Progressive overhauls are limited equipment overhauls that are performed each year in lieu of a comprehensive, or "heavy" overhaul every 4 years. Amtrak believes that progressive overhauls increase equipment reliability, reduce out-of-service time on equipment, and save money.

The ARC has taken the position that under ARAA, progressive overhauls, as an operating expense, could not be federally funded after 2002. We agree that progressive overhauls are operating expenses, but other considerations should come into play in deciding what overhaul program Amtrak should be able to use Federal funding for after 2002. Prohibiting the use of Federal funds for progressive overhauls would likely encourage Amtrak to scale back or even eliminate them completely. Amtrak would rely instead exclusively on heavy overhauls, which can be funded out of Federal funds after 2002. Because progressive overhauls keep equipment in a better average state of good repair and increase availability for service, eliminating them would likely lead to a reduction in service reliability, customer satisfaction, and critical passenger revenues.

It is important to note that this shift to an exclusive heavy overhaul program would not change the total amount of Federal funds being used by Amtrak for overhauls. Reductions in progressive overhaul expenditures (currently federally funded) would likely be offset, dollar for dollar, by increased expenditures for heavy overhauls (federally funded now and after 2002).

If capital funding is to be provided beyond 2002, allowing Amtrak to use Federal funds for both progressive and heavy overhauls would allow Amtrak to make responsible business decisions about the best way to keep the railroad's capital assets in good working order. Discontinuing this practice would likely result in a less satisfactory overhaul program, dictated solely by the fact that Federal funds may be used for heavy overhauls after 2002, while progressive overhauls would need to be funded from the fare box.

• **Despite Anticipated Capital Funding Shortfalls, Amtrak Continues to Provide for Projects Beyond Minimum Needs.** Our last assessment of Amtrak's financial needs found that projected Federal funding will fall short of meeting minimum capital needs in 2001 and 2002 by at least $244 million.[3] Still, Amtrak continues to pursue projects such as investment in the design of the planned California high-speed rail corridor and infrastructure improvements to support new Las Vegas service. Amtrak believes such projects are critical investments if it is to continue to improve financially. While we are sympathetic to Amtrak's position, it is necessary for Amtrak to first ensure that funds are available to meet legal obligations and to make the minimum investments necessary to continue the safe, reliable operation of the national rail system over the short term.

Last year, we projected that Amtrak's minimum needs in 2001 and 2002, $459 million and $391 million, respectively, exceed available funding by $139 million and $105 million, respectively. These estimates represent the annual minimum investment necessary in areas such as debt, infrastructure improvements, life-safety, and equipment overhauls. Every capital dollar spent on projects outside minimum needs adds another dollar to the existing minimum needs funding shortfall.

• **Fire and Life-Safety Needs in Penn Station-New York and the Six Hudson and East River Tunnels.** Amtrak has identified over $12 billion in capital needs on the southend of the Northeast Corridor over the next 25 years. One of the most serious needs relates to $654 million in unaddressed fire and life-safety needs in Penn Station and the six adjoining river tunnels. In addition to Amtrak, the Long Island Rail Road and New Jersey Transit use the station and tunnels. Although these railroads have already invested $150 million in the project, the remaining problems (estimated at $654 million in 1997 dollars) will not be fixed before 2014 under the current plan.

The plan's timing is long, in part, because of the difficulty of doing the construction without impairing the operations of the three railroads and, in part, because of assumed funding constraints. We have asked the three railroads to estimate how much the plan could be accelerated, especially the most serious needs for ventilation and evacuation, if its timing were only constrained by the pace of operations and not by a lack of funding. When this accelerated plan is available, the three railroads, the Administration and Congress should explore ways to implement this new, accelerated plan.

Year End Results Show Some Progress, But the Heavy Lifting Is Still Ahead

Amtrak's financial results for FY 1999 show that Amtrak has made some progress, but still indicate the need for major improvement if Amtrak is to reach operating self-sufficiency by 2003. While Amtrak was able to accomplish most of its stated financial goals, Amtrak's audited FY 1999 operating loss of $916 million, including depreciation, was $56 million more than its 1998 loss and the largest in Amtrak's history.[4] On the positive side, Amtrak's systemwide passenger revenues grew by almost 6 percent while systemwide ridership increased by 2 percent over 1998 levels.

[3] Report No. CE–1999–116, July 21, 1999. Report on the 1999 Assessment of Amtrak's Financial Needs Through Fiscal Year 2002, Office of Inspector General, U.S. Department of Transportation.

[4] Amtrak's reported operating loss for 1998 was $930 million, which included the full amount of retroactive labor payments attributable to the years 1996 through 1998 (per newly settled labor agreements). After allocating these costs to the years in which they were incurred, the 1998 operating loss totals $860 million.

FY 2000 is a critical year for Amtrak. Last October, we testified that Amtrak's operating loss in 1999 reflected, in part, investments in projects like the Market Based Network Analysis (MBNA) and Service Standards, which had high up-front costs such as training and research, but were expected to yield significant financial improvements in the years ahead. These and other "placeholders" accounted for over half of the $692 million in projections we considered to be "at risk" in the 1999 Business Plan.[5] This year, it is imperative that Amtrak begin to realize the payoffs of such investments—the small steps made in 1998 and 1999 must now be replaced with large strides this year and next.

The first quarter of 2000 indicates that these strides are slow in coming. Overall passenger revenue, while almost $10 million better than the first quarter of FY 1999, was still more than $9 million behind plan. Both Amtrak West and Intercity fell short of their passenger revenue targets for this period, although Amtrak West's revenues exceeded results for the same period last year. Intercity, however, not only fell short of its passenger revenue targets by nearly $11 million, its revenues were more than $2 million shy of the same period last year. The good news is that, despite the delays in high-speed rail service, Northeast Corridor passenger revenues for the first quarter of FY 2000 were up a strong 7 percent, exceeding projections by over $2 million.

Amtrak has been able to mitigate passenger revenue shortfalls in both 1999 and the first quarter of 2000 through means such as reimbursable work ($8.6 million greater than plan) and one-time sales of real estate. Additionally, the Express business is growing, with revenues almost $2 million better than the first quarter last year, and $1 million better than planned. Amtrak is clearly moving in the right direction, but the heavy lifting is still ahead.

On a cautionary note, we are pleased to see Amtrak able to compensate for some of the shortfalls in passenger revenues, but we are concerned that such shortfalls are occurring at this magnitude, especially in Intercity. A chain is only as strong as its weakest link, and even if projects such as high-speed rail perform as well as projected, those revenues alone will not be enough for Amtrak to reach and sustain viability. Amtrak must work just as aggressively to maintain existing sources of revenue as it works to secure new sources—otherwise benefits related to improved operations will only serve to maintain the status quo. As service changes indicated in the MBNA are implemented, we expect to see a strengthening of all of Amtrak's revenues.

Amtrak Will Be Able to Mitigate FY 2000 Losses Related to Acela Delays

Because of delays in the delivery of the new Acela Express high-speed trainsets and the Acela Regional high-speed locomotives, full implementation of new Acela Express and Regional services will be delayed about 6 months.[6] The delays were caused by suspension and oscillation problems in the wheel trucks discovered during testing on the high-speed trainsets and locomotives. Amtrak, the Federal Railroad Administration, and the manufacturer have made progress in resolving these issues; however, work continues on remaining issues that must be resolved before the trainsets can be operated at their designed speed of 150 miles per hour. As a result of these delays, Amtrak will forgo an estimated $142 million in expected gross revenue that would have been generated by these Acela services. While this loss will make it more challenging for Amtrak to achieve its financial goals in 2000, it is too early to tell what impact it will have on Amtrak's self-sufficiency mandate.

This year's loss will be mostly mitigated by expense savings, interest savings, and contractor penalties for late equipment delivery. By not operating these services, Amtrak will save operating expenses for propulsion power, maintenance costs, onboard labor and supplies, and financing costs. In addition, Amtrak's purchase contract for the trainsets and locomotives includes a provision for liquidated damages for forgone revenue in the event of a delivery delay. These savings total $98 million of the gross revenue loss of $142 million. We have reviewed Amtrak's calculations of these expected savings in operating expenses, financing costs, and liquidated damages and conclude that these savings appear reasonable.

Amtrak is in the process of negotiating lease agreements that it projects will generate sufficient revenue in FY 2000 to offset the remaining net revenue loss. We have reviewed the proposals and their related revenue projections, as well as the likelihood they will be achieved. It is our opinion that, if these lease agreements are

[5] Business Plan Actions projecting revenue growth or expense savings for which no concrete plans had been developed or linked to projected results.

[6] Delivery of the last (20th) Express trainset will not occur until December 2000 rather than July 2000 and the last (15th) high-speed locomotive for Regional service will not be delivered until June 2000 rather than December 1999.

successfully completed, Amtrak will achieve the $44 million offset this fiscal year. However, if delays extend beyond those currently identified, additional mitigating plans would need to be developed or revenue losses could affect 2000 operating results. Unfortunately, had the delivery delay not occurred, these funds could have been used to mitigate other risks in Amtrak's business plan or to address many capital investment needs that it has throughout its system.

The fact that the current delays are likely to have a minimal impact on Amtrak's 2000 operating budget should not detract from the critical significance of the high-speed rail program. High-speed rail is the cornerstone of Amtrak's business plan, and its success is critical to Amtrak's ability to reach self-sufficiency. The offsetting savings, penalties, and leasing actions are sufficient in the short term, but compensation is no substitute for implementation. Amtrak should move as quickly as possible to begin service, but should not do so until it is certain that this service can be operated with consistent reliability.

On a final note, we are aware that there has been some discussion about whether Acela delays might necessitate an extension of Amtrak's glidepath by one year. Our view is that it is premature to make this call. In a year, we will be in a better position to judge the impact of the delays on Amtrak's timeframe for reaching self-sufficiency.

The "Yardstick" Used to Measure Operating Self-Sufficiency Needs Clarification

The Amtrak Reform and Accountability Act of 1997 (ARAA) precludes Amtrak from using Federal funds for operating expenses after 2002, except for the costs of excess contributions to the railroad retirement fund (RRTA). It is silent, however, on several key issues. We believe clarification is necessary so that Amtrak, the Congress, the Administration, and the Amtrak Reform Council (ARC) can all measure Amtrak's progress using the same set of standards.

- **Capital Funding After 2002.** While precluding use of Federal funds for most operating expenses, ARAA does not specifically indicate the Congress' intent to provide capital funds after 2002. If Amtrak makes its mandate in 2003, it will not make it by much; clearly not enough to cover its minimum capital requirements. Even with the currently projected Federal capital funding, Amtrak will fall $244 million short of meeting its minimum capital needs in 2001 and 2002. Without funds to cover such costs as debt or mandatory safety improvements, Amtrak will not be able to continue to operate the railroad. It would be pointless for Amtrak to reach operating self-sufficiency in 2003, if the absence of capital funds in that year would effectively shut down the railroad.

- **Capital Depreciation.** The ARC has stated its position that Generally Accepted Accounting Principles (GAAP) are both logically and legally the standards that should be used to measure Amtrak's operating self-sufficiency. Because capital depreciation expenses are operating expenses, a strict application of GAAP would require Amtrak to include depreciation, essentially the cost of replacing capital, in its calculation of operating self-sufficiency. This would require Amtrak to cover the costs of capital replacement from its fare box after 2002.

  Although we agree with the ARC that GAAP standards are the appropriate ones to use in examining Amtrak's finances (and we have always done so in our assessments), we disagree that depreciation expenses should be included in the self-sufficiency calculation. Congress has historically funded replacement of capital assets through capital grants, not through the operating subsidies that ARAA seeks to end. In addition, requiring Amtrak to include depreciation in its calculation of operating self-sufficiency would effectively guarantee that Amtrak would not reach its mandate by 2003 and, in fact, would have guaranteed that result when the law was passed in 1997.

- **Progressive Overhauls.** Progressive overhauls are limited equipment overhauls that are performed each year in lieu of a comprehensive, or "heavy," overhaul every 4 years. Amtrak believes that progressive overhauls increase equipment reliability, reduce out-of-service time on equipment, and save money.

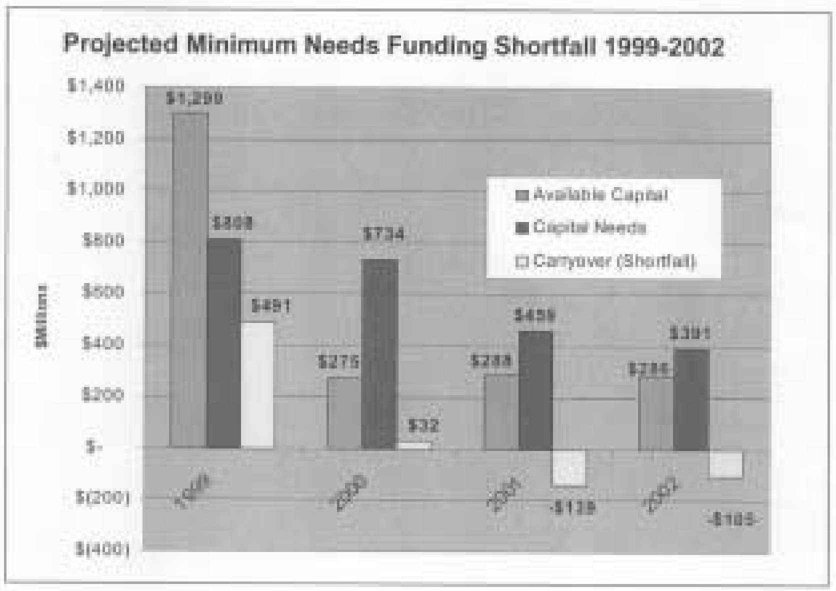
  The ARC has taken the position that under ARAA, progressive overhauls, as an operating expense, could not be federally funded after 2002. We agree that progressive overhauls are operating expenses, but other considerations should come into play in deciding what overhaul program Amtrak should be able to use Federal funding for after 2002. Prohibiting the use of Federal funds for progressive overhauls would likely encourage Amtrak to scale back or even eliminate them completely. Amtrak would rely instead exclusively on heavy overhauls, which can be funded out of Federal funds after 2002. Because progressive overhauls keep equipment in a better average state of good repair and increase availability for service, eliminating them would likely lead to a reduction in service reliability, customer satisfaction, and critical passenger revenues.

It is important to note that this shift to an exclusive heavy overhaul program would not change the total amount of Federal funds being used by Amtrak for overhauls. Reductions in progressive overhaul expenditures (currently federally funded) would likely be offset, dollar for dollar, by increased expenditures for heavy overhauls (federally funded now and after 2002).

If capital funding is to be provided beyond 2002, allowing Amtrak to use Federal funds for both progressive and heavy overhauls would allow Amtrak to make responsible business decisions about the best way to keep the railroad's capital assets in good working order. Discontinuing this practice would likely result in a less satisfactory overhaul program, dictated solely by the fact that Federal funds may be used for heavy overhauls after 2002, while progressive overhauls would need to be funded from the fare box.

Despite Anticipated Capital Funding Shortfalls, Amtrak Continues to Provide for Projects Beyond Minimum Needs

In our 1999 assessment, we estimated that projected Federal funding in 2001 and 2002 would fall short of meeting Amtrak's minimum capital needs by approximately $244 million. The figure below illustrates the timing of this shortfall.



Despite our recommendation that Amtrak identify funding for all of its known minimum needs before investing in developmental, yet non-critical needs, Amtrak's 2000 capital plan continues to provide funds for such projects.

The following are two examples of non-minimum needs spending.

- California is considering spending $20 to $34 billion to build a very high-speed rail network that will not be completed before 2017. Amtrak is spending $5 million in 2000, and plans to spend another $20 million between 2001 and 2004 to finance a series of studies and projects related to this corridor. The State is investing an additional $180 million. Amtrak believes this investment will ensure Amtrak's position in the planning and eventual provision of this high-speed service.
- Amtrak is investing $14 million in infrastructure improvements necessary to support a new Las Vegas service. The total project cost is $28 million, and Amtrak is hoping that the $14 million balance will be funded with a separate Federal appropriation. Amtrak is projecting $1.35 million in net revenues by 2004 from this service. When the same project was proposed last year, our analysis

indicated that expenses were likely to exceed revenues, in which case we concluded Amtrak would most likely make the decision to not offer the service, and restated the projected net revenues to zero.

Amtrak believes these projects are critical to its ability to generate future revenues and cost savings. In fact, revenues like those projected from the Las Vegas service are some of the building blocks in Amtrak's plan for reaching self-sufficiency. While we are sympathetic to Amtrak's position, it is necessary for Amtrak to ensure that funds are available for the minimum required investment in areas such as life-safety and refleeting. This will not be possible in 2001 and 2002 if Amtrak continues spending on non-minimum needs. If the Administration's proposed budget for 2001 is adopted, Amtrak would have sufficient funds to address minimum needs and invest in projects with long-term growth opportunities like new high-speed corridors. In the meantime, while such funding remains uncertain, we recommend that Amtrak take the more prudent course of delaying investment in such projects until all minimum needs are met and/or additional funding becomes available.

Critical Life-Safety Needs in New York's Penn Station and River Tunnels

On a final note, we are very concerned with longstanding fire and life-safety needs in Penn Station and the six Hudson and East river tunnels connecting Penn Station to Queens and New Jersey. The Penn Station fire and life-safety project began in 1976, and more than $106 million has been spent on these needs between 1976 and 1999. Even though an additional $43 million will be spent by Amtrak, the Long Island Rail Road and New Jersey Transit in FY 2000, funding has not been secured for some of the more critical projects such as lighting improvements, benchwall repairs, evacuation stairs, and tunnel ventilation. The price tag for these projects after 2000 is $654 million.

The current plan for addressing all needs anticipates completion by 2014. This is partly a function of constraints caused by the number of trains running through the tunnels and station each day. There are limits to how quickly the life-safety investments can be made without widespread disruptions for commuters and intercity passengers. But the prolonged schedule is also a function of constrained funding. Amtrak and the commuter railroads have identified several projects, including those that address critical ventilation and evacuation needs, which could be accelerated if funding were not a constraint. Such acceleration could be facilitated by a joint effort among the railroads, the Administration, and the Congress.

Madam Chair, Amtrak's ability to successfully implement its Northeast Corridor high-speed rail program and service improvements indicated by the Market Based Network Analysis will play a crucial role in determining whether Amtrak's efforts will be sufficient to sustain progress along its remaining glidepath to operating self-sufficiency. During this period, it is important that all parties reach agreement on what "self-sufficiency" means. I can assure you we will continue to look closely at Amtrak's progress along its glidepath, and keep you and your staff fully informed. We expect to have our assessment report on Amtrak's 2000 Strategic Business Plan available early this summer.

This concludes our statement. I would be pleased to answer any questions.

Senator HUTCHISON. Thank you, Mr. Mead. And perhaps that is the subject of another hearing, a safety hearing.

But I do very much appreciate your comments regarding the capital depreciation or replacements costs, which Congress has always funded. I think that is very important; and also the alternative would be to let cars deteriorate, which is why Amtrak got in trouble in the first place. So I think we have to try to reconcile this for the ARC so that we can be more realistic.

And last but not least, I think it is absolutely clear from the law and from everyone who spoke on the Amtrak reform legislation in 1997, that we were never intending to preclude capital expenditures for Amtrak, just as every other public transit and every other transportation mode has from Federal taxpayers.

With that, let me say that I am going to ask the next two witnesses, both of whom represent transit agencies, to stay within the 5-minute limit.

And I will call on first Mr. Bill Millar, who is the President of the American Public Transportation Association.

And if you could refine your remarks to 5 minutes, I would appreciate it. Thank you.

STATEMENT OF WILLIAM MILLAR, PRESIDENT, AMERICAN PUBLIC TRANSPORTATION ASSOCIATION

Mr. MILLAR. Thank you, Madame Chair. And I will certainly do my best to stay within the 5-minutes.

And I think that Mr. Mead has outlined a lot of the technical accounting issues that I had intended to cover. And I completely agree with his analysis of it.

Let me skip over my introductory remarks then and go straight to what I believe to be the heart of my testimony that is of interest to the Committee.

I have been asked specifically to comment on how public transit systems account for certain types of expenses, namely heavy vehicle overhaul, which is a term we use which is equivalent to the progressive overhaul that Amtrak uses, and the depreciation expenses, or more precisely, does the transit industry regard these as part of operating budget expenses of capital expenses?

Now in preparing the testimony here, I had the staff review a number of audit statements from a number of transit systems. And I find that while individual public transit systems may describe or account for their expenses slightly differently, all do so under the overall umbrella of the generally accepted accounting principles, or GAAP principles, as we speak of here today. That is consistent, also, with what my experience was in many years of heading up the public transit system that served the public in Pittsburgh, Pennsylvania.

Now talking about depreciation specifically, private enterprises use depreciation not simply to meet GAAP standards, but it is a practical matter to reduce their income taxes. It also helps explain in a more systematic way the cost of asset over time.

Well, public agencies simply do not pay income taxes. It is not an issue with public transit agencies. In fact, a number of years ago, the Congress allowed through the tax code for public agencies who have no need of depreciation to actually sell that depreciation as a way to replace equipment more rapidly, things of that sort.

For most transit systems, operating revenue, like for Amtrak, as I understand it, is a very precious commodity and is guarded very carefully. We do not spend operating revenue today on tomorrow's replacements.

For example, the DART system in Dallas that I know the Chair is very familiar with, does not allocate its operating dollars today for future renovations of the system, even though they are clearly getting great benefit in the community from the light rail vehicle and the bus system that they operate. So, too, with Fort Worth, San Antonio, Austin, and, as the Chair has mentioned, Houston as well.

So the practice, then, is to carry the depreciation on an operating statement for the reasons that the inspector general has outlined to you. But frankly, it has very little meaning in the public sector context because the equipment that is going to be replaced, the assumption is it will be from some form of public funding down the road.

Now turning to the issue of vehicle overhauls, a similar situation exists there. The Federal Transit Administration has allowed definitions of capital funding to be spent for heavy overhauls; that is, replacement of major components of rolling stock now for some 13 years. And in recent times, that definition has in fact been broadened. And it now allows that subcomponents can be rehabilitated as time goes by, not waiting for major heavy overhauls.

Regrettably, the experience in the public transit industry was much as Inspector Mead just described in Amtrak, that if it was not allowed in this fashion, then simply these kinds of improvements were not made on a timely basis. And that is unfortunate, indeed, from every way you look at it.

Now there are other experiences in this area that I would like to draw to your attention. For example, I spent much of my working career in the State of Pennsylvania. And it became clear that when dealing with overhauls, a couple of principles were agreed to by all: One, that the strategic overhauls do extend the service life of vehicles. And thus, they really help maximize the benefit of the public investment that was made in the vehicle in the first place; second, that periodic heavy maintenance activity served to significantly improve vehicle reliability, reduce equipment breakdowns and the associated consumer inconvenience, and allow for preventative maintenance and safety objectives to be met on a more regular and more timely basis.

I think it is also interesting, if one steps away from public passenger transportation for a moment and looks over in the modern funding of a highway program, that in fact the Congress has allowed with each succeeding surface transportation bill more emphasis on maintaining highway systems.

So we see preventative maintenance activities, such as bridge painting being allowed. We see a whole program called interstate maintenance being allowed. So you even find the analogies in there as well.

Let me close with two concluding statements, and these would be as follows. Although the public transportation agencies may use different methods of accounting for depreciation vehicle overhaul expenses under GAAP, two conclusions are clear: One, while public transportation agencies may report depreciation as a non-cash expense item in their operating statement, they generally do not budget for depreciation of these assets that are government funded and for which replacement is expected to be government funded.

And second, many transit agencies fund heavy overhauls with capital funds that are received from a variety of governmental sources. And as the Chair has said, these same agencies have their statements audited every year. They receive clean audits because it fits within the overall understanding of what the practice is in the industry.

With that, Madame Chair, I thank you. And I would be happy to answer any questions at the appropriate time.

Senator HUTCHISON. Thank you.

[The prepared statement of Mr. Millar follows:]

PREPARED STATEMENT OF WILLIAM MILLAR, PRESIDENT, AMERICAN PUBLIC TRANSPORTATION ASSOCIATION

Introduction

Good morning Chairman Hutchison and Members of the Surface Transportation Subcommittee. I am pleased to be here today on behalf of the American Public Transportation Association (APTA) to testify specifically on certain capital cost accounting practices used in the public transportation industry. Consistent with your letter of invitation, I will also highlight other issues, including the importance of ongoing investments in rail infrastructure to a balanced, intermodal transportation system that offers choices to travelers and offers the potential to build a healthy future for America.

About APTA

APTA is a nonprofit international association of over 1,270 member organizations including transit systems; planning, design, construction and finance firms; product and service providers; academic institutions, and state associations and departments of transportation. APTA members serve the public interest by providing safe, efficient and economical transit services and products. Over ninety percent of persons using public transportation in the United States and Canada are served by APTA members.

Public Transportation Use is Growing

Across America, public transportation in general, and commuter rail and rail transit in particular, is in the midst of a rebirth. Because of increasing investment levels made possible through the Transportation Equity Act for the 21st Century (TEA 21) and annual appropriations acts, public transportation ridership is on the rise, a trend likely to continue as many of the 200 new passenger rail projects authorized by TEA 21 take shape.

The latest ridership figures verify a trend of more and more people choosing to use public transportation services. Thanks to Congress's investment in the federal public transportation program, improvements in the transit commuter benefit tax law, a healthy economy, and other factors, an estimated 9 billion transit trips were taken in 1999, the highest ridership in almost forty years. Over the last four years, transit ridership in the United States has grown by 16 percent.

Transportation Options are Needed to Address Traffic Congestion

There is no disputing the fact that traffic congestion in the U.S. has reached epidemic proportions. Problems surround us on weekdays and weekends alike, no matter what time of day. A study released by the Texas Transportation Institute (TTI) confirms our observations: traffic is bad, and is getting worse each year. The study notes that in 1997, congestion cost travelers in 68 urban areas 4.3 billion hours of delay. The financial cost of congestion now exceeds $72 billion annually, an increase of more than $6 billion over the previous year. That is the equivalent of $755 per eligible driver, or $3 in congestion cost per driver every working day.

While the TTI study advances a number of possible solutions to America's traffic congestion crisis, one of the core proposals to increase mobility is very clear: offer citizens mobility choices. We believe public transportation can and will play an enormous role in doing just that. And such choices should extend to travel between cities as well as travel within cities.

Capital Cost Accounting: What are the Standard Practices?

I have been asked to comment on how public transportation systems account for certain types of expenses, namely heavy vehicle overhaul and depreciation expenses. More precisely, does the transit industry regard such costs as operating budget expenses or as capital budget expenses?

As President of APTA, I speak broadly on this topic, being reasonably familiar with the practices used by many transit systems across the United States. However, individual public transportation systems may describe or account for expenses differently in accordance with local requirements or law while still adhering to Generally Accepted Accounting Principles (GAAP). I also speak from experience gained while serving thirteen years as Executive Director of Port Authority of Allegheny County, the public transportation system serving Pittsburgh, Pennsylvania, where consideration was continually given to the best way to fund and reflect capital and operating expenses.

How Public Transportation Systems Treat Depreciation

Private sector enterprises account for depreciation primarily to reduce taxable income and to distribute the cost of an asset over its useful life in a systematic manner. Public agencies normally do not pay taxes and thus would not benefit from the first reason. While transit agencies typically include depreciation as an expense in the preparation financial statements audited under GAAP, depreciation expenses are specifically identified as a non-cash item that is excluded from the calculation of operating expenses. In addition, transit agencies generally do not budget for depreciation expenses when the purchase of assets is funded through federal and/or other governmental capital grants (the manner in which the vast majority of transit capital projects are funded).

To offer an illustration, as citizens of Dallas continue to enjoy their new light rail system, the Dallas Area Rapid Transit Authority (DART) does not allocate today's operating dollars to fund future renovations of their system. Any future renovations of the DART system will instead be funded through sources of capital funding that may be available, such as dedicated taxes, capital grants, private financing or creative financing techniques.

Another example will be for the ongoing bus and trolley bus replacement needs in cities such as Fort Worth, Houston, San Antonio and Austin. Rather than accounting for depreciation in each annual operating budget as vehicles age (an accounting practice used in the private sector largely for tax write-offs), the practice in the transit industry is to fund such capital investments through separate funding sources available for capital projects. This allows the operating budget to reflect the costs of operating the system, rather than longer-term capital costs.

How Public Transportation Systems Treat Vehicle Overhauls

The Federal Transit Administration's definitions of capital funding clearly allow for heavy overhauls, i.e., the replacement of major components of rolling stock. Since 1987, the federal public transportation program has regarded vehicle overhauls as an eligible and desirable capital activity. This program recognizes that the various sub-components of a rail vehicle generally have a useful life of much less than the twenty-five or more year useful life of the vehicle.

Further, during my years in Pennsylvania, I worked extensively with the Pennsylvania Department of Transportation and the Pennsylvania State Legislature to come up with a reasonable way to pay for vehicle overhauls. That dialogue was based on two fundamental principles: (1) that strategic vehicle overhauls serve to extend the life of vehicles, and thus help to maximize the benefit of the public investment in that vehicle, and (2) that periodic "heavy maintenance" activities serve to significantly improve vehicle reliability, reduce equipment breakdowns and the associated customer inconvenience, and satisfy important "preventive maintenance" objectives. Pennsylvania chose to fund a public transportation vehicle overhaul program as a part of the state's capital budget.

Evolving Public Policies

Public transportation is not the only surface transportation mode which handles major overhauls in this manner. I call to your attention that the federal highway program has taken significant steps in recent years to include certain maintenance costs as eligible activities for capital funding. The Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) began to allow flexibility in the use of funds for certain preventive maintenance activities, such as bridge painting, and established "Interstate Maintenance" as an eligible capital program.

Using another Pennsylvania example, only about 10–20 percent of the Pennsylvania Department of Transportation's recent highway capital budgets have gone toward the construction of new roads, with the large majority of the budget going to restoration and rehabilitation programs intended to make the existing system work better. Pennsylvania, and the federal highway program as well, are redefining the distinctions between capital and operating costs to reflect these "maintenance first" policies.

Conclusion

Chairman Hutchison, I hope this information is helpful to the Subcommittee in its deliberations on this matter. Although public transportation agencies may use different methods of accounting for depreciation and vehicle overhaul expenses under GAAP, two conclusions are clear: (1) while public transportation agencies may report depreciation as a non-cash expense item in their operating statement, they generally do not budget depreciation for assets that are government funded, and for which replacement is expected to be government funded, and (2) many transit agencies fund heavy overhauls with capital funds received from a variety of governmental sources.

I thank you for the invitation to testify before the Surface Transportation Subcommittee. I would be happy to answer any questions that the Subcommittee may have today, or at any time subsequently.

Senator HUTCHISON. Thank you. That was very helpful, and particularly your pointing out that highway funds are now used for interstate maintenance, for certain preventative maintenance activities.

That is in your testimony, and I think it is very important, Mr. Carmichael, for the Amtrak Reform Council to have those references. Indeed, highway funds are used to refurbish rail stations. So there is a lot of subsidy and a lot of, I think, analogy that fits. So I thank you.

And with that, I will call on Dr. Catherine Ross, the Executive Director of the Georgia Regional Transportation Authority.

STATEMENT OF DR. CATHERINE ROSS, EXECUTIVE DIRECTOR, GEORGIA REGIONAL TRANSPORTATION AUTHORITY

Dr. ROSS. Thank you, Madam Chairwoman, and thank you, Senator Cleland, for the opportunity to come before you today and talk about continuing support for Amtrak and the rebirth of rail passenger travel in our States and metropolitan areas, with particular reference to the Georgia experience.

Currently, there is no intercity rail in the State of Georgia, and we have looked to Amtrak for expertise, and advice, and leadership for high-speed rail development. The Georgia legislature created the Georgia Regional Transportation Authority at the direction of Governor Roy Barnes less than a year ago.

We are charged with relieving congestion and reducing pollution in the 13-county region that is non-attainment for air quality. Part of our core mission is to provide the Atlanta region transportation choices, and commuter rail expansion is a large part of our plan.

I am proud to tell you today that in-state passenger rail is getting back on track in Georgia, and we expect to provide Georgia's intercity commuters a real choice in rail by the year 2003, but we can no longer meet that demand by simply adding more highway capacity.

For one thing, the Georgia Regional Transportation Authority is committed to providing more transportation choices that includes new roads, car pool lanes, express buses, and van pools. Rail service is an important part of the mix that is required for an efficient seamless transportation system.

Buses could carry riders to suburban rail stations, and commuter trains could connect with the existing Metropolitan Atlanta Rapid Transit Authority.

Second, linking Georgia cities by rail could spur economic development in areas of our State that are not growing as rapidly as the Atlanta region. Rail access to Hartsfield International Airport, for example, could attract new industry to middle Georgia.

Finally, there is a national trend toward expanded rail service. Recent analysis by the U.S. Conference of Mayors finds that 47 of the nation's 50 largest metro areas are in the planning phase of some kind of rail investment, and in 17 areas, rail projects are now under construction. In total, about 200 projects are in the planning, engineering, or construction phase throughout the nation.

Amtrak will soon start operating high-speed trains in the Northeast, and Amtrak president, George Warrington, said he envisions Atlanta as a regional hub for high-speed rail. That would significantly boost our efforts to establish intrastate rail passenger service in the State of Georgia.

I would like to emphasize two roles among several that the Amtrak Reform Council has identified for Amtrak. First, to be a potential contractor for commuter rail services, and second, to contribute to Federal policymaking for the nation's intercity rail passenger system. We believe those are important roles for Amtrak in assisting the development of commuter rail service in the United States.

States from every region of the country face similar problems, as we do with traffic congestion and pollution, and are equally interested in commuter and intercity passenger rail service.

We all suffer from growing pollution and growing highway and airport gridlock. We all recognize that Amtrak can play an important role in solving those problems.

The Georgia rail renaissance is real. As few as 3 years ago, none of Georgia's Federal highway dollars went into mass transit. Currently, MARTA operates 47 miles of heavy rail in a two-county area, using Federal mass transit assistance and a local sales tax. Amtrak operates four long-distance intercity passenger trains in the State, through Atlanta or Savannah. That is it.

Now, the proposed 3-year transportation improvement plan for the Atlanta region calls for nearly $260 million in highway funds to go for commuter rail programs, extending in all directions from Atlanta. Overall, the 25-year regional plan anticipates a 380 percent increase in total rail passenger mileage in the Atlanta region. That is 190 more miles for rail.

Interest in rail transportation is not just confined to metropolitan Atlanta. The Georgia legislature is considering legislation that would designate 18 different corridors in the State.

Georgia residents want to be a part of that network statewide. People are beginning to see the economic opportunities behind passenger rail the way they anticipated extensions of the interstate highway system a generation ago.

Clearly, interest in intercity passenger rail is not confined to a single State or region, it is a national movement, and deserves to be addressed at the national level. That is why groups like the National Governor's Association, the U.S. Conference of Mayors, the National League of Cities, the Council of State Governments, and the National Council of State Legislatures are all urging Congress to give the States more flexibility for passenger rail.

Madam Chairwoman, I hope my testimony today has made it clear why Georgia, and many other States as well, look to intercity passenger rail to help us solve some of our most serious transportation problems, and why we look to Congress to facilitate State partnerships with Amtrak.

Thank you very much.

[The prepared statement of Dr. Ross follows:]

PREPARED STATEMENT OF DR. CATHERINE ROSS, EXECUTIVE DIRECTOR, GEORGIA REGIONAL TRANSPORTATION AUTHORITY

Thank you, Madame Chairman, and thank you, Senator Cleland, for the opportunity to come before you today and talk about continuing support for Amtrak and the rebirth of rail passenger travel in our states and metropolitan areas, particularly our experience in Georgia.

Amtrak serves an important purpose to our nation's states and regions working on developing intercity rail, particularly in areas like Georgia that currently have no intercity rail at all within the state. We look to them for the expertise and advice, and leadership for high-speed rail development.

The Georgia Legislature created the Georgia Regional Transportation Authority, at the direction of Governor Roy Barnes, less than a year ago. We are charged with relieving congestion and reducing pollution in the 13-county region that is in non-attainment for air quality. Part of our core mission is to provide the Atlanta region transportation choices, and commuter rail expansion is a large part of our plan.

I am proud to tell you today that in-state passenger rail is getting back on track in Georgia, and we expect to provide Georgia's intercity commuters a real choice in rail by 2003—about 30 years since the famed train, the "Nancy Hanks", linking Atlanta and Macon to Savannah, was decommissioned. For too long, Atlanta literally buried its passenger railroads by building its downtown automobile viaducts and highways on top of its famous rail yards and relying solely on the automobile for surface transportation. Atlanta is still Terminus, its original namesake, only for passenger air travel.

But we can no longer keep up with surging growth in Georgia by adding more concrete ribbons to our landscape. Our people want transportation choices that are convenient, reliable, affordable and that protect our quality of life. Soon, Atlanta and greater Georgia will be known for their 21st Century rail network. Following the creation of the Georgia Regional Transportation Authority last year, Georgia took a new look at its transportation needs for the 21st century, and saw a number of factors that could point toward a passenger rail revival.

For one thing, GRTA is committed to providing more transportation choices in the Atlanta region, including new roads, car pool lanes, express buses and vanpools. Rail service is an important part of the mix that is required for an efficient, seamless transportation system. Buses could carry riders to suburban rail stations, and commuter trains could connect with the existing Metropolitan Atlanta Rapid Transit Authority rail line.

Second, linking Georgia's cities by rail could spur economic development in areas of our state that are not growing as rapidly as the Atlanta region. Rail access to Hartsfield International Airport, for example, could help attract new industry to middle Georgia.

Finally, there is a national trend toward expanded rail service. Recent analysis by the US Conference of Mayors finds that 47 of the nation's 50 largest metro areas are in the planning phase of some type of rail investment, and in 17 areas rail projects are now under construction. In total, about 200 projects are in the planning, engineering, or construction phase throughout the nation.

Amtrak will soon start operating high-speed trains in the Northeast, and Amtrak president George Warrington said he envisions Atlanta as a regional hub for high-speed rail. That would significantly boost our efforts to establish intra-state rail passenger service in Georgia.

I would like to emphasize two roles among several that the Amtrak Reform Council has identified for Amtrak: 1) to be a potential contractor for commuter rail services and 2) to contribute to Federal policymaking for the nation's intercity rail passenger system. I believe those are important roles for Amtrak in assisting the development of commuter rail service in the United States.

States from every region of the country face similar problems as we do with traffic congestion and pollution, and are equally interested in commuter and intercity passenger rail service. We all suffer from growing pollution, and growing highway and airport gridlock. We all recognize that Amtrak can play an important role in helping solve our problems.

That's why states and regions are making substantial investments in passenger rail. Let me offer a few examples.

- On October 1, 1999, Wisconsin, Illinois and Michigan announced that, in partnership with Amtrak, they will develop a plan to purchase new rail equipment capable of traveling 110 m.p.h. to operate in 3 Midwest passenger rail corridors.
- On February 1, 2000, transportation officials from states in federally-designated high speed corridors announced at a Congressional briefing that they are forming a coalition of states to support intercity passenger rail and the development of high-speed corridors. The coalition now has 12 states and hopes to sign up 24 more.
- Nine Midwestern states, in cooperation with the Federal Railroad Administration, are working on the Midwest Regional Rail Initiative—a plan to improve intercity passenger rail service throughout the Midwest.

- In November 1999, Amtrak and the Pennsylvania DOT announced a $140 million agreement to fund improvements on the Philadelphia to Harrisburg Keystone corridor.
- In California, Amtrak has invested $125 million—its largest state investment ever—for new trains for the San Diego-San Luis Obispo rail corridor. Altogether, California and Amtrak have invested $500 million over the past 10 years to improve service on the South California and Central Coast routes.
- Along the Gulf Coast, Mississippi, Louisiana and Alabama are working on plans to improve service along the federally-designated Gulf Coast high-speed rail corridor.

The Georgia Rail Renaissance is just as startling. As few as three years ago, none of Georgia's Federal highway dollars went into mass transit. Currently, MARTA operates 47 miles of heavy rail in a two-county area using Federal mass transit assistance and a local sales tax. Amtrak operates four long-distance, intercity passenger trains in the state through Atlanta or Savannah. That's it.

Now, the proposed 3-year transportation improvement plan for the Atlanta Region calls for nearly $260 million in highway funds to go for commuter rail programs, extending in all directions from Atlanta. Overall, the 25-year regional plan anticipates a 380 percent increase in total rail passenger mileage in the Atlanta region, that is 190 more miles for rail.

Interest in rail transportation is not just confined to metropolitan Atlanta. The Georgia Legislature is considering legislation that would designate 18 different corridors in the state. Georgia residents want to be part of that network—statewide. People are beginning to see the economic opportunities behind passenger rail the way they anticipated extensions of the interstate highway system a generation ago.

Of course, it would be quite optimistic to predict that all of these new lines will be built and operational in our lifetime, but what is rewarding to see, from a transportation planner's perspective, is the spark of interest in passenger rail across the state and the emerging belief that people can have transportation choices.

Institutionally, we are also making our mark in Georgia. Late last year, the state formed an interagency team to supervise the development of a rail passenger network in the state. The Program Management Team, or PMT, for the Georgia Rail Passenger Program comprises two board members each from the Georgia Department of Transportation, the Georgia Passenger Rail Authority and the Georgia Regional Transportation Authority. Governor Barnes asked Walter "Sonny" Deriso, a GRTA board member from Southwest Georgia, to chair this team.

The PMT's rail consultants are proceeding with studies of the potential for commuter rail operations in the Atlanta region and throughout the state. A 5,000-mile network of railroads crisscrosses the State of Georgia, providing an excellent opportunity to establish a passenger rail network. A previous exhaustive study of passenger travel by mode and trip preference surveys found that Georgians would make about seven to 10 million trips a year by passenger rail if it were provided at a reasonable cost, was reliable and provided a frequency of service to meet travel needs.

The current Intrastate Rail Plan anticipates moving 1.6 million passengers a year by the year 2020 on seven lines with 15 stations and 790 miles of upgraded railroads. The Atlanta Commuter Rail Plan would expect to carry between 6 and 8 million passengers a year by 2010 with trains on six lines and 39 stations.

Clearly, interest in intercity passenger rail is not confined to a single state or region. It's a national movement, and deserves to be addressed at the national level. That's why groups like the National Governors' Association, the U.S. Conference of Mayors, the National League of Cities, the Council of State Governments and the National Council of State Legislatures are all urging Congress to give the states more flexibility for passenger rail.

Madame Chairman, I hope my testimony today has made it clear why Georgia, and many other states as well, look to intercity passenger rail to help us solve some of our most serious transportation problems, and why we look to Congress to facilitate state partnerships with Amtrak.

Thank you.

Senator HUTCHISON. Dr. Ross, your testimony was right on, and I so appreciate your sharing that with us, because your experience in Georgia is very similar to mine in Texas, and our majority leaders in Mississippi.

In the past, we have drawn on highway funding and highways, and now that we have cities that are creating mass transit authorities, Amtrak is a link, and it is a very important link that allows our rural residents to come into a train station in a smaller area, get on Amtrak, come into our metropolitan areas, and it is very exciting.

But we have to keep that skeleton alive if we are going to have the ability to grow from compacts and local sharing arrangements. So I thank you very much for that.

Now, I would like to start the questioning, and we will limit ourselves to 5 minutes as well, because we also have Senator Wyden. We are very pleased to have you with us.

I want to start with Governor Thompson or Mr. Warrington, and ask you to address the issue of operational self-sufficiency. Your own Amtrak plan shows that you must increase earnings by $674 million in 3 years. That is a 40-percent increase over today's earnings. How do you plan to do it, and do you think you can?

Governor THOMPSON. Yes, we certainly do believe we can, Senator, and thank you very much for the question. We are going to do it through high-speed trains. In the Northeast Corridor we are expecting at least $125 million to $150 million increase as soon as we are able to get the high-speed express trains going.

You have already seen what has happened when we put the high-speed regional on. That has gone up since January by 25 to 35 percent. So we think we are very conservative in figuring $125 million to $150 million on the express annually.

We are also going to increase our Express Mail by considerable amounts. We are just signing some new contracts with a lot of the major companies. We are going to get into the refrigeration business, which right now is an $8 billion business across America, and Amtrak is being asked to go into that business, that we think we are going to be very successful.

We are managing all of our assets. We are going to have an announcement next week on Tuesday about our market-based network analysis, and we are going to be looking at all of the train sets that we have, how profitable they are, how we can make them more profitable, and all of these things go into our glidepath that we feel is a business plan that is sustainable and achievable, and we think we will be able to do it.

Senator HUTCHISON. Thank you for that. I want to ask you a question, because it addresses the bigger picture. We have seen on the Texas Eagle when you increase the number of trains per week from three to four that ridership went up and mail contracting went up.

Governor THOMPSON. True.

Senator HUTCHISON. Is it in your plan to go to 7-day-a-week service on every route——

Governor THOMPSON. No.

Senator HUTCHISON. —so that we will have better mail carriage, and if not, why does that not make sense?

Governor THOMPSON. Because in some of our analysis it just does not make sense, Senator. We have to make sure that we maximize every use of our rolling stock, and in some places, 7-day transportation service just does not increase the amount. It only increases the expenses.

So we went through a detailed analysis, and where we think that by expanding services we will increase the revenue into the bottom line, we will do that, but in some cases where we think by going the 7-day service, all it would do is add the expenses and not increase the ridership. It does not make any sense to do so.

Senator HUTCHISON. Is there a breakpoint——

Governor THOMPSON. So it is really a cold, calculated decision on our part to do that.

Senator HUTCHISON. Is there a breakpoint between four- and five-day-a-week service that gives you more mail and contract carrier potential, to go to 5-day-a-week service from 4-day-a-week service?

Governor THOMPSON. It is based strictly on the analysis of each line. George, did you want to add something?

Mr. WARRINGTON. Yes, Senator. The demographics of each origin and destination, from both a passenger demand point of view, as well as from a mail point of view, and an express freight point of view vary widely. Travel times matter, frequency matters, as well as numbers of days of week.

I will tell you that on a system-wide basis, depending upon those variable demands, the requirements for different types of frequencies or levels of service vary widely, as do the revenue opportunities, and the expenses that flow from that.

I will tell you that the underlying premise around all of our planning work—the Governor indicated we would be sharing some of those results next week—but it is an ongoing process, and we have a number of additional analyses which we will be undertaking on a continuing basis, including over the next several months.

But I will tell you that the underlying assumption around all of that work, really for the first time in Amtrak's history, is not premised upon nickel and diming ourselves, and cutting ourselves to recover costs, because in all of those instances in our past, the amount of revenue that we lose generally far exceeds the amount of cost that we save.

As a consequence, the basic planning premise, which the airlines figured out a long time ago, is that you need to expand your reach, you need to expand your coverage, and you need to expand your frequency.

You need to maximize the assets or the slots that you have trains available for with the freight railroad to squeeze as much revenue out of every one of those frequency slots as you can.

Senator HUTCHISON. Okay. I certainly want to see an addressing of that issue as you go down the road, because I think just as you have said, the airlines have done it, there is something that would help ridership if people know there is a frequency of service and the capability to change plans or be more flexible, which brings me to my second question, and that is ridership.

I would like for you to address the suggestion that ridership has really not changed in the last 10 years. Is that true? Hopefully, not.

Mr. WARRINGTON. Maybe I could put that in a little bit of context, Senator. First of all, Amtrak's ridership and demand, frankly, was hemorrhaging for a good number of years through the late eighties and early nineties. Amtrak responded to that hemorrhaging by establishing an approach to business which significantly reduced frequencies and train miles across this national system, which resulted in a further downward spiral around ridership.

I will tell you, we have worked very hard over the past 3 years, from a very low starting point, given that historical context, to rebuild some of what we lost in the mid-nineties as a consequence of a number of those service changes and service cuts, and that, coupled with a lot of focus around marketing, and a significant investment in corridors around this country, and I can name a number of them off the top of my head, have enabled us to turn this ship around.

Do I wish we were doing better? Do I wish we were doing better around intercity train service? Yes, I do. We are still positive, but we are not where we need to be, and we are not where I want us to be. The consequences of the market-based network assessment and the continuing planning we will do will improve those numbers, no doubt, around the intercity train system.

Continuing capital investments in particular services and corridors around this country will continue to pay significant dividends. Several have come to mind: The Keystone corridor, between Philadelphia and Harrisburg, the Pacific Northwest, between Eugene and Vancouver, the Capitol corridor, in California, between Sacramento and Oakland, among many others. They have been extraordinary examples of a relationship between capital investment, and frequency, and ridership increases. We need to do that more around this country, and we will do that, Senator.

Even our long-distance train network, where we have had some problems, trains like the Coast Starlight in California, the Empire Builder between Chicago and Seattle, and the California Zephyr, last year had the highest ridership demand on those trains than in seven or eight prior years, and that is a consequence of getting refocused around service standards, around marketing, around consistency, and better connectivity.

Governor THOMPSON. In the last 3 years, just quickly, we have increased our ridership each year in the last 3 years, 2 percent this past year, 10 percent over the last 3 years. The Hiawatha goes from Chicago to Milwaukee, in my area of the country, is up by at least 10 percent, and we are going to do more.

There is a new fascination for rail passenger service. As soon as we get that express going from New York City in two-and-a-half hours or less to Washington, D.C., we think the ridership is going to explode. We think from New York to Boston in 3 hours or less is just going to help the kind of overall fascination to get more people to say we want that in our part of the country, we want to be able to have rail passenger service, and we want to ride it.

Senator HUTCHISON. Thank you.

Senator Cleland.

Senator CLELAND. Thank you very much, Madam Chairman.

Following up, Governor Thompson, thank you for your passion, thank you for your commitment. That 140-mile-an-hour fast train, that high technology, we would like it to come south. We have discussed it before.

Governor THOMPSON. I want it to get to the Midwest first, Senator Cleland. That is my passion for being at this Committee, I want you to know that.

Senator CLELAND. We have passion here on this side, too. May I just say, thank you very much for all you do for this effort. It means an awful lot.

May I turn to Catherine Ross? Dr. Ross, please allow me to welcome you to the Senate here. I know the daunting task which stands before you, as you try to leave the Georgia Regional Transportation Authority. The creation of that Authority is a direct result of some of our problems there, but I think we are able in the twenty-first century to see an ability to work out those problems, particularly with the passenger rail.

Could you share with us a little bit of the brief history of GRTA, and the reason and the rationale for your need for Federal support, and also flexibility at the State level?

Dr. ROSS. GRTA, I would argue, has no peer nationally in regard to the very broad power and authority that we have to facilitate more transportation choice, and increase our flexibility to spend Federal funds in the metropolitan area as we wish. Right now, we cannot spend those dollars on any road-expanding activities.

Having said that, we are very much—a part of our charge as rail. There is a six-person oversight rail committee, two from the Georgia Rail Passenger Authority, two from the Georgia Department of Transportation, and two from the Georgia Regional Transportation Authority.

The Chair of that oversight committee, and they have oversight responsibility for all of rail passenger in the State of Georgia, not just in the Atlanta area, six on the board of the Georgia Regional Transportation Authority, so I can assure you we are in the midst, are very much involved in the rail agenda in the State, and particularly, because we see it as an opportunity to address a lot of our needs in the metro area, but also as a way to begin to provide more transportation choice throughout the State of Georgia.

So rail is very much a part of our responsibility, even though we are designated for the review, oversight, and approval responsibility for all land transportation systems in the 13-county non-attainment area. That means just what it says, and we are in the process now of developing a memorandum of understanding with our partners to detail that relationship.

Having said that, we are very supportive of a number of bills nationally that have implication for us and what we are trying to accomplish, and they have been referenced. S. 1144, which would increase flexibility, so that we could spend the Federal transportation funds on intercity rail.

For example, 1900, the High-Speed Rail Investment Act, which would allow Amtrak to float bonds and invest in high-speed growth corridors. We think high-speed train technology, the existence of high-speed corridors, is an important part of the transportation infrastructure, and it is a part that is woefully inadequate, under funded, and in many instances, non-existent.

Senator CLELAND. Yes. I am a co-sponsor of both of those pieces of legislation.

Dr. ROSS. I understand that. So we are very supportive of your efforts and very supportive of both pieces of legislation.

One last comment has to do with the reference to another gap, and that is the gap in the Gulf Coast corridor that now goes to Birmingham, Alabama. We would like that to come onto Atlanta.

We are also very concerned in that regard, and also some opportunities in regard to the corridor from Macon that now does not go through Macon. It does not connect Macon up to the coastlines.

So there are a lot of issues that are very important in terms of us moving our rail initiative along, and meeting the dictates of the Clean Air Act.

Senator CLELAND. Thank you very much. Mr. Warrington, what is the possibility—do you have any plans to extend the Gulf Coast high-speed railcar, which currently ends in Birmingham? Do you have any plans to connect that on to Atlanta, which would connect it to the southeast high-speed railcar up through the Carolinas?

Mr. WARRINGTON. Yes, Senator. It has not been officially designated by the FRA as a corridor, but that does not in any way preclude us from doing what we continue to do, which is examine market opportunities. Travel demand for both passengers, as well as mail, and as well as express business, that will really be the driver.

What the designation enables is access to some Federal money through the Federal Railway Administration, primarily around grade crossing elimination, but from a business point of view and a market point of view, that is not a constraint for Amtrak around a decision to invest in services.

This is all about money, and it is all about business, and it is about defining, with clarity, what the business opportunities are from a passenger demand point of view, what can the market bear, what does the market want, and what does it need, and what in the way of mail and express business can we count on to be able to make it a positive performer?

Dr. ROSS. Can I make a comment to George? We also have a $2 billion bonding capability, which I did not mention.

Mr. WARRINGTON. That also helps.

Senator CLELAND. I cannot help to think that the old Southern Crescent, which the Southern Railway used to run from Washington, D.C., through the Carolinas, through Atlanta, through Birmingham, to New Orleans, is kind of a time-honored corridor that you might want to look at, and then, of course, the Nancy Hanks, the passenger rail from Atlanta, through Macon, to Savannah, these are time-honored corridors that affect our State, and I think Amtrak might have a marvelous positive result if it explored them.

Mr. WARRINGTON. Yes. As a matter of fact, Senator, the Crescent is one of our terrific performers, and it has incrementally been doing an outstanding job for us, both in terms of market research, how customers feel about it, and in terms of revenue yield and ridership. It has really been a success story, giving a focus on customer service and travel time, and it benefits from a very positive proactive relationship with the Norfolk Southern Railroad as well.

Governor THOMPSON. Senator Cleland, if I could just quickly add, Mayor Smith is on the Amtrak Board. There is not a meeting that goes by, which we meet monthly, that he is not trying to find ways to expand the Crescent. So I can assure you, you have a very strong voice that is not bashful about trying to push the Crescent into Atlanta. So I think it is going to come.

But we have to be very serious about the fact that we have to meet our operational self-sufficiencies. So we just cannot add that many rail services at this time until we are sure we are going to meet our goal, but I can assure you, it is being considered.

Senator CLELAND. I understand, and thank you very much. I, for one, do believe that, in terms of operational self-sufficiency, and whenever you achieve that, you are still going to need some Federal funds for all your capital outlay——

Mr. WARRINGTON. Absolutely.

Senator CLELAND. —and investment needs, and I fully support that. Thank you very much, Madam Chairman.

Senator HUTCHISON. Thank you, Senator Cleland. I did want to follow-up on Dr. Ross's testimony. There can be so much done with buses feeding into both train stations and airports.

I know Greyhound has several contracts with Amtrak that have been very helpful. It really gives our smaller towns more mobility and more choices, and we hope that we can increase that.

Senator Wyden. Senator Wyden has certainly been helpful in the 1997 passage of the Act, and we certainly worked together on that, and look forward to getting a national rail system that includes Portland.

STATEMENT OF HON. RON WYDEN, U.S. SENATOR FROM OREGON

Senator WYDEN. I thank the Chair, and I want the Chair to know how much I have appreciated the chance to work with you. I guess I bring a slightly different orientation to this discussion this morning. I am very glad to see trains being opened up in other parts of the country, the East Coast of the United States, but my experience as a United States Senator is that it seems to me that Amtrak is often making decisions about where trains operate in an arbitrary way, and that Amtrak is playing favorites, rather than using objective criteria for its decisions.

I want to walk you through a specific example, Governor Thompson, and——

Governor THOMPSON. Sure, Senator.

Senator WYDEN. —and maybe you can tell me why this supporter of Amtrak should not change his mind, because I am thinking about doing it, given——

Governor THOMPSON. We do not want you to do that, sir.

Senator WYDEN. —what we have seen in the past. Folks in rural Oregon, eastern Oregon and Idaho, do not have any train service any more. It was eliminated in 1997, even though the 1998 GAO report proved that if objective criteria were used, this train might not have been eliminated.

Now, I asked Mr. Warrington to come to my office and talk about this, and a year ago he told me that nothing would be done in terms of new trains until that market-based assessment was completed. Well, today we have been talking about opening up all kinds of new trains.

I note that since Mr. Warrington came to my office, there was another new line opened between Fort Worth, Texas, and Oklahoma City. So when Mr. Warrington told me a year ago that there were not going to be new trains opened until after the market-based assessment, the evidence shows that that had not been the case.

Now, Senator Crapo, the Republican senator from Idaho, and I are trying to work in a bipartisan way, just as Senator Hutchison and I have, to get a train service back to eastern Oregon and rural Idaho. We have had a task force meeting. We have had four towns in rural Oregon actually vote to impose per-capita assessments on their citizens in order to get train service back.

I mean all these other parts of the country are getting train service funded by the national government. People in eastern Oregon, hard-working people who pay taxes, are voting to tax themselves in order to get some train service, and we still cannot get a commitment out of Amtrak about exactly what it is going to take to get across the goal line, and turn this part of the country, which really feels like a sacrifice zone, into an area that is part of a national system.

So if you could tell me what it is going to take so that my constituents understand what they need to do to get over the goal line, that would be helpful, because they think they have done a whole lot more heavy lifting than these other parts of the country that are getting new trains picked up by the Federal taxpayer.

Governor THOMPSON. Well, Senator Wyden, first, let me tell you that the Pioneer service that was discontinued might have been a mistake. I am the first one to admit that.

This was before the new Amtrak law, it was before the new board, and before George Warrington and the new staff. We are trying to really make Amtrak like a business, and we have gone through, and we have done a market-based analysis of every piece of rolling stock we have, of every line, and we are going to base our decisions upon that.

Now, the one line that went in was from Fort Worth up to Oklahoma City, and that was based upon the fact that the State of Oklahoma and the State of Texas are going to subsidize that line. We had a way to continue on to help the Texas Eagle, which would increase the ridership. It was based upon our analysis.

The network analysis indicated to us that it would be a line that we could utilize and would be self-supporting, with the State subsidies, and that is why that one was started. That is the only one.

We are looking at Los Angeles to Nevada, and that one is also one that is going to have heavily, State subsidies put into it, and one that we think is going to be profitable for us.

I can assure you that we have set up a committee to look at your situation, from Portland to Boise, Idaho. We are looking at that, and after the network analysis comes out, I would like to personally sit down with you and work with you to find out how we can get rail passenger service in there as soon as possible.

I also come from a rural State, and I would like to see some rail passenger service. I have the same problem you do. I am the Chairman of the Amtrak Board, and I cannot tell my own constituents in Wisconsin when we are going to have rail passenger service go to Green Bay or go to our capital city of Madison, and we do not understand why some of the other communities got it.

But it is our strong conviction, so we want to build this national rail system, we want to do it so that it's going to be profitable and self-sufficient, and we want to service you, Senator Wyden, your constituents in Idaho and eastern Oregon, and we are going to be working with you, and all I can give you is my promise, my commitment as Chairman of the Amtrak Board that I want to continue to work with you.

As soon as the analysis is out, I would like to set up a meeting with you and come in and talk to you, with George Warrington, and see how far we can go.

Senator WYDEN. Well, Governor, I think that is a conciliatory statement, and I appreciate it. I think to have Amtrak saying that it may have been a mistake to eliminate the Pioneer is something that my constituents have wanted to hear for a long time, because they looked at that 1998 GAO report, and they said if you use objective criteria, it does not go, and other trains do, and the fact that you acknowledged that is helpful.

We are prepared to do the heavy lifting here.

Governor THOMPSON. Thank you.

Senator WYDEN. I was in eastern Oregon—by the way, Gil Mallory has been helpful and constructive, and we have been——

Governor THOMPSON. I am glad to hear that.

Senator WYDEN. I'm afraid that his hands are tied. We feel we are doing the transportation equivalent in eastern Oregon of a barn raising. I mean we have had these citizens imposing charges and fees on themselves.

We have the large floral association interested in using the express system in order to move products in eastern Oregon. We have Indian tribes that want to use the transportation service.

We are there, and what we need to know from Amtrak now, given this task force, and the fact that Senator Crapo and I are trying to meet a goal of self-sufficiency, as Amtrak is talking about. We need to know how to get there.

We are exasperated that Amtrak has not been willing to do that, and one of the things that concerns us, even in these meetings, when we have been meeting over the last year, Amtrak trots out figures from years ago, when essentially we did not have the express opportunities, when you could not even figure out when the train was coming and going.

People in the west used to say, “It does not leave at a specific time; it leaves at Amtrak time.”

You just could not plan and do the things necessary to make it cost-effective, and we need those questions answered. I think you are being conciliatory this morning, and I am encouraged by that.

Governor THOMPSON. Thank you, Senator. If I could just add two other quick points. It was felt by the old Amtrak that the best way to get self-sufficient was to cut rail passenger service. The new Board does not feel that way.

The new Board, the new management, and under the new reform law, we are trying to grow Amtrak, and I was heartened by Senator Hutchison's remarks earlier this morning, and she is saying, it is just not the Northeast Corridor, it is not the Midwest—she did not mention the Midwest, she said the west or the Northeast, and I agree with that.

The reason I wanted to be on the Amtrak Board is because I am from a central State that does not have rail passenger service, and

I want to fight for that. I understand your concerns, but we have to also understand that we have to be self-sufficient, even if we promised you today and we could not meet our requirement under the law to be self-sufficient by 2003, that does not help anybody, but I can assure you and promise you that we will work with you and make it self-sufficient as soon as possible.

I need your advice and encouragement, as well as the Board does and the management as to how we can get the States to also help subsidize, in order to make it come faster.

Senator WYDEN. Again, I think you are being fair, and I think you also know how hard it is to explain to constituents——

Governor THOMPSON. Absolutely.

Senator WYDEN. —when they are told that there are not going to be new trains, and that is what Mr. Warrington said in my office a year ago, and they open up newspapers and they hear about new trains, it is pretty hard for them to say, what Amtrak is telling us is on the level. I do not think you want that level of cynicism about the work that you do.

I mean people in our area say they are not getting a fair shake with existing dollars, why are you willing to support new bills that give them additional funds. We have to have some answers for that. I gather one of your associates wanted to add something.

Senator HUTCHISON. Mr. Carmichael does, but I want to say that I agree with everything that Governor Thompson has said, and with the new focus, but we have to commend the State legislature of Oklahoma for that new line, because they have been saving their money, and they redid the track, refurbished the track with their own funds, and I have to say, it is really the Oklahoma vision that allowed that to happen rather than Federal funds.

Senator WYDEN. Well, if the Chair would yield, and she knows how much I respect her views on this, I am anxious to see that train go, but I note that Amtrak, in their report, said it was a performance highlight to carry 26,000 passengers in fiscal year 1999, and the last year the Pioneer ran, it had 87,000 passengers on it.

So we have to reconcile some of these matters that just do not seem particularly consistent, and the Chair has been very fair about making the case for national service, and that is why I enjoy working with her.

Senator HUTCHISON. I have to say that I do not think the Texas legislature has yet made the kind of investment that I hope they will make in order to get, for instance, high-speed rail. We talked about it ending between Birmingham and Atlanta.

It also ends at Houston before it goes to San Antonio, and that is because the State Department of Transportation did not make the necessary designations that would allow that to happen, and I feel that it is my responsibility to keep working with our State Department of Transportation to do our share in order for Amtrak to be able to set standards that make economic sense.

So I think we have a job to do, and you have a job to do, and we just need to make sure that we are all pulling our fair share, and the State of Oklahoma is, let me tell you.

Mr. Carmichael, you wanted to comment on this.

Mr. CARMICHAEL. We get the impression that Amtrak, with all of this business that they have to produce in the next 2 years, does not have a supply of rolling stock to do it. I know Amtrak well enough that they have a lot of old cars that they have refurbished and reworked several times. The only new train sets that I know of that are ordered are the 20 train sets for the Northeast Corridor.

I am real concerned, when you asked the question about the increase from 4-day to 5-day per week service, our investigation at this point—and this is not conclusive, this is just the beginning—but our investigation is that there is a critical shortage of rolling stock in Amtrak, and they are going to have a very difficult time doing any of these things in the next 2 years or 3 years. They have to have rolling stock to build——

Senator WYDEN. The only thing that concerns me about that, Mr. Carmichael, is, in effect, what you ask for constituents in my part of the country, rural Oregon, to pay for new rolling stock for trains in the East Coast United States, when they do not get any service. I think that double-standard is what is troubling people with respect to how Amtrak makes decisions.

Let us get away from pitting one part of the country against another. I think Governor Thompson has been conciliatory in terms of trying to work on it, and is a sponsor of both of those bills that Amtrak is interested in passing.

Give me something to work with in terms of explaining to my constituents why I am supporting the bills, because I think they question whether they are getting a fair shake. I thank the Chair.

Senator HUTCHISON. Thank you, Senator Wyden.

I have as follow-up a couple of questions for Governor Thompson, you have noted that contributions by the States have increased.

They were $300 million last year, and that is a key component here, as we have just discussed, but the ARC noted in each report, on page 12, that it has heard from several States expressing concern over their willingness or ability to fund a greater share of Amtrak's operating subsidies.

I am asking you if you believe that the States are going to continue to step up to the line, and are the revenues going to continue to be there to keep this national system, and if not, what do we need to do?

Governor THOMPSON. I really think they are, Senator Hutchison. I really thank you for the question, because I think there is, as I have said previously, a newfound fascination for rail passenger service, and I also find that it is a bipartisan, and there a Republican and Democratic constituency out there that likes passenger rail service, and I think the States are going to step up.

I have been the chairman of the National Governors Organization, and I have been involved in just about any and all committees of the organization, and Governors are talking more and more about it.

Thirty-six Governors sent a letter to the President of the United States asking the President to fully fund it. I am not saying that if they fully fund it we are going to back off. What we are saying is that we need the partnership, we need the capital in order to buy the rolling stock that Gil Carmichael was talking about.

We need the rolling stock in order to refurbish the tracks so that Senator Wyden is going to have the service. We are going to have to have the capital in order for States to come in and help the operation subsidies in order for us to be self-sufficient.

This board is committed. We go back and we talk to the respective States, and we are asking them and telling them that they need to step up if the Federal Government is going to be a partner. I think it is there.

I think there is a great deal of bipartisan support in it, and our State legislators, and with the Governors, and I think here in Congress. I think it's just coming to the forefront, and I am excited about, Senator.

Senator HUTCHISON. Thank you. Mr. Carmichael, on page 19 of your report you have a chart that shows that while revenues from passenger service have increased approximately 20 percent over 10 years, employment costs have increased twice as fast as revenue.

Do you believe Amtrak is doing everything it can to control labor costs, and is there anything more that you are going to recommend that it do in the future?

Mr. CARMICHAEL. Going back to my earlier statement, Madam Chairman, I do not think labor costs are the problem at all. I think it is strictly that they have to get revenues up. As Governor Thompson said a minute ago, they are trying to grow Amtrak. It is not a problem of having too-expensive labor.

Senator HUTCHISON. So you do not think the fact that labor costs are increasing more than revenue is a valid comparison.

Mr. CARMICHAEL. Every transportation company can say that, see. Amtrak has just got to get more business, and it has to have rolling stock to do it. That is why I keep coming back to our concern, is not about the Northeast Corridor. There are 13 corridors developing around the United States that the States have to help build.

Our concern right now is Amtrak, and its rolling stock, and its passenger, mail, and express service. That is what needs to be self-sufficient in the next couple of years.

We are worried, and we will come back with more defined recommendations, that they do not have the rolling stock available and cannot get it in the next 2 or 3 years.

I do not know just what their supply of passenger, mail, and express cars is, but I suspect it is awful tight. So Amtrak needs to be—as we are—concentrating just on the core business. All of this money we are talking about spending on these corridors is immaterial.

It is the rolling passenger, mail, and express trains across this national system, and meeting the market demands, going after the market demands out there.

Senator HUTCHISON. Let me ask you, Mr. Warrington. With all the emphasis that is being put now on the high-speed trains, especially in the Northeast and the Eastern corridor, are you going to be able to look at the rolling stock that is going to be necessary to get the mail contracts and the passenger revenues up?

Mr. WARRINGTON. Yes, ma'am. One of the primary products of the market-based national assessment is for, once again, really, the first time in the history of Amtrak having a service plan that is directly linked to an equipment and fleet utilization plan.

The service plan that we have defined as our national system defines the number of cars, passenger cars, diners, coaches, lounges, locomotives, mail, express, and refrigerated cars that this railroad needs to have access to over the next two to 3 years, and clearly, we need more equipment.

Now, when it comes to high-speed corridor development, we are working with each of the States around the nation, around crafting a partnership that would in large measure provide for Amtrak to be a procurer and prospectively a leaser of high-speed equipment around the Nation for regions or collections of States.

With respect to our basic system today, the national network, and our intercity train service, we clearly have a need for additional equipment, and is one of the reasons why we have inventoried every piece of rolling stock that is on this property across this country. We have identified its age, we have done a scope of work around the engineering requirements and production requirements to get it in shape, and we will move forward very quickly.

We are already in the process of pulling much of that equipment out of the yards and putting production program in place to make sure that we have the kind of flexibility over the short haul, to meet the short-term service demands associated with the market-based network assessment.

I believe that later this summer we will arrive at a much firmer conclusion around the real longer-term equipment requirements associated with really growing this national system over the next 5 years, and it will be fairly sizable, and it will be fairly extensive, I think Gil is right.

But short term, immediately, we need to, No. 1, redeploy all of the equipment that we have to as many places as possible to give us as much reach as possible, on as many trains as possible, and pull the maximum number of cars and locomotives out of our yards and out of storage and put them in shape to get us over this hump over the next 2 years.

Senator HUTCHISON. Mr. Carmichael?

Mr. CARMICHAEL. Madam Chairwoman, this is outside of my testimony, but just as we are researching right now, rebuilding those old cars again and again is not the answer—Amtrak needs to replace its fleet. It needs to go out in the market like AirTran and lease new airplanes. They leased new airplanes. The company was very fragile and everything, but was able to go lease new planes.

In the Midwest corridor, nine States come together, the Governors are part of it, and they said "We will help buy the train sets." In my mind, Amtrak ought to say to the Midwest corridor, "You [Midwest corridor] get the corridors fixed up and we will have the train sets here in the next 24 months or 36 months."

Amtrak ought to be ordering, and leasing, and replacing its fleet as fast as it can if it is going to grow, because I agree with what the Governor said a while ago, they tried downsizing, and that will not make them profitable. They are going to have to grow, and they are going to have to replace their fleet, and they are going to have to move as fast as they can.

Senator HUTCHISON. Can you not use a different standard for the cars that are going to carry passengers and the cars that are going to carry freight, though? I mean could you not use older cars in a productive way for freight?

Mr. CARMICHAEL. Yes, you can, but let me—I apologize, George. You can, but these trains run in the day time near the highways, and what the American people need to be seeing is new modern trains out there.

When they see two or three nice, modern passenger cars, and a whole bunch of rail cars, mis-matched, and everything else like that, that does not look like the European trains that we are talking about.

So I think, and I am speaking ahead for my Council, I think we are going to come down hard, and concentrating on the core business, Amtrak needs to replace its fleet and needs to get new trains out there with mail and express in a very attractive way.

Senator HUTCHISON. Mr. Mead, and then I will come back to Mr. Warrington.

Mr. MEAD. I feel obliged to offer a sobering note here. There is a lot of talk and discussion about capital outlays, acquisition of new equipment, new corridors, and so forth.

Right now, looking ahead to just the next couple of years, Amtrak is facing in excess of a $200 million shortfall just to cover the capital requirements and obligations it currently has to pay, and coupling that with the fact that we have deferred a major revenue source called high-speed rail in the Northeast Corridor for at least 6 months. You put those two together and Amtrak wants to expand, but it does not really have the access to the funds.

It has to get over this hump, and it has to meet its current obligations before it takes on additional ones. It simply does not have the money.

Mr. CARMICHAEL. That is why I used the term, lease. If they can buy some good standard train sets out here, I think there are leasing companies that would be glad, with the credit rating that Amtrak has, to lease them to them, and they can place the revenues against them.

Senator HUTCHISON. Any other comments?

Mr. WARRINGTON. Yes. I would just say, Senator, that it is very clear that there is extraordinary interest on the part of States all across this country to partner with Amtrak around what are the sexy new train sets, high-speed train sets, that we will be operating over the next several years, and there are lots of ways, as partners, to undertake those kinds of investments, including creative financing, which is the way we do the lion's share of our equipment. Business does not require up-front capital, and leasing is a variation on that option.

The more fundamental short-term challenge for us, though, that that does not effectively accommodate is, the market-based network assessment will direct us to offer greater frequencies and greater reach of our basic intercity national train network, and in order to do that, we do need basic rail rolling stock, coaches, lounges, diners, and the like, and that is what we need to get over the hump of over the next 2 years or so, and that is the reason why we need to play with the hand that we are dealt.

We do have a lot of rolling stock that is not necessarily ideal, but it is available to the company, and it is an asset that we need to put in service to drive revenue, to meet our targets over the next 2 years.

Over the longer haul, partnering with States around high-speed service and high-speed train sets all around this country, that is virtually a slam-dunk.

We have a short-term issue here around today's basic system, and squeezing as much money as we can out of the long-distance train network, and that will require a greater reach, it will require greater frequency, and it is going to require more equipment, and we have to go with what we have right now.

Senator HUTCHISON. I thank all of you very much. I think we are all pulling in the right direction.

The alternative, if we lose this opportunity to keep our passenger rail network for our country, is that we will never be able to resurrect it. If we lose the access to these railroads, we will never have rail passenger service in our country. I think what you-all are doing is very constructive. Mr. Carmichael, I think you can be very helpful here by having constructive suggestions. I think the atmosphere here is that Amtrak wants to work with you.

Mr. Mead, your comments have been very helpful; Mr. Millar and Dr. Ross as well, from the local standpoint.

This can be a wonderful opportunity in America to give mobility to people who do not now have it, older people who do not drive, who want to go visit their grandchildren, convention goers having the ability to get to a convention by rail, connecting buses to train stations and airports I think just has wonderful chances to enhance our transportation system, but we have a window, and we will never get it back if we lose it.

So I do think we are all pulling in the same direction, and I do not ever want us to forget that passenger rail is no different from a public transportation standpoint, as airports, and highways, and we have subsidies which people accept are very important, of those modes of transportation, and I just think passenger rail adds to the flexibility of those other modes of transportation.

So I hope that we can continue to have this kind of hearing. We certainly will do it on an annual basis.

Mr. Carmichael, there is one thing I want you to consider down the road, and that is, I understand the generally accepted accounting principles and the law, but I also think that as we look at the Congressional acts and the uses of Congressional appropriations, which have always had the overhauls, the progressive overhauls in them, that at the very least you will give two options in your members' reports, if you want to say that generally accepted accounting principles do not allow that, and you want to report that, if you feel that is your responsibility.

I also want you to give us a second report that addresses the same principles that every public transit agency in America uses with generally accepted accounting principles, but knowing, as Mr. Mead said, they do not pay taxes.

So there is a different reason behind the principle in a business versus a quasi-government system as we have. So if you think you have one, why do you not give us some options?

Mr. CARMICHAEL. Let me put this on the record, please, ma'am. I feel comfortable with the guidance of your Committee that we should treat Amtrak like you treat a transit agency. We have no problem with that. But now that the Committee has met, we will be glad to do our study with Amtrak as a government agency, or a transit agency. I think you are talking about a government agency.

Senator HUTCHISON. It is a government agency.

Mr. CARMICHAEL. It has been hard to define what Amtrak is. One day it is a corporation, and the next day it is a government agency, and I think this Committee has determined for us that it is a government agency, and we have no problem with government agencies not covering depreciation, and progressive overhauls, so our report will reflect that from now on.

Senator HUTCHISON. Thank you. That has been worth everything that we have learned today, because now I think it is very clear that we can go forward all on the same page.

Governor THOMPSON. Madam Chair——

Senator HUTCHISON. Governor Thompson.

Governor THOMPSON. —if I could just clarify, we are not a government agency. We are part of the government. I do not want Gil to walk away from here saying that we are a government agency and say that he has it on the record with—I think there has to be a clarification of that, but I would like to say on behalf of the Board, we do not consider ourselves solely a government agency. We are part of the government, and we are also a corporation that——

Senator HUTCHISON. Would you accept quasi-government?

Governor THOMPSON. Quasi, I will. I also would like——

Senator HUTCHISON. We are about to have an agreement here, Governor Thompson.

[Laughter.]

Governor THOMPSON. I would like to also take this opportunity on behalf of the whole Amtrak Board to thank you for your leadership, Senator Hutchison, thank you for your support in Texas, and we want to continue to work with you and the other senators to make Amtrak the best that it possibly can be.

Senator HUTCHISON. Well, I thank you. Every one of you is contributing to the success, and I think this has been very helpful to get us on the same page so that we can go forward.

Thank you all.

[Whereupon, at 12:12 p.m., the hearing was adjourned.]

APPENDIX

PREPARED STATEMENT OF HON. DANIEL K. INOUYE, U.S. SENATOR FROM HAWAII

Thank you madam Chairwoman. First, I want to thank the Chairwoman of the Subcommittee for her leadership in convening this hearing. I also want to commend you, Senator Hutchison, for your continuing interest in this subject.

Certainly, the provision of rail passenger transportation service for our nation's citizens is an important issue, one that deserves serious consideration. Amtrak serves more than 21 million intercity travelers and more than 54 million commuters annually. Although my state is one of only five not served by Amtrak, rail service is a vital link in our nation's transportation system.

Since passage of the Amtrak Reform and Accountability Act by the last Congress, Amtrak has endeavored to make significant strides toward achieving operating self sufficiency. As you know, the Act required Amtrak to be free from a federal operating subsidy by 2002. The state of Amtrak's finances and the future of Amtrak bring into sharp focus the job Amtrak was created to perform and our support for its mission.

It would appear that by almost any standard Amtrak was undercapitalized from the day of its creation. Few other passenger railroads in the world are forced to do so much with so little and at this point I would like to commend Amtrak for its very real effort to do more with less.

I will be particularly interested in hearing the thoughts of today's witnesses on Amtrak's progress since the passage of the Amtrak Reform and Accountability Act. In addition, I look forward to working with you, Madam Chairwoman, throughout the duration of this Act to ensure that our nation has the rail passenger transportation system it needs and deserves.

PREPARED STATEMENT OF HON. OLYMPIA J. SNOWE, U.S. SENATOR FROM MAINE

Thank you. I would like to express my appreciation to the Chair for scheduling this hearing today.

For many years, I have been a supporter of Amtrak and would like to express my strong support for a national passenger rail system and the need to maintain a passenger rail system which is flexible and possesses the incentives necessary to become self-sufficient.

Today, my home State of Maine is one of a handful of states in the continental United States that is not served by passenger rail service. I am proud and excited that Amtrak has entered an agreement to begin providing passenger service to Maine, as early as this fall. I thank Amtrak President Warrington for working with me over the years to make this service a reality, and I very much look forward to riding this new Boston-Portland train.

Today, we will look at the recently-released Amtrak Reform Council report concerning the future of Amtrak. Essentially, ARC has concluded that Amtrak will not be able to meet its Congressionally mandated goal of operational self-sufficiency by 2002, in part because of accounting practices employed by the service employs, under which it chooses not to count some major expenses, including depreciation expenses and progressive equipment overhauls, as operating expenses. Amtrak counters it was never intended to count such items as operating expenses. The report also takes issue with Amtrak's claims of ridership gains, as well as its claims that it is doing $8 million better than projected in its 1998 strategic business plan.

I know that it has not been an easy job, trying to work out the many differences of opinion on the best way to preserve and improve Amtrak. More than twenty-five years ago, Congress created Amtrak to consolidate and strengthen our national passenger rail system. Watching the success with which new and higher-speed rail service swept through Europe and the Pacific Rim, we recognized the opportunities that rail service could provide as a part of our overall transportation system. But today, the Amtrak system remains incomplete and the system, in my view, remains somewhat troubled. While Amtrak provides rail service throughout this nation, a variety of factors have combined to keep our national rail system from attracting the type of widespread and popular usage that has marked service in most other modern, industrialized democracies in Europe and Asia.

Amtrak must be able to meet the next century as a financially independent entity. In this day and age when not just every dollar counts, but every cent, I believe we are rightly placing the burden of proof on Amtrak.

Amtrak certainly faces enormous challenges, and I look forward to working as a member of this Committee with the service to confront these challenges.

Once again, I would like to express my appreciation to the Chairman and my thanks to the witnesses for sharing their insights on the current standing and the future of Amtrak.

Thank you.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MAX CLELAND TO GILBERT E. CARMICHAEL

Question 1. Do you believe that, if Amtrak received the same financial support that aviation and highway industries received, its customer market-share would be similar?

Answer. This apparently simple question is really quite complex. It is complex because it goes not only to the amount of funding ("the same financial support") both in total and on a per-passenger basis, it also invokes a broad range of issues about how the government funds the transportation industries, including the sources, uses, and amounts of the funding, and the government's role in administration of the financial support.

The structure and levels of financial support for Amtrak are certainly critical to its long term financial self-sustainability, but the Council at this time has insufficient empirical information to answer the question since the Council has not yet received long-term capital requirements estimates from Amtrak. The Council has not yet taken an official position concerning financial support, nor has it to date made any recommendations concerning appropriate funding mechanisms and levels of funding for Amtrak.

The Council's staff has, however, gathered some publicly available data that are pertinent to answering this question. For modes other than passenger rail, there are specific funding mechanisms, although Congress still approves use of funds for all modes through the Congressional authorization and appropriation processes. Highways are funded by gasoline and diesel fuel taxes and certain specific excise taxes funded through the highway trust fund. Airports and airways are funded by ticket taxes and landing and other related fees through the aviation trust fund. Federal funding, while it is substantial, is provided to the highway and aviation industries from taxes or fees paid by the users, not from the general revenues of the U.S. Treasury. In contrast, Amtrak's current and historical funding is not, and has not been, generated by any form of transportation user fee, but is appropriated from general revenues.

Thus, it is not surprising that publicly available data of amounts of federal funding provided to various modes of transportation suggest that Amtrak currently is receiving more support on a per-passenger basis and on a net, absolute basis than the commercial airline industry (total operating and capital costs of the FAA less user fee collections). Amtrak's higher level of support per-passenger is attributable to the fact that the airlines serve larger numbers of travelers: approximately 600 million commercial airline passengers versus approximately 21.5 million Amtrak passengers. In FY1999, Amtrak received approximately $600 million, not counting TRA funds, and served approximately 21.5 million passengers, for a subsidy of almost $30 per passenger. By contrast, the combined FAA operating and capital budgets totaled approximately $10 billion in FY1999, and served not only the airline industry's approximately 600 million passengers, but also (with no cost reimbursement) provided control for military flights and airplanes that fly over, but do not land in, the United States. Taking this entire $10 billion budget, and assigning all of the cost to the approximately 600 million passengers who took off or landed in the United States resulted in a total federal budget expenditure per commercial airline passenger of less than $17. This is not the whole picture, however. For FY1999, total collections to the Airline Trust Fund (including interest earnings on the Trust Fund of $698 million) totaled approximately $11 billion. As a result, airline passengers totally funded the total federal budget expenditure for operating and capital costs of the air traffic control system in FY1999, resulting in no net financial support to the airline industry from the federal government.

Likewise, in FY2000, the FAA Operating Budget and Capital Grants are projected to be approximately $10 billion,[1] while total collections to the Airline Trust Fund (including interest earnings of $771 million) for the fiscal year are anticipated to be approximately $10 billion. For the proposed FY2001 budget, the FAA's total proposed operating and capital budgets of $11.2 billion are projected to be $200 million less than projected total collections to the Trust Fund (including estimated interest on the Trust Fund of $811 million) of $11.4 billion.

Like the aviation industry, in recent years, the Highway Trust Fund has fairly consistently received funds in excess of expenditures. For Fiscal Year 1998, for the Highway Account by itself, receipts of approximately $24.3 billion exceeded expenditures of approximately $20.3 billion by approximately $4.1 billion. Total Highway Trust Fund disbursements of approximately $20.3 billion in FY1998 for approximately 327.4 billion person trips (an available 1995 statistic, which continued increasing from 1995 to 1998) imply federal expenditures per person trip of approximately $0.06, all of which was fully funded from federal gasoline and excise taxes.

In closing, it is important to note that all government-orchestrated funding for highways and aviation is for the development, improvement, renewal or operation of infrastructure, which is used, in terms of common carriage, by companies that operate on commercial principles in the competitive marketplace. Funding for Amtrak supports both the infrastructure that Amtrak owns, principally in the Northeast Corridor, and Amtrak's train operations.

Question 2. Are you concerned about the negative impact that your press statements might have on Amtrak's ability to secure private market capital, which directly impacts its ability to achieve operating self-sufficiency?

Answer. The Amtrak Reform Council is sensitive, and has been sensitive, to the potential negative impacts that press statements and public reports may have on Amtrak's ability to secure private market capital. Every financially related public statement of the Council falls into one of two categories. Each is based either on publicly-available financial analyses done by or concurred in by the Office of the Department of Transportation's Inspector General or the General Accounting Office, or on reasonably determined positions derived from statutory interpretations of critical public policy issues affecting Amtrak and rail passenger service.

Public credit ratings for Amtrak's debt by both Moody's and Standard & Poor's have not changed since the Council issued its First Annual Report, with the report's attendant press coverage.

Amtrak's ability to raise private sector financing is fundamentally dependent upon Amtrak's ability to achieve its strategic business plan objectives and the prospect of continued federal capital funding, not upon adverse publicity.

For example, Moody's credit report states that its credit rating is based on "Moody's expectation that operational self-sufficiency will be achieved, but that the Federal Government will continue to provide financial support for Amtrak's capital programs." The report goes on to say, "Moody's believes that the implementation of high-speed rail, and the realization of forecast operating efficiencies and consistent service standards are critical to the achievement of operating self-sufficiency. The success of these initiatives will help to ensure continued political support for Amtrak and therefore help safeguard future Federal funding."

Standard & Poor's ratings also are dependent upon Amtrak's performance rather than the Council's press releases. Standard & Poor's January 2000 rating concludes, "Ratings could be lowered if management is unable to reduce operating losses and fund significant capital spending needs during the next three years, and it appears to be unable to reach a goal of self-sufficiency." (Copies of Amtrak credit ratings are attached to the answers to these questions).

The Council's First Annual Report has benefited Amtrak and its public debt ratings by addressing at an early date the appropriate financial yardstick by which the Council and Congress will determine if Amtrak is meeting the financial goat of the Amtrak Reform and Accountability Act. Additionally, the Council's First Annual Report and subsequent Congressional hearings have made it clear that Amtrak will need federal capital funding of approximately $750 million annually to maintain its existing system and levels of service even if Amtrak achieves the financial goals of the Act.

Question 3. If Amtrak has always had a clean financial audit history and has always outlined its financial strategy in its business plans, then how do you believe that they can operate with more transparency?

[1] The total FAA budget for FY2000 of approximately $10 billion included $5.9 billion for operating expenses of the FAA plus capital budgets which included Facilities and Equipment of $2.1 billion; Grants and Aid of $1.9 billion; and Research Engineering & Development of $157 million.

Answer. The purpose of a financial audit is not to ensure that a corporation's business operations are financially "transparent" or disaggregated by business unit and area of responsibility. The purpose of a financial audit—of Amtrak or any other corporation—is to provide assurance that all revenues and costs are fairly being recorded and characterized for the entire corporation, not for its parts. Thus, the outside auditors do not opine on whether financial data for various segments of a corporation's business fairly present the results of operations of those business segments.

To make prudent, well-informed business decisions, Amtrak's managers and employees need to have readily available information about the specific operations over which they have control. Amtrak employees need an accounting system that gives them, on a "transparent" or disaggregated (readily visible and understandable) basis, the accounting and operating information for business elements under their control, particularly if they have decision making authority. The basic structure of Amtrak's accounting system is based on historical accounting requirements more applicable to regulated freight railroads than a commercial provider of passenger, mail and express transportation services in today's competitive, deregulated environment.

Amtrak's own management has publicly stated in presentations describing its new Market Based Network Analysis (MBNA) process that its historical reporting systems, the Financial Information System and Route Profitability System, are inadequate. These systems do not provide the kind of incremental cost and revenue information that Amtrak's line managers and its senior management need to make sound business decisions on a disaggregated basis. As a result, Amtrak undertook an extensive effort to develop a new MBNA system to evaluate its existing routes and to identify potentially profitable new routes. A more "transparent" accounting system would have simplified the process of developing an MBNA analysis, and would also allow Amtrak managers to make better decisions on a daily basis at all levels of the company.

A more "transparent" or disaggregated accounting system would not only facilitate making better daily operating decisions and long term strategic decisions, it would also enable Amtrak, as an example, to segregate the financial performance of its passenger, mail and express train operations on the Northeast Corridor from the financial performance and capital costs of the Northeast Corridor infrastructure. This is important because the costs of operating and maintaining the NEC infrastructure are enormous, and Amtrak operates only about 100 out of approximately 1,200 daily trains. The remainder are operated by (or are operated under contract for) several commuter railroads (which run more than 1,000 trains per day) and by a few freight railroads. If the financial performance of Amtrak's train operations are enmeshed with the financial performance of the infrastructure, then it is much more difficult to measure accurately the trains' financial performance, and to hold managers accountable for that performance.

In a corporation with a sound commercial organization—and a correspondingly sound and transparent accounting system—the financial operations of the Northeast Corridor infrastructure and train operations would not be the only operations receiving separate reports. The financial performance of Beech Grove and other equipment overhaul facilities, of Amtrak's state and commuter contract operations, of Amtrak's commercial ventures, and of its national system of train operations would all be clearly indicated.

S&P rates AMTRAK issuer credit triple-B

(Press release provided by Standard & Poor's)

NEW YORK, Jan. 19, 2000—Standard & Poor's today publicly assigned its triple-'B' issuer credit rating to the National Railroad Passenger Corp. (Amtrak). The outlook is developing. The rating was previously confidential.

The issuer credit rating of Amtrak reflects its important public service role, operating improvements over the past two years and continued, although substantially changed, assistance from the federal government. These factors offset a weak financial profile. In addition, potential restructuring, system rationalization, or liquidation of Amtrak could occur under existing legislation if an oversight board created in 1997 determines that Amtrak will require an operating grant after late 2002.

Substantial evidence of political support (appropriations in the face of significant challenges; $2.2 billion of capital funds) is taken into consideration and reflected in the current rating, since without such support, Amtrak would not cover its cash operating expenses from operating revenues.

The U.S. government has historically been a primary source of operating and capital funds since Amtrak's creation by the government through the acquisition of various passenger railroads from the freight railroads during the 1970s.

Amtrak was created by Congress to function as a corporation, not a department, agency, or instrumentality of the U.S. Government. Amtrak is a corporation organized under District of Columbia law, and the federal statute has specified that the D.C. Business Corporations Act governs Amtrak, except where it is inconsistent with the federal law. The company has needed annual federal appropriations to remain in operation and provide national passenger rail service. Amtrak is the U.S.'s only provider of long distance passenger rail transportation and is an important contract operator of commuter and shorthaul service in various markets.

During the 1990s, annual appropriations became more challenging and in 1997 Congress passed legislation (the Amtrak Reform and Accountability Act of 1997 or "ARAA") that provided flexibility that Amtrak says it needed to function in a more businesslike manner and restore a viable national passenger rail system.

At the same time, this legislation mandated that Amtrak reach operating self-sufficiency by Dec. 2, 2002 (Amtrak's fiscal year ends September 30), and added a performance-related sunset trigger. The ARAA bill also created the 11 member Amtrak Reform Council (ARC).

The ARC will oversee Amtrak's progress through at least 2002 towards operating without federal operating subsidies. The ARAA bill contains a sunset trigger that requires ARC to submit a plan to Congress to restructure and rationalize Amtrak and for Amtrak to submit a plan for liquidation if ARC determines that Amtrak will require an operating grant after the fifth anniversary of the ARAA, in late 2002.

Although this legislation contains several features that are supportive of Amtrak, provisions for a potential restructuring or liquidation of the company tied to performance-related goals are unusual for an entity of or owned by the federal government and caused the rating to be lowered to its current level in early 1998. The uncertainty associated with the ARAA sunset provisions currently precludes a higher rating, but continued progress toward self-sufficiency and evidence of broadening political support could justify a rating upgrade.

The ARAA gives Congress authorization to appropriate up to $5.1 billion in capital grants between fiscal 1998 and 2002, the estimated amount that Amtrak requires to reach operating self-sufficiency by the end of five years. $2.2 billion of the $5.1 billion was a one time infusion from a separate source (the 1997 Taxpayers Relief Act "TRA"). Although approval and disbursement of the funds beyond the $2.2 billion is subject to the annual appropriation process, it is expected that Amtrak will receive close to its full request over the next couple of years.

Amtrak's passenger rail transportation business is capital intensive, subject to competition from other more flexible and reliable transportation modes and is not required as an essential service in many markets. This situation contrasts in some respects with the position of national passenger rail transportation in some European countries and Japan, where its competitive position and public support are more secure. Appropriations for operating and capital subsidies, although significant, have been insufficient over time to operate, service and maintain the equipment standards found in other sovereign-dependent railroads.

The company is closely supervised by the government through the annual appropriations process and periodic reauthorization by Congress and various oversight authorities including the General Accounting Office, U.S. Department of Transportation's Inspector General and the ARC.

Operating costs remain high, with an operating ratio (operating expenses as a percent of revenues) of about 150% (excluding federal payments), and federal subsidies that are about equal to about 15% of total revenues. The latest labor contract settlements covering all of Amtrak's union employees provide Amtrak with new work rule flexibility but also increase wage costs. However, Amtrak now has new freedom to negotiate outsourcing of certain work, which could offset some of the increase.

While Standard & Poor's believes that there is the potential for some states to contribute incremental support, there is likely to be a limit to such support. Potential restructuring, system rationalization or liquidation could be considered by Congress under the ARAA bill if operating subsidy needs persist past FY 2002 and the ARC sends a report to Congress stating that is the case. The most essential segment, the Northeast corridor, serves major population centers with large Congressional delegations that have been major supporters of Amtrak in the past and could coalesce with other regions served to support elements of Amtrak.

Although mandated to reach operational self-sufficiency by December 2002, Amtrak will also continue to need capital funding past that date, and for the foreseeable future. Current legislation only provides funding authorization through FY 2002. Congress must act to authorize funding or Amtrak will no longer receive appropriated funds. Results from FY 1998 and FY 1999 indicate that Amtrak remains on its previously determined "glidepath" designed to eliminate operating losses before the end of 2002. Standard & Poor's believes that over the next three years, it will be almost as important for Amtrak to demonstrate significant progress towards self-sufficiency as to reach technical self-sufficiency.

OUTLOOK: DEVELOPING

Amtrak has made progress over the past two years toward the required goal of self-sufficiency from federal operating grant funds. Management's strategy to eliminate reliance on operating subsidies through substantially greater capital investment designed to attract new customers and lower costs is a necessary, although high risk, strategy. The outlook could be revised to stable or ratings raised, despite the threat of a potential restructuring or liquidation of the company, if management meets or exceeds plans for self-sufficiency, which would primarily result from a high degree of success with new initiatives, especially high speed rail in the Northeast corridor.

Ratings could be lowered if management is unable to reduce operating losses and fund significant capital spending needs during the next three years, and it appears to be unable to reach a goal of self-sufficiency, Standard & Poor's said.

Moody's Raises Amtrak's Credit Rating Citing Improved Financial Outlook

WASHINGTON, December 21, 1999—Moody's Investment Services raised Amtrak's credit rating to A3 this week. After assessing Amtrak's finances and its Strategic Business Plan, Moody's assigned the A3 rating that means a "stable outlook" and noted that it "reflects Moody's assessment of the financial strength of Amtrak in relation to its unique operations and prominence in the U.S."

Further, Moody's noted that the rating is based on ". . . Moody's expectation that operational self-sufficiency will be achieved, but that the Federal government will continue to provide financial support for Amtrak's capital program."

"We are pleased with Moody's decision and proud because it reflects the private sector's confidence in our continuing commercial success as well as the strengthening relationship with our public partners," said Gov. Tommy Thompson, Amtrak's chairman of the board. "We have been investing our resources to introduce high-speed rail in the Northeast and other corridors, deliver consistently world-class service and take advantage of every business opportunity by forging partnerships with industry leaders."

Moody's also wrote, "The ARC (Amtrak Reform Council) may recommend the dissolution of Amtrak if it fails to meet the self-sufficiency goal, which in Moody's view is unlikely, given achievements to date." Congress created the independent ARC as part of the Amtrak Reform and Accountability Act of 1997 to monitor the corporation's progress toward operational self-sufficiency.

In fiscal year 1999, Amtrak achieved record total revenue of $1.8 billion and reduced expenses in accordance with its business plan. Ticket revenue was supplemented by nearly $100 million in revenue from Amtrak's mail and express shipment business and also other commercial ventures. This all resulted in Amtrak beating the target set for the corporation's reliance on federal operating support ($484 million) by $8 million. This is the second consecutive year Amtrak surpassed its financial target. For the first time in the corporation's history, ridership improved for a third consecutive year, increasing to more 21.5 million.

"Amtrak's financial performance for the past two years is a result of reorienting itself to operate more like a business and proves that operational self-sufficiency is well within our grasp," said George D. Warrington, Amtrak's president and chief executive officer. "With adequate federal capital support, Amtrak can continue to make investments as part of its business plan to become the alternative to congested highways and airports."

Among the key components of Amtrak's business plan is the development of high-speed rail corridors nationwide. Amtrak will introduce Acela Express between Boston and Washington, D.C. later this spring that will dramatically improve travel times and generate an estimated $180 million in net annual revenue when fully operational. Other business plan components include an initiative to deliver guaranteed world-class service, to develop a more market-based system and to leverage public and private partnerships. In the past year, Amtrak has announced strategic alliances with The Hertz Corporation, Motorola, Capital One and Dobbs International Services. In addition, Amtrak has partnerships with two freight railroads, Norfolk Southern and BNSF, to expand its express shipment business.

Amtrak operates a 22,000-mile intercity passenger rail system, serving more than 500 communitiesin 45 states.

Moody's Investors Service Assigns Financial Strength Rating of A3 to Amtrak

NEW YORK, Dec 14, 1999—Moody's Investors Service has assigned an issuer rating of A3 to the National Railroad Passenger Corporation (Amtrak). The rating, which has a stable outlook, reflects Moody's assessment of the financial strength of Amtrak in relation to its unique operations and political prominence in the US. The A3 rating is based on Amtrak's unique role as the operator of the national passenger rail system in the US, and Moody's expectation that operational self-sufficiency will be achieved, but that the Federal government will continue to provide financial support for Amtrak's capital programs. Amtrak's status as a private corporation whose preferred stock is entirely owned by the US Department of Transportation (DOT), and its insulation from bankruptcy are additional positive credit factors. The rating reflects the continuing, intense competitive pressures that Amtrak faces from the nation's highly developed highway and air transportation systems, as compared with the national passenger rail systems in other countries, and the substantially larger land area that it serves.

Credit risks include the Congressional mandate to achieve operational self-sufficiency by year-end FY 2002, the continued reliance on Federal subsidies, the start-up of high-speed rail service on the Northeast Corridor (NEC), and the on-going implementation of new business strategies. Moody's believes that the implementation of high-speed rail, and the realization of forecast operating efficiencies and consistent service standards are critical to the achievement of operating self-sufficiency. The success of these initiatives will help to ensure continued political support for Amtrak and therefor help safeguard future Federal funding.

Amtrak's Reliance on Subsidies Common to All Passenger Rail and Public Transit Systems

Amtrak was created in 1971 by an act of Congress to operate a national system of passenger rail transportation. Currently Amtrak operates a 22,000-mile passenger rail system serving 45 states, and annual riderships of 21.5 million integrity passengers, and 58 million commuters under contract with commuter agencies. Amtrak's business activities include core railroad operations (passenger, food service and state-supported services, commuter, (contract management of commuter agencies) reimbursable (project work for commuter agencies) and commercial business lines (real estate, right of way leases, air rights leases).

As is typical of public transit systems in the US, as well as transit and passenger rail systems throughout the world, Amtrak receives substantial government subsidies. In Moody's April 1998 Special Comment: "The Credit Implications of Increased Special Tax Subsidization of Mass Transit Systems" we stated "Moody's recognizes that mass transit systems cannot exist financially on their own and must be subsidized. Many of the larger mass transit agencies have one or more dedicated sales or special taxes to fund both operations and debt service." While Amtrak lacks a long-term dedicated revenue source, the trend of Federal subsidies is well established, although susceptible to appropriation risk. From 1971 through 1999 the federal government provided Amtrak with nearly $23 billion in financial support through annual budgetary authorizations. With subsidization comes an implied contract with its political partners and customer base. In Moody's opinion, Amtrak's on-going overhaul and strategic re-invention must be financially successful in order to ensure continued political support for future funding subsidies. The proven ability to deliver capital programs, particularly high-speed rail implementation in the NEC as promised, is also critical to continued subsidization.

Reorganization Focused on Operational Self-sufficiency

In 1994 the federal government challenged Amtrak to reduce its need for operating subsidies and achieve operational self-sufficiency by the end of FY 2002. In 1995 Amtrak organized its operations into the three Strategic Business Units (SBUs) that exist today. The SBUs are arranged along geographic and market segment lines and consist of the Northeast Corridor (NEC), Amtrak Intercity and Amtrak West. Only the Metroliner route, which operates almost entirely on Amtrak-owned tracks, has achieved profitability.

The Amtrak Reform and Accountability Act of 1997 (ARAA) established a new organizational structure for Amtrak and provided for Taxpayer Relief Act (TRA) funding of $2.3 billion over a five year period for capital expenditure needs, including the acquisition of high speed rail rolling stock, and maintenance of equipment and facilities. While the ARAA also repealed certain restrictive labor provisions, it also imposed additional layers of management oversight, including financial audits by the DOT Inspector General, and the creation of the Amtrak Reform Council (ARC). The ARC may recommend the dissolution of Amtrak if it fails to meet the self-sufficiency goal, which in Moody's view is unlikely, given achievements to date. The composition of the new Board of Directors helps to ensure broad bi-partisan political support for Amtrak at the national level.

Moody's Believes Goal of Operational Self-sufficiency is Achievable

Amtrak's 1998–2002 Strategic Business Plan (SBP) has been designed to achieve operational self-sufficiency by the end of FY 2002. A key component of plan needed to achieve this goal is the successful launch of high-speed service ("Acela") in the NEC. Incremental net revenues from this new service are forecast to grow to $180 million by 2001. Currently, implementation is about 6 months behind schedule due to wheel-wear problems on the new rail cars. Electrified service from Boston to New York is scheduled to begin in January 2000, with limited Acela Regional service. The high speed Acela Express service is to be implemented in mid-2000, assuming corrected railcars are delivered in the spring. While delay costs through mid-2000 are expected to be offset by liquidated damages from the contractor, as well as from operational and start-up savings, Moody's believes that a delay beyond the end of 2000 could jeopardize Amtrak's chances of achieving the Congressional mandate of self-sufficiency.

Other key components of Amtrak's business plan hinge on significant growth in mail and express revenues, improvements in fleet quality and management, containment of core operating costs and development of new commercial ventures. The SBP assumes self-sufficiency will be achieved one year ahead of the requirement, assuming actual future federal appropriations will equal proposed amounts ($521 million 2001, $521 million 2002).

Recent Operations and Financial Results Show Improvement

During the last few years Amtrak has seen a significant improvement in traffic and revenues, reversing previous years' trends of declining ridership. From 1997–98 total ridership grew 4.5%, and revenues 3.8%. From 1998–99 ridership went up 2% (3% in the NEC) and revenues 6%. However, these positive trends are somewhat offset by increases in expenses largely due to increased labor costs associated with newly ratified contracts with nearly all unions. Amtrak has 21,000 unionized (13 labor unions and 2 councils; 25 labor agreements) and 2,500 management employees.

Amtrak has recently completed a comprehensive study of its operating units and is in the process of applying more stringent bottom-line analyses to all of its business lines. Ultimately Amtrak is working towards a more market demand model, which may result in service configuration adjustments. Moody's believes that any service adjustments would be subjected to political need and compromises. The scope and nature of future operational changes will impact the extent and timing of Amtrak's drive towards greater operational self-sufficiency.

The latest DOT–IG report identifies $692 million in projected SBP revenue increases that are at risk of not being achieved by 2002. Over half of these revenues relate to service standards improvements, initiatives related to Amtrak's Market-Based Network Analysis (MBNA) and other management actions that have yet to be fully implemented. If these revenues are not fully realized, Amtrak may need to expend scarce capital dollars for operations, thereby slowing the pace of much needed upgrades to its infrastructure both in the NEC south of New Haven and nationally.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MAX CLELAND TO AMTRAK

Question 1. Governor, I have heard that as a nation we spend over $70 billion a year on our highway infrastructure, yet increasing traffic gridlock is strong evidence that we are unable to keep up with demand. Is passenger rail a cost-effective transportation alternative, and if so, why?

Answer. Yes, passenger rail is a cost-effective transportation alternative, because as population and congestion increase, our ability to cheaply meet that growing demand diminishes.

Comparing the relative efficiency of modal investment choices over time reveals that highways and air service reflect lower average costs historically due to high capital investment but rising average costs today. Average costs to meet passenger demand in the highway and aviation systems are starting to grow as increasing demand and congestion lead to less cost-effective options for increasing capacity.

In contrast, the nation's rail system reflects higher average costs historically due to minimal capital investment and falling average costs today. Investment in rail can lower average costs both as a result of increasing efficiency and by stimulating increased demand for rail service.

While over $70 billion per year is spent on the national highway infrastructure, only $500 million per year is spent on the national rail infrastructure and fleet by the federal government. As policy-makers consider where to invest transportation dollars, they will need to consider the cost-effectiveness of those investments in meeting future travel demand. Accommodating that demand will be increasingly challenging in the capacity-constrained highway and aviation systems, while the rail system looks to be a progressively more cost-effective alternative.

Highway Delays are Rising—The Texas Transportation Institute (TTI) has shown, for example, that since 1982, driver delay across the largest 68 urban areas, measured in hours of delay, has grown by an average of 181%, with delay in medium and small urban areas growing at a much higher rate.[1]

Growth in Average Annual Delay per Driver
1982 to 1997[2]

Urban Area Group	Percent Change
Very large	125%
Large	300
Medium	343
Small	400
Overall Average	181%

While the nation spends over $70 billion per year on its highway infrastructure, the system has been unable to keep up with demand.[3] In examining alternatives for alleviating congestion constraints, for example, TTI concludes that on average, and assuming additional road capacity meant new roads rather than congestion management solutions (HOV etc.), less than half (45%) of the roadway needed to keep up with demand was built between 1994 and 1997. This suggests diminishing returns to each dollar invested.

Aviation Delays are Rising—Our nation's aviation system is likewise becoming increasingly congested, particularly in the largest cities. In 1991, for example, 23 airports experienced annual aircraft flight delays in excess of 20,000 hours. Today, there are 27 with at least that amount, and that number is expected to grow to 31 by 2007.[4]

Further, the average delay per operation (takeoff or landing) now exceeds 5 minutes at all of the top 10 airports.[5] This fact is particularly important for three reasons. First, the vast majority of passenger traffic passes through the top airports. Of the 3,300 airports considered of national significance, the top 29 handle 67% of the nation's traffic.

Second, while an average delay of 5 or 10 minutes per operation appears relatively small, these delays do not tend to be distributed evenly, but instead are grouped during peak hours. The result is that the typical operation during peak hours is delayed by substantially more than 5 or 10 minutes.

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[1] Texas Transportation Institute, Urban Mobility Study, 1999.
[2] Measured in total minutes of delay per year.
[3] Federal Highway Administration, Highway Statistics, 1997, Table HF–2, Total Disbursements for Highways, All Units of Government; estimate includes capital and maintenance outlays only.
[4] Federal Aviation Administration, Airport Capacity Enhancement Plan, various years.
[5] Federal Aviation Administration, 1998 Airport Capacity Enhancement Plan.

Average Delay per Aircraft Operation
At the Top 10 Most Delayed Airports, 1997

Rank	Airport	Minutes per Operation
1	Newark	9.94
2	Atlanta	7.64
3	LaGuardia	7.63
4	Philadelphia	6.95
5	DFW	6.42
6	Detroit Metropolitan	6.20
7	St. Louis	6.05
8	Minneapolis-St. Paul	6.00
9	JFK	5.38
10	Boston Logan	5.37

Source: FAA Airport Capacity Enhancement Plan, 1998.

Finally, congestion per operation imposes delays not on a single individual, but on an entire aircraft. The costs of these delays can, therefore, become high. The Air Transport Association, for example, estimated that the additional aircraft operating and ground handling costs resulting from delayed operations in 1997 equaled $2.4 billion.[6]

In its recent report to the U.S. Department of Transportation, the National Civil Aviation Review Commission summarized its primary finding: "gridlock is near and will be expensive."[7] This finding is based largely on the rapid growth in aviation system delays and the system's increasing inability to address these delays with conventional approaches, such as new runway capacity, the combination of which is expected to result in continued growth in aircraft delays.

Costs for Adding Highway Capacity are High—The incremental cost of adding capacity to the urban interstate system is $0.14 per passenger-mile in new pavement, congestion and accident-related costs—and even more if environmental and social costs are included.[8]

The incremental cost of adding rail capacity, however, is diminishing. Over time, therefore, the average cost per passenger mile for highways will rise as the average cost per passenger mile for rail will fall, making passenger rail a cost-effective option for adding new capacity. Rail passenger demand, particularly on higher-density routes, is expected to rise at a rate higher than the historical average in part due to increasing congestion and delay on existing alternatives, and in part as new investment results in higher levels of service.

As the highway and aviation systems are stretched to their limits, investment in rail becomes an increasingly viable and attractive option for meeting new intercity travel demand.

Question 2. Do you believe Amtrak can achieve operational self-sufficiency following the Amtrak Reform Council's (ARC) suggested guidelines?

Answer. As agreed to at Senator Hutchison's February hearing, the ARC will not include depreciation and progressive overhauls as operating expenses that Amtrak must recover without federal grants. This is consistent with the intent of the Subcommittee and Amtrak's assumption in all of its Strategic Business Plans. Amtrak continues to believe that it will achieve operational self-sufficiency based on this criterion.

Question 3. Amtrak noted in its Strategic Business Plan that partnerships with the states will play an important role in Amtrak's efforts to achieve operational self-sufficiency. The Georgia Department of Transportation (GDOT) appreciates Amtrak's interest and enthusiasm in Georgia's efforts to implement passenger rail service, both commuter and intercity. However, GDOT would like to see flexibility afforded to state and local rail operations to seek the best arrangements possible when it comes to the operation of intrastate rail programs. In addition, GDOT and others in my state, including myself, believe that funding flexibility in TEA–21 should be expanded to include intercity rail. Should funds be flexed, GDOT believes the federal government should afford equal access opportunities to funds made

[6] Ibid., p. 32.

[7] National Civil Aviation Review Commission, Avoiding Aviation Gridlock and Reducing the Accident Rate, A Consensus for Change, December 1997, p. 1–2.

[8] Federal Highway Administration, 1997 Federal Cost Allocation Study, Final Report; based on Table V–26, marginal costs for the year 2000.

available for passenger rail service for both Amtrak and the state or local rail operations.

Could you please comment on GDOT's statement:

Answer. Amtrak is extremely supportive of the efforts within Georgia to develop new intrastate and intercity passenger service to provide an alternative to the growing congestion that is choking Atlanta and other cities within the state. Amtrak has met with the Georgia DOT, the Georgia Regional Transportation Authority, and the Georgia Passenger Rail Authority, as well as with the Governor and Lieutenant Governor, to express our support for rail and to offer any assistance we can provide to help progress these efforts. Senator Cleland's leadership in this area has been a particularly important catalyst in building support for rail passenger service within the state. We look forward to a very bright future for rail in Georgia. The state provides a critical link between the federally designated Southeast High-Speed Rail Corridor heading north to Greensboro, Charlotte, Richmond and Washington, DC, and the Gulf Coast High-Speed Rail Corridor, heading south and west to Birmingham, Meridian, New Orleans and Texas.

The Rail Passenger Service Act of 1970, which created Amtrak, statutorily authorizes Amtrak to operate on trackage owned by every railroad in the country, provided Amtrak compensates the railroad for certain costs associated with its use of the rail line. This authority to operate, as well as some 30 years of experience working with freight railroads, can assist states attempting to implement new rail service over freight-owned rail lines, particularly over routes where no passenger trains currently operate. However, states are free to seek competitive proposals for new rail passenger service and Amtrak welcomes the opportunity to bid on such proposals.

Amtrak very much appreciates the support of Senator Cleland for amending TEA–21 to provide states with the flexibility to invest certain federal transportation funds in intercity rail projects. Currently, legislation is progressing in both the House and the Senate to allow states this right. This flexibility would not in any way be limited to Amtrak or Amtrak routes and would provide an important potential source of funds for Georgia to assist in implementing its vision for intrastate and intercity passenger rail.

Question 4. The Gulf Coast HSR Corridor currently ends in Birmingham. I would appreciate your comments on extending the corridor to Atlanta, so that the Gulf Coast Corridor can tie into the Southeast HSR Corridor.

Answer. Amtrak strongly supports extension of the Gulf Coast High-Speed Rail (HSR) Corridor to Atlanta and has urged the states in the Gulf Coast HSR Corridor to seek federal designation of this extension from the Federal Railroad Administration. This corridor is extremely important in light of the severe rail congestion in and around Atlanta. Efforts to alleviate this congestion will be the lynchpin for implementing new service on all routes around Atlanta, including Birmingham (and the Gulf Coast HSR Corridor), Macon, Athens, Greensboro (and the Southeast HSR Corridor) and Chattanooga.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO AMTRAK

Question 1. According to testimony by the Department of Transportation Inspector General (DOT–IG), the tunnels leading into and out of Penn Station in New York require substantial work to meet life safety needs. How much would it cost to fix the most pressing needs, such as evacuation and ventilation, and how quickly could these projects be completed if all necessary funds were available?

Answer. There are 28 individual projects that were discussed with the USDOT OIG staff that reflected unfunded need for the years 2001 to 2014. These projects reflect the highest priority needs for fire and life safety in Penn Station New York and have a total unfunded need in 1997 dollars of $654,915,000. These projects address the ventilation and evacuation needs either directly, through enhancements in the physical plant, or indirectly, in a complementary way by providing the communications, signage, lighting, walking surfaces, rescue vehicles, water standpipes, and the like, required to accomplish an effective emergency response and/or evacuation.

The major portion of the program is scheduled for completion within the first nine-year period (2001–2010). Much work has been done to determine fast track potential and early completion. However, given the current lack of a dedicated funding source, and therefore the resulting competition between these life safety needs and available single year allocations of funds for all needs, long-term project planning becomes difficult at best. This reality combined with the inability to schedule major blocks of time for construction work in heavily used tunnels and station areas naturally stretches out completion times for these projects. There are, however, beneficial and costly projects that could be expedited with dedicated funding. These do not impact substantially on active rights-of-way and fall primarily in the areas of constructing new tunnel ventilation shafts. They can be built, including their integrated new emergency access and egress components, substantially outside the tunnel configuration with the only impact coming at the end of the project from the connection of the reconstructed shafts to the tunnels.

Since these projects are currently in the design process, we do not yet have the final design, constructability, staging, and contract packaging information necessary to determine and commit to a specific fast tracking impact. However, we do believe that the potential exists to complete these projects in advance of the present schedules contingent upon receipt of funding commitments.

Project	Total Unfunded Needs 2001–2014
Penn Station Track Level Emergency Ventilation	$8,209,000
Wayside Communication for North River Tunnels, Empire Tunnel	978,000
Wayside Communication for East River Tunnels Lines 1 & 2, and Penn Station New York	779,000
Tunnel Handrail Replacement & Signage	246,000
Tunnel Lighting Improvements & Blue Lights at Emergency Phones	1,754,000
East River Tunnels Emergency Ventilation Design	567,000
East River Tunnels Emergency Ventilation—Long Island City Site—Construction	80,000,000
North River Tunnels Emergency Ventilation Design and Construction	18,784,000
Supervisory Communication and Data Acquisition System for Ventilation Control	155,000
Emergency Ventilation Power—Design	150,000
East River Tunnels Emergency Ventilation—1st Ave. Site—Construction	83,000,000
Tunnel Structural Rehabilitation	151,194,000
Emergency Ventilation Power—Construction	5,600,000
Supervisory Communication And Data Acquisition System—future software implementation	325,000
Document Buildings—Maps & Plans	900,000
Emergency Response Vehicles	15,400,000
Integrated Evacuation Plan—Penn Station New York	3,800,000
Third Rail Replacement—North River Tunnel Construction	9,036,000
Port Access Improvements for the North River Tunnels and East River Tunnels	11,900,000
Philadelphia Structures gjpering Support (Internal Labor)	7,408,000
New York Engineering and Project Management Support (Internal Labor)	23,519,000
Farley Building Track Level Emergency Ventilation, Communication, etc.	49,700,000
East River Tunnels Track Rehabilitation and Drainage	60,143,000
East River Tunnels Track Emergency Evacuation Walking Surface	6,013,000

Project	Total Unfunded Needs 2001–2014
North River Tunnels Track Rehabilitation and Drainage Improvements	30,072,000
North River Tunnel Track Emergency Evacuation Walking Surface	3,007,000
Penn Station Track Rehabilitation and Drainage Improvements	14,973,000
Passenger Car Modifications (Emergency Brake Release)	67,303,000
TOTAL	$654,915,000

NOTE: All costs reflect 1997 dollars and include no escalation

Question 2. In its 1999 Assessment, the DOT–IG identified capital spending that was taking place in areas outside of Amtrak's minimum needs—particularly corridor development and the transformation of train cars in the Northeast Corridor.

a) Has Amtrak identified funding in its current capital plan to cover its minimum needs?

b) How will these needs be covered in 2000 and 2001?

c) If spending continues on non-minimum needs, the resulting shortfall will require some minimum needs to go unfunded. Which needs will be deferred and what will be the short and long-term effects of this deferral?

Answer. Amtrak believes the capital investments that have been made for non-minimum needs will generate bottom-line benefits that will help Amtrak achieve operational self-sufficiency.

Amtrak has identified and funded its minimum capital needs, as defined by the DOT–IG, for FY2000. Amtrak's current capital program provides funding for such minimum needs with Taxpayer Relief Act (TRA) and general capital dollars.

Amtrak will again look to TRA and general capital funds to support its minimum capital needs in FY2001. The definition and value of such needs are currently being evaluated. Clearly debt service, mandatory and legally obligated programs would have first priority for funding.

Question 3. The cost of the electrification project between New Haven and Boston has increased by over $300 million since its start in 1995.

a) How are these additional costs being funded?

Answer. The additional costs for electrification are being funded through federal sources.

b) What planned projects have been eliminated or scaled down to absorb these increased costs?

Answer. Amtrak has effectively managed other portions of the project to offset the cost increases of the electrification program. Although current projections for the High-Speed Rail Program show an increase in the electrification project costs of approximately $250 million, the incremental federal funding required was less. Project costs for infrastructure, EIS mitigation and product development were reduced. Also, by delaying financing and taking advantage of lower interest rates and escalation costs, a larger percentage of trainset and facility costs are being financed.

Question 4. Amtrak's high-speed train service—the Acela Express—has now experienced multi-year delays.

a) What have been the reasons for the delays to date and what effect will this most recent delay have on your revenue projections for FY 2000?

b) What actions have you identified to offset the potential loss in revenue?

c) To what extent has the Acela trainset Contractor compensated Amtrak for having failed to fulfill its contractual obligations (i.e., how much has Amtrak received in contractor penalties)?

d) Press reports indicate differences of opinion between the builders of the trainsets, Amtrak, and the Federal Railroad Administration about how testing should proceed. Why wasn't this testing procedure agreed upon in advance?

Answer. The high-speed train service has not experienced multi-year delays. Given the contractors most recent schedule, the delivery of the high-speed trainsets is expected to be approximately seven months delayed.

The delays to the high-speed trainset program are primarily attributable to manufacturing and other delays caused by the Contractor. As this matter might be subject to future claims and potential litigation, it would be inappropriate for Amtrak to comment further at this time.

Ticket revenues are anticipated to be $120 million less than originally planned. However, Amtrak has identified alternative revenue sources to offset the cash loss associated with the delay. These revenue sources include liquidated damages from the contractor, savings in interest and operating costs due to the delayed implementation of service and incremental lease revenue.

The contract between Amtrak and the manufacturer Consortium, responsible for the production of the trainsets, includes provisions for liquidated damages. The value of the liquidated damages is directly dependent upon the date that each unit is delivered to Amtrak, therefore a precise value cannot be determined today and can only be calculated when each unit is delivered. The contract provisions allow Amtrak to deduct the value of estimated liquidated damages from the payments made to the Consortium, which Amtrak intends to do.

As far as the testing procedure is concerned, in accordance with the Contract, the Contractor submits a test procedure for each test required by the Specification to Amtrak for approval. The test cannot begin until the Contractor has received Amtrak's conditional approval or approval of the test procedure. Amtrak also submits a copy of the test procedures to the Federal Railroad Administration (FRA) Office of Safety for their review and comments before approving the procedure.

There have been some differences of opinion between the Contractor, Amtrak and the FRA with regards to appropriate testing requirements and methodologies. All issues regarding how to proceed with testing have been resolved quickly using both regular meetings and conference calls in which the Contractor, Amtrak and the FRA are participants. Amtrak cannot comment on press articles that have not been specifically identified.

Question 5. On January 31, Amtrak launched Acela Regional, with limited electrified service between Boston and Washington, DC.

a) How has this performed to date?

Answer. Acela Regional market performance in February 2000 was excellent as evidenced by . . .

- Ridership on the four trains was 43,028 trips, with ticket revenues of approximately $2.36 million;
- This level of market performance was +21% (ridership) and +48% (ticket revenues) versus comparable Northeast Direct service in February 1999;
- February 2000 ridership on these trains exceeded plan by nearly 5% while ticket revenues exceeded plan by 26%.

Based on preliminary March 2000 sales indicators, Amtrak expects Acela Regional ridership and ticket revenues to be even better in March.

b) What has been its record for on-time performance and load factors?

Answer. Acela Regional service was launched on January 31, 2000. The following February, 2000 data represents the first full month of service:

Load Factor: (NYP and North)	Train 130	40.5%
	Train 131	47.4%
	Train 132	64.1%
	Train 133	55.7%
	Avg. NYP and North	51.9%
On-Time Performance:	Train 130	80.0%
	Train 131	95.0%
	Train 132	82.8%
	Train 133	93.1%
	Total OTP	87.8%

Question 6. It appears that passenger revenue for the Intercity Strategic Business Unit for the first quarter of fiscal year 2000 is considerably behind its planned performance. What are the reasons for this relatively poor performance, and what plans do you have to improve these revenues in the remainder of 2000?

Answer. While first quarter FY00 Intercity passenger revenues were below plan, passenger revenues in January/February (+4% vs. year ago) were encouraging, signaling a reversal in Intercity market trends versus the last few months of calendar 1999. In addition, performance during the first weeks of March indicates that the positive trend is continuing.

First quarter FY00 Intercity market performance was hampered by a combination of factors including poor on-time performance coupled with some product quality issues; a reduction in travel due to Y2K concerns; and increased low airfare competition in some Intercity markets. However, the outlook for the balance of FY00 is very positive as Intercity ridership trends will improve significantly due to both the implementation of targeted, tactical marketing and pricing actions, and the launch of several key strategic initiatives focused on product and brand improvements . . .

- initiation of a new travel agency promotion offering an additional 10% discount off of lowest prevailing fare;
- travel agency sales trends are improving already;
- continuing revenue management strategies designed to increase discounted inventory;
- extension of the Fall buy/get one promotion in late January through all of February;
- a focused program of freight outreach initiatives to help improve Amtrak on-time performance;
- on-time performance has already started to turn around;
- consequently, customer satisfaction is on the upswing;
- consolidation of the new Marketing Department at the corporate level;
- launch of the popular Spring 1–2–Free promotion on February 28;
- launch of the Service Standards Program, and specifically the service satisfaction guarantee in early summer;
- the re-positioning of the parent Amtrak Brand as we introduce service guarantees and deliver "right & ready" trains;
- continued appeal and growth of the Amtrak website, representing 5% of total sales (100% improvement versus FY99);

Question 7. According to your FY 2000 Strategic Business Plan, you are again projecting significant cost savings from purchasing power at wholesale rather than retail prices. In past years, this has assumed that Congress would amend relevant statutes so as to allow Amtrak to engage in wholesale power purchase and sale activities, despite the 1998 ruling of the Federal Energy Regulatory Committee to the contrary. Is this still your strategy, and if so, how are you proceeding with this effort?

Answer. Amtrak will continue to pursue the authority from Congress to engage in the wholesale purchase and sale of electric power. Enactment of a provision designating us as a wholesaler was part of our FY 2001 Legislative and Grant Request submitted to Congress and the Administration on February 15, 2000. Our strategic business plan has assumed that by managing energy usage and continuing to take advantage of a developing deregulated electricity market, we will realize annual savings of $3 million in FY2000 and $14.5 million annually thereafter.

This past December, Amtrak exercised with Duke Solution, Inc., for power supply in the Northeast Corridor. Projected savings under this contract are approximately $3 million for FY2000. Amtrak believes that it will be able to gain additional savings on power by expanding the company's participation in Retail Choice programs, as power markets develop further.

Question 8. The Amtrak Reform and Accountability Act is silent in regard to future capital funding for Amtrak. After 2002, does Amtrak expect that the federal government will provide capital grants for its depreciation and progressive overhaul expenses or will these items be funded from other resources? What about funding for maintenance and other costs traditionally paid for via operating grants but today being covered by capital grants as permitted according to Appropriations Reports?

Answer. Amtrak expects to receive annual federal capital grants after 2002. These capital grants will be used for progressive overhaul expenses and for its depreciated assets. Amtrak will also continue to pursue capital investments from commercial partners and state/local governments. A portion of future grants will be used to cover qualified maintenance costs as permitted according to Appropriations Reports. After 2002, the amount of federal grants used for qualified maintenance expenses will be equal to or less than the value of Excess Railroad Retirement payments.

Question 9. What is the level of the capital grant that Amtrak expects to receive from the Congress in 2003 and for the succeeding 4 years? How would these monies be used?

Answer. Amtrak is currently constructing its long-term capital program which will incorporate the development of high-speed corridors across the country. It is anticipated that the planning efforts with States will be finalized later this summer. The long-term capital program and budget would therefore be included in Amtrak's FY2001 business plan, issued in the early fall of this year. Federal funding would be used to support debt service, life/safety, operational reliability, equipment overhaul and refleeting, infrastructure, state-of-good repair, high-speed corridor development and other capital investment needs.

Question 10. GAO and the DOT Inspector General have been critical of last year's Strategic Business Plan because of significant amounts of financial benefits that "Amtrak expects to see are merely placeholders—that is, amounts placed in the plan for 'actions to be determined later' or which Amtrak had no support." Please tell me to what extent Amtrak has firm and supportable financial estimates for expected net financial benefits for productivity enhancements ($161 million in the plan), establishing service standards ($105 million), and realigning its route structure ($105 million).

Answer. Virtually any five-year business plan will have placeholders for actions that are planned but have yet to be developed in detail. From an audit perspective, the DOT–IG and the GAO have appropriately categorized those unspecified actions as values that are at risk. Each year, Amtrak further defines a set of actions it will take and forecasts for the mid- and long-term a set of broader, not yet detailed actions. For the past two fiscal years, all previously identified placeholders have been either defined or replaced with new actions that have produced budget results equal to plan. Productivity enhancements are an example of such placeholders that have been subsequently defined and have included revenue enhancement, service delivery and labor cost programs.

Two major initiatives, service standards and the realignment of the route structure, were identified in last year's business plan. Both had yet to be fully developed at the time of the business plan publication. Since that time, however, an enormous amount of research, planning, and development has occurred.

The service standards program has now been defined, the FY2000 benefits have been identified by business unit and the program is in the first stages of implementation. Product categories have been standardized, new staffing ratios have been set, all 25,000 employees have attended service quality training, a new management evaluation process has been implemented, and a new attendance recognition and incentive program has been implemented. This summer the heart of the initiative, the "Right and Ready Trains" program and the Customer Guarantees, will be implemented. Following implementation of the full program, service consistency and quality should improve to a point where ridership and therefore revenue increases. Savings are also projected as the result of the attendance program. Once these programs are begun this summer, Amtrak will be able to more clearly assess the revenue impact and will incorporate the results in the FY2001 business plan.

Following a comprehensive economic analysis of its national rail system and potential market opportunities, Amtrak unveiled its new Network Growth Strategy (NGS) at the end of last month. The NGS is a market-driven plan that will expand the existing network, increase profitability, and better serve all Amtrak passengers and business partners. The strategy proposes to:

- Expand or improve service in 21 states
- Add service to 975 new station pairs
- Add 11 route segments
- Grow ridership for long-distance intercity with a 12% growth in train miles
- Double the number of shipping lanes for mail and express business

The plan will generate $229 million in new annual passenger revenue and will contribute $65 million to the bottom-line in FY2003. With a ramp-up of service beginning in FY2000, the Business Plan forecast of $105 million for the five-year plan period will be met.

Question 11. To what extent will future Strategic Business Plans contain similar placeholders or financial estimates for which Amtrak has no firm and supportable estimates?

Answer. Future five-year Strategic Business Plans are likely to contain financial estimates or similar placeholders. The nature of Amtrak's business has elements of uncertainty such as the current escalation of fuel prices.

As illustrated by the achievement of our FY1998 and FY1999 Budget Results, Amtrak has been able to successfully respond to changes by developing new initiatives during a given fiscal year. This may be a combination of additional cost containment and/or revenue increases.

Question 12. Amtrak has stated that it will increase its mail and express business from the current $80 million–$90 million to over $200 million. What progress has been made in achieving this goal and how much federal money will be required to meet this expected increase?

Answer. Amtrak's business plan calls for an increase in the volume of mail and express business from $98 million in FY1999 to over $200 million in FY2002 through aggressive growth of the fleet and routes available to serve our customers. The mail and express business is key to improving the financial results of mid- and long-distance passenger services.

For the five months ending February 29, 2000, the mail and express business had increased its revenue base by $11.8 million or 30% over the same period last year, with growth in the full car express business up 72%. The shipping community is reacting favorably to the service Amtrak provides for high value, time-sensitive express shipments. The demand for the service is high, and requires additional capacity to grow further.

The growth in the mail and express businesses as contemplated in the business plan will expand a profitable incremental business line and therefore reduce Amtrak's reliance on federal operating subsidies. In order to accomplish this goal, an aggressive expansion of the express fleet is underway, and is being financed either through third party financing or through partnerships with commercial companies. The facilities required to handle this growth in traffic will require Amtrak to invest capital of at least $25 million over a five-year period. A specific facilities plan, linked to the route expansion envisioned in the Network Growth Strategy, is underway and will be included in next year's business plan. While a portion of this has already been funded, Amtrak is aggressively pursuing financing strategies that will allow minimal use of scarce capital to develop the facilities.

Question 13. Amtrak has similarly stated that it will increase the amount of money provided by states that pay for Amtrak service. What progress has been made in achieving this goal and how much more money does Amtrak expect to receive by 2002? How will money received from states be used?

Answer. Amtrak has made great progress in increasing the contribution received from state and local governments. Over the last five years, operating contributions have increased from $64 million to $112 million and capital contributions have grown from $128 million to $219 million and $300 million in FY2000 and FY1999.

Operating contributions are used to offset losses associated with specific passenger routes, and capital contributions are used for investment in infrastructure (track, stations, facilities,) and fleet.

Amtrak is also modifying its internal policy and practice for costing and pricing state-supported trains. In order to meet its promise to Congress, Amtrak is pursuing several actions to improve financial viability of its routes in a way that permits it to provide a national network of services.

Operational self-sufficiency requires that routes cover not only their incremental costs, but earn a contribution sufficient to cover the Corporation's fixed cost base. Thus, for routes that do not cover contribution, Amtrak will seek state assistance to cover that gap plus a portion of the fixed cost base.

Question 14. After the most recent round of negotiations between Amtrak and its labor unions, Amtrak expected to offset about 20% of labor cost increases. What progress has been made in achieving this goal and why is only 20% of the cost increase being offset? What type of changes have been made to help achieve this 20% goal?

Answer. The BMWE labor agreement set a conceptual framework that has been followed in our subsequent labor agreements. That framework for the negotiations had two components: (1) wage packages valued at approximately 90% of those reached nationally by the freight railroads, and (2) offsetting savings of about 20% of the increased wage cost.

Our agreements contained wage packages within the parameters indicated and will be offset by productivity work rule and/or other wage changes. Through FY 1999 these savings have amounted to about $21 million. Preliminary results for the first quarter of FY 2000 show we will reach or exceed our goal this year.

A few of the more significant work rule changes include:

- Elimination of the second Assistant Passenger Conductor on certain long-haul trains,
- Extension of the period Amtrak can run trains with a single Engineer from four to six hours,
- The elimination of Amtrak operated commissaries, and the subsequent contracting for that service,
- Increased flexibility in the scheduling of work on the Signal System (including FRA mandated testing) to nights and weekends, when traffic is less frequent,
- Improved continuity and efficiency of construction crews engaged in improving Northeast Corridor bridges up to the conditions required for quality high-speed service.

Question 15. Does Amtrak expect to offset substantially more of its labor cost increases in the next round of collective bargaining? Is that feasible if the pace of negotiations mirrors the last round of negotiations?

Answer. We are working closely with all of our field operations to establish priorities and needs with respect to requests for flexibility, productivity, customer service and performance improvements for upcoming bargaining. At this stage in the process, it is premature to determine what the financial value any change may have or the contribution that customer service improvement and productivity change may have to revenue production.

Question 16. What contingency plans, if any has Amtrak developed should the planned increases for Acela Express service and increased mail and express business fail to fully materialize?

Answer. Amtrak is constantly monitoring its performance against planned goals and adjusts plans where necessary to accommodate for any shortfalls. Such a plan is in place to offset the ticket revenue reductions forecasted as a result of the delay in the Acela Express fleet. The contingency plan incorporates contractually related liquidated damage revenues, interest and operating savings resulting from the delay in service and incremental lease income. Similarly, if monthly forecasts show that the mail and express business will not fully meet business plan goals, alternative actions will be put in place to remedy the projected shortfall.

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