DEPARTMENTS OF TRANSPORTATION, TREASURY, THE JUDICIARY, HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2006

THURSDAY, MAY 12, 2005

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:33 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Bennett, Burns, Murray, Byrd, Kohl, Durbin, and Dorgan.

DEPARTMENT OF TRANSPORTATION

NATIONAL RAILROAD PASSENGER CORPORATION

STATEMENT OF DAVID M. LANEY, ESQ., CHAIRMAN, AMTRAK BOARD OF DIRECTORS

ACCOMPANIED BY:

DAVID GUNN, PRESIDENT, AMTRAK

JEFFREY M. ROSEN, GENERAL COUNSEL, DEPARTMENT OF TRANSPORTATION

KENNETH A. MEAD, INSPECTOR GENERAL, DEPARTMENT OF TRANSPORTATION

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning. The Senate Appropriations Subcommittee on Transportation, Treasury, Judiciary, HUD and Related Agencies will come to order.

Today we welcome a diverse panel: Mr. David Gunn, Amtrak's President and CEO; David Laney, Amtrak's Chairman of the Board; Jeffrey Rosen, General Counsel for the Department of Transportation; and Kenneth Mead, Inspector General for the Department of Transportation.

While I understand that Mr. Gunn will not be presenting testimony but is here to answer questions, I look forward to each of your views on Amtrak's fiscal year 2006 budget. More importantly, I look forward to understanding your views on the difficulty that Amtrak is facing and the options that will dictate the future or demise of Amtrak as we know it today.

Unfortunately, the 2006 budgets presents a very bleak and dour picture for the future of Amtrak. The OMB request includes only $360 million in the Commuter Rail Operations Account, intended to facilitate Amtrak's reorganization through bankruptcy. This budget request is some $840 million less than the $1.2 billion appropriated in the current year for Amtrak operations and related needs. Under any circumstances, $360 million is not enough to meet Amtrak's needs in 2006, whatever choice Congress makes about the future of Amtrak.

As I have told you individually, and I have told the Director of the Office of Management and Budget, I think it is irresponsible to propose bankrupting Amtrak without having any significant plans for reforming it or the money either to fund the bankruptcy which would be, in our opinion, far more expensive than you have any concept here if you look at the obligations of Amtrak, or keeping it alive.

Amtrak claims it needs $1.82 billion for 2006 and it cannot survive in fiscal year 2006 even on flat funding $1.2 billion. However, even if I was to agree that $1.82 billion for Amtrak is justified, I do not see how this subcommittee will be able to provide such a significant increase when we have been given such a shortfall across our entire budget by OMB.

It is not your problem directly. It is Senator Murray's problem and mine. But it has implications which are very serious for you because we have a number of very difficult funding decisions in a tight allocation.

The overall budget for domestic discretionary funding is such that this subcommittee will have trouble reversing many of the administration's recommendations that eliminate or reduce funding for many other important and necessary programs.

OMB, for example, has eliminated funding of $51.6 million for Essential Air Service, an important and popular program that subsidizes air travel from remote rural airports, often located in areas with few transportation options. I doubt that we would be able to pass this bill on the floor of the Senate if those funds were not included.

The budget request also proposes to dismantle the CDBG program as well as 17 other programs, and put them in a block grant with the Department of Commerce and take a huge whack at them, cutting them by about $2 billion. CDBG, again not your problem, it is ours. But CDBG is critical to HUD's mission of being both a leader and partner with States and communities in the development of housing and economic growth. The program is a priority for all States and most communities, and it is also a priority for the members of this subcommittee.

Under the budget request, the subcommittee will have to find a way to also absorb a $2.5 billion rescission of excess Section 8 funds. Over the last few years, the previous committee that I had the pleasure of chairing before it was blown up, VA/HUD, made a number of reforms to the Section 8 program to make it much more efficient and to reduce the availability of excess Section 8 funds.

Having made that change, I have no idea how the administration proposes to pay for this rescission. Neither the Secretary of HUD nor the Director of OMB have any idea or any methodology for determining this rescission of where the funds will come from.

Having given you the bright news, now these are just a few of the problems facing the subcommittee and unfortunately will severely limit our ability to backfill funding for Amtrak. Believe it or not, there is a laundry list of other program cuts and shortfalls I will not bother you with, but all have strong support and deserve funding. In truth, in a time of deficit reduction, a program must not only demonstrate its value but an ability to overcome substantial program flaws.

Unfortunately, Amtrak's problems only seem to get worse. Bankruptcy will not solve it. It is too complex, the costs potentially too great, and the results too uncertain. I am not sure anyone understands the true cost, but I am from the Show Me State and I would like to see it before I count on it.

Amtrak deficits run over $1 billion a year. The Northeast corridor has had problems with Acela. Mr. Gunn, your predecessor as president, Mr. Warrington, promised Congress that Amtrak was on a glide path to profitability. He left Amtrak in worse shape than he inherited it, with Amtrak's debt increased from $1.7 billion in 1997 to $4.8 billion in 2002. At least I would trust you not to make any promises like that until we see a little better prospect.

Trouble is dogging Amtrak. As I mentioned, the Acela Express, with 20 percent of the passenger service on the Northeast corridor accounting for 11 percent of Amtrak's ticket revenues, has been shut down because of the brake problems. There has to be a reform plan. There must be structural reform. And we cannot keep Amtrak on inadequate life support without a light at the end of the tunnel. At this point, that light appears to be an oncoming freight train.

We are looking for a responsible plan and we count on the witnesses at the table today and the organizations you represent to provide it.

In fiscal year 2004, the Omnibus Appropriations Bill encouraged Amtrak to provide off-peak travel discount for veterans and current military personnel. This has been ignored. I would trust that you would take that into account and consider implementing this positive policy.

PREPARED STATEMENT

Unfortunately, I am going to have to miss the latter part of this hearing. I have a small bill on the floor that I have to deal with. But we look forward to having your full comments in the record and we will ask each of you to make 5-minute opening statements and have time for questions. I will review the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR CHRISTOPHER S. BOND

The Senate Appropriations Subcommittee on Transportation, Treasury, the Judiciary, HUD and Related Agencies will come to order. I welcome a diverse panel of Mr. David Gunn, Amtrak's President and CEO, Mr. David Laney, Amtrak's Chairman of the Board, Mr. Jeffrey Rosen, General Counsel for the Department of Transportation, and Mr. Kenneth Mead, the Inspector General for the Department of Transportation.

While I understand that Mr. Gunn will not be presenting testimony but is here to answer questions, I look forward to each of your views on Amtrak's fiscal year 2006 budget. More importantly, I look forward to understanding each of your views on the difficulties that Amtrak is facing and the options that will dictate the future or demise of Amtrak as we know it today.

Unfortunately, the fiscal year 2006 budget presents a very bleak and dour picture for the future of Amtrak. The administration's Budget Request includes only $360 million in the Commuter Rail Operations account and that funding is intended to facilitate Amtrak's reorganization through bankruptcy. This Budget Request is some $840 million less than the $1.2 billion appropriated in fiscal year 2005 for Amtrak operations and related needs. Under any circumstance, $360 million is not enough to meet Amtrak's needs in fiscal year 2006, whatever choice Congress makes about the future of Amtrak.

On the other hand, Amtrak claims it needs $1.82 billion for fiscal year 2006 and that it cannot survive in fiscal year 2006 on flat funding of $1.2 billion. However, even if I was to agree that the $1.82 billion request for Amtrak is justified, I do not know how this subcommittee will be able to provide such a significant increase from the Budget Request.

In particular, the subcommittee has a number of very difficult funding decisions to make under what is likely to be a very tight allocation. Because of the administration's overall budget for domestic discretionary funding, this subcommittee will have trouble reversing many of the administration's recommendations that eliminate or reduce funding for many other important and necessary programs.

The administration, for example, has eliminated funding of $51.6 million for Essential Air Service, an important and popular program that subsidizes air travel from remote rural airports, often located in areas with few transportation options.

The Budget Request also proposes to dismantle the Community Development Block Grant (CDBG) program along with 17 other programs and replace these programs with a new block grant in the Department of Commerce. The administration is proposing to fund this initiative at $3.7 billion which is an overall reduction of almost $2 billion from the fiscal year 2005 levels, of which CDBG would be reduced by some $1.6 billion. CDBG is critical to HUD's mission of being both a leader and partner with States and communities in the development of housing and community development initiatives. This program is a priority for all States and most communities. CDBG also is a priority for the members of this subcommittee.

Under the Budget Request, this subcommittee will have to find a way to absorb a $2.5 billion rescission of "excess" section 8 funds. Over the last few years, the VA–HUD Appropriations Subcommittee made a number of reforms to the section 8 program to make the program more efficient as well as reduce the availability of "excess" section 8 funds. I do not know how we pay for this rescission. Neither OMB nor HUD can identify the methodology for determining this rescission or from where the funds will come.

These programs are merely illustrative of the problems facing the subcommittee and which will limit severely our ability to backfill funding for Amtrak. I could provide a laundry list of other program cuts and shortfalls within this subcommittee that are troubling and deserving of funding for fiscal year 2006—all are programs that have strong support and deserve funding. In truth, in a time of deficit reduction, a program must demonstrate not only its value but an ability to overcome any substantial program flaws and problems.

Unfortunately, Amtrak's problems only seem to get worse. I do not believe that bankruptcy will solve our Nation's problems with Amtrak. Amtrak is too complex, the costs potentially too great and the result too uncertain to trust bankruptcy as the solution. I am not sure anyone understands the true costs of bankruptcy or who will pay for them. I am from the Show-Me State and a great believer in certainty.

To be blunt, Amtrak runs deficits of over $1 billion per year. Since 2001, Amtrak's annual operating losses have exceeded $1 billion and annual cash losses have exceeded $600 million Amtrak also faces some $600 million a year in capital costs, mostly with regard to the Northeast Corridor. Amtrak also will have debt service of nearly $300 million annually for the foreseeable future. In addition, the deferral of maintenance has created a significant risk of operational failure.

And it only gets worse. Mr. Gunn, your predecessor as President, Mr. Warrington, promised the Congress that Amtrak was on a glide path to profitability. Instead, Mr. Warrington left Amtrak in worse shape than he inherited it with Amtrak's debt increased from $1.7 billion in 1997 to some $4.8 billion in 2002. I credit your integrity with making no such promises. I also acknowledge your hard work and commitment to making Amtrak work successfully. Unfortunately, it is still not enough. In fact, Amtrak does not operate any more successfully than it did in 2002, or for that matter 1992, 1982 or 1972.

Trouble seems to dog Amtrak. Just this April, Amtrak was forced to shut down its Acela Express Service because of cracked brake rotors on most, if not all, of these passenger trains. The Acela Express has been one of Amtrak's few success stories, representing some 20 percent of its passenger service on the Northeast Corridor. As I understand it, Acela trains accounted for some 11 percent of Amtrak's ticket revenues for the month of February. Leaving aside Acela's success, how is it possible that there are problems with all or almost all of the brakes on trains just put in service a few years ago? How does Amtrak recover from these losses and who is responsible? Most importantly, how indicative is this problem of larger management problems at Amtrak?

There has to be a reform plan and there has to be reform legislation. There must be fundamental structural reform if passenger rail service is going to continue in the United States. This subcommittee has too many other priority funding needs to keep Amtrak on life support without a light at the end of the tunnel. In other words, I expect action and a consensus on the future of Amtrak. Without that, you do not have my support.

Finally, a small but important issue. The fiscal year 2004 Omnibus Appropriations bill included language encouraging Amtrak to continue providing an off-peak travel discount for our veterans and current military personnel. It appears Amtrak has ignored this language and has not made this service available since December of 2003. This is the type of program that engenders goodwill and builds ridership, and I urge you to reconsider this policy.

I am likely to miss much or most of this hearing as I have responsibilities for helping to manage the highway bill on the floor. I will have a number of questions for the record. Please be assured that I will review the hearing record very carefully.

Thank you, I now turn to my ranking member, Senator Murray.

Senator BOND. Now I turn to my partner and ranking member, Senator Murray.

STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Thank you very much, Mr. Chairman.

Today we will take testimony on what promises to be the most challenging issue this subcommittee will face this year. Amtrak, America's national passenger railroad, served 25 million passengers last year, the highest number in any year in its history. One-point-one million of those passengers were in my home State of Washington.

Even so, there are those in the administration and in Congress who want to push Amtrak into financial collapse and push 25 million passengers onto our already overcrowded highways and runways.

The benefits provided by Amtrak, as well as costs, have been debated in Congress every year since the Federal Government established the corporation 35 years ago.

But make no mistake, this year is different. This year Amtrak's detractors smell blood. As we take each step in the Federal budget process, they have additional reason to be optimistic that this will be the year that Amtrak service finally grinds to a halt.

Up until this year, the path of Amtrak's funding during each of the years of the Bush Administration has been largely the same. The Bush Administration proposes a funding figure that would throw Amtrak into bankruptcy. The Amtrak Board of Directors requests a sizable funding increase to truly allow the railroad to invest in its infrastructure and modernize. Congress has come along each year and generally provided Amtrak just enough money to limp along but not enough to invest and improve service.

Over the life of the Bush Administration, actual appropriations for Amtrak have been about 141 percent above the levels sought by the administration. But have also remained some 30 percent below what the Amtrak board has said it needed.

But as I said, this year is different. After working hard to keep Amtrak on a starvation diet over the last 4 years, the Bush Administration is now proposing to terminate all subsidies for Amtrak. Whether it is for State-supported trains like the Cascadia service in my State or the Empire Builder that runs from Seattle to Chicago, or for the service in the Northeast corridor, the Bush Administration's request is the same—zero funding. And zero funding means zero service.

While the administration seeks $360 million for a special rail account in the Surface Transportation Board, that funding, by law, can only be used to allow certain local mass transit agencies like the Sounder Commuter Rail Service to continue to operate over Amtrak property once Amtrak has ceased all operations.

Strangely, at the same time the administration is proposing to zero out subsidies and park all Amtrak trains, Secretary Mineta is flying around the country saying the Bush Administration is supporting Amtrak—they just want reforms.

In fact, Secretary Mineta has stated publicly that the Bush Administration would support between $1.5 billion and $2 billion in funding for Amtrak per year if his reforms were enacted. For me, the fallacy that this administration might actually support funding for rail service, reformed or not, was made clear during our hearing 3 weeks ago with OMB Director Josh Bolten. I specifically asked Director Bolten if the Bush Administration would be submitting a new Amtrak budget if reforms were adopted. Not once but twice Director Bolten made it very clear to us that the committee has received the only Amtrak budget from the Bush Administration that we are going to get, zero for Amtrak.

One week after we took testimony from Director Bolten, the Congress took another act to help push Amtrak into insolvency. It adopted the conference report on the budget resolution. That budget set the cap on discretionary spending at the level consistent with the President's budget request, a budget request that assumes zero funding for Amtrak.

On March 15 and 16, during Senate debate on the budget resolution, Senators Byrd and Specter offered an amendment to bring the level of funding for Amtrak up to $1.4 billion to provide some certainty and stability to the funding process for Amtrak this year. That amendment was defeated by a vote of 52 to 46.

So today our subcommittee finds itself in the posture of having to cut and cannibalize other programs as we have never done before, only to see if we can scrape together enough funding from other programs to extend Amtrak for another 12 months. If the Senate had voted differently back in March, we might not be in this predicament.

Today, we are joined by Amtrak's Board Chairman and President, David Laney and David Gunn. Three weeks ago, Amtrak's Board finally submitted its grant request to the Appropriations Committee. While I was disappointed that this request arrived some 2 months late, it is notable that the Amtrak Board, made up entirely of Bush Administration appointees, is asking this subcommittee to provide $1.82 billion for Amtrak next year, more than a 50 percent increase over current funding.

Much of the discussion of today's hearing might focus on the asserted proposals to reform Amtrak. We have two separate comprehensive reform proposals, one from the administration and one from the Amtrak Board. While senators might want to discuss these proposals, I want to remind my colleagues that these reform proposals are the responsibility of the Senate Commerce Committee.

What this subcommittee needs to focus on is how much these reform proposals are going to cost. I think my colleagues will find as we discuss these reform packages is that neither of them, not the administration's proposal or the Amtrak Board's proposal, save money in the near term. They all require investments over the long-term that will require larger, not smaller, annual appropriations in the future.

In that regard, perhaps the most important testimony we will hear this morning is not from the Bush Administration or the Amtrak Board. The DOT Inspector General Ken Mead has been a consistent monitor of Amtrak's finances. He will testify this morning that Amtrak can no longer limp along on $1.2 billion in funding it has received in each of the last 2 years. He will testify that in order to maintain that status quo at Amtrak next year, we will need to appropriate between $1.4 billion and $1.5 billion.

Given the failure of the Byrd-Specter Amendment, finding even $1.2 billion will be extraordinarily difficult. Finding $1.4 billion or $1.5 billion will be a monumental and painful challenge. Unfortunately, the majority of the Senate voted to put us in this box. Only time will tell if we can find our way out of it.

PREPARED STATEMENT

One thing that is certain is that Amtrak's 25 million passengers will be anxiously watching to see if we can succeed.

Thank you very much, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

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Even so, there are those in the administration and in Congress who want to push Amtrak into financial collapse and push 25 million passengers onto our already-crowded highways and runways. The benefits provided by Amtrak, as well as costs, have been debated in Congress every year since the Federal Government established the corporation 35 years ago. But, make no mistake, this year is different.

This year, Amtrak's detractors smell blood. As we take each step in the Federal budget process, they have additional reason to be optimistic that this will be the year that Amtrak service finally grinds to a halt. Up until this year, the path of Amtrak's funding during each of the years of the Bush Administration has been largely the same. The Bush Administration proposes a funding figure that would throw Amtrak into bankruptcy. The Amtrak Board of Directors requests a sizable funding increase to truly allow the railroad to invest in its infrastructure and modernize. Congress has come along each year and generally provided Amtrak with just enough money to limp along, but not enough to invest in improved service.

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In that regard, perhaps the most important testimony we will hear this morning is not from the Bush Administration or the Amtrak Board. The DOT Inspector General, Ken Mead, has been a consistent monitor of Amtrak's finances. He will testify this morning that Amtrak can no longer limp along on the $1.2 billion in funding it has received in each of the last 2 years. Indeed, he will testify that in order to maintain that status quo at Amtrak next year, we will need to appropriate between $1.4 and $1.5 billion.

Given the failure of the Byrd/Specter amendment, finding even $1.2 billion will be extraordinarily difficult. Finding $1.4 or $1.5 billion will be a monumental and painful challenge.

Unfortunately, the majority of the Senate voted to put us in this box. Only time will tell if we can find our way out of it. One thing that is certain is that Amtrak's 25 million passengers will be anxiously watching to see if we succeed.

Senator BOND. Thank you, Senator Murray. Senator Burns, do you have an opening statement?

STATEMENT OF SENATOR CONRAD BURNS

Senator BURNS. Mr. Chairman, I have an opening statement and I am going to make it part of the record. I think you and the ranking member have pretty well summed up our problems over here, and we could not add too much to that, other then we all have our different little sections of the country that we like to take care of.

I think we have got a sizable mountain to climb here and I am looking forward to hearing from our witnesses today. Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR CONRAD BURNS

Mr. Chairman, thank you for holding this hearing today. As I am sure you know, Amtrak is an issue near and dear to my heart. It is also an issue of great importance to Montana. The Empire Builder covers a lot of ground in Northern Montana, and is a valuable link in our transportation infrastructure.

The Empire Builder is more than just a popular train for tourism. Folks use the train to seek medical services, to travel across the State when roads are covered in snow, and as an alternative to air service that isn't always easy to come by in rural Montana. Estimates indicate that the Empire Builder brings $14 million annually to Montana. Amtrak is a vital link in our infrastructure, both in Montana and across the country.

However, clearly some type of reform is needed. Those reform proposals should be guided by some basic principles. We need to invest in infrastructure. Crumbling tracks, aging equipment, and outdated technology risk Amtrak's future. We need a national system. State budgets are already incredibly tight, and a national train system can not be jeopardized by individual States that may not be able to allocate funds to rail service. Reform proposals need to be informed by a commitment to public service. While I believe that Amtrak must be financially responsible, and get its budgetary house in order, I also think that Amtrak serves an important public need that can't be easily calculated.

Amtrak is America's rail system, and I think it will probably always need some type of public support. The public is committed to passenger rail, so allocating some amount of taxpayer dollars makes sense. Those investments need to be made wisely, of course, but they do need to be made. Looking at Amtrak only in terms of the bottom line fails to account for the public value it provides.

Mr. Chairman, the Congress faces an important and difficult task this year in authorizing Amtrak funding. We will need to be creative, but I am ready to roll up my sleeves and get this done. As a member of both the authorizing and appropriations committees that oversee Amtrak, I am dedicated to preserving passenger rail. I look forward to working with you on this challenging task, and I look forward to hearing from the witnesses today.

Senator BOND. Thank you, Senator Burns. I know what a champion you have been for Amtrak and I am looking forward to learning from you, your experiences, as well as the other members of this committee.

I think on early bird, Senator Bennett was the next one here.

STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Thank you very much, Mr. Chairman.

I will repeat now to the board of Amtrak what I have said to this committee. I have been a supporter of Amtrak since before it was born, because I was in the Nixon Administration when the idea was conceived. And it was my responsibility to convince the Congress to pass the act. And I have a very nice letter from Secretary Volpe commending me on my success in bringing that to pass.

Having said that, I repeat the refrain that I have many times before. The debate of whether we are for or against Amtrak is the wrong debate. We need passenger service in this country. We need a good passenger service in this country. And we should be prepared to pay for that passenger service in this country. But it should be in places where it makes sense. And the present nationwide grid of the Amtrak system does not make any sense.

I got into trouble the last time I said that. I got some nasty letters from people in Utah saying how can you say you want to give up Utah's service? Utah's service is wonderful and we must hang onto it. I have now gotten the exact statistics. I may have been a little off in what I said before. The total Utah ridership is less than 100 people per day. One airplane per day could take care of the entire use of Amtrak. Two buses, all right three if you get a small bus, could take care of the entire use of Amtrak.

And what are we spending to run an Amtrak train? It has a wonderful name. It is the California Zephyr. And boy, for those who love train traffic, the California Zephyr calls up all kinds of wonderful, wonderful memories and images. It goes through Salt Lake City, arrives at 3:35 in the morning, and leaves at 4:06 in the morning. I have watched the terminal for Amtrak go from an old train terminal that had great nostalgia around it, that has now been turned into a mall, to a smaller building, to a smaller building. And now it is a quonset hut that handles those less than 100 people a day who show up literally in the middle of the night.

And I wonder if it really is the best use of public funds to keep that train running, all the way from Chicago to San Francisco, with this kind of service along the way when that money should be spent making sure the brakes are working on Acela and the Northeast corridor that is absolutely dependent on Amtrak is properly funded and properly taken care of.

I am willing to spend what is necessary to spend to keep Amtrak going. But I applaud the Bush Administration in a very significant wake-up call that says Amtrak has to be changed to face the realities of where the market is.

We do not have a market for transcontinental train traffic, either from the standpoint of those who are willing to pay for it. I realize we have to subsidize it. We are subsidizing Amtrak riders to the tune of about $200 per trip. I am perfectly willing to subsidize it with Federal funds in an area where it makes a significant contribution to the reduction in pollution and congestion. But I think subsidizing it to the point that less than 100 people per day can use it in my State does not make any sense.

So Mr. Chairman, I am perfectly willing to raise the amount of money above what the budget calls for from the President. But I do think we should recognize that Amtrak remains virtually unchanged in its route structure since I helped convince the Congress to create it in 1970. That is 35 years ago. It is time we brought it up to reality.

Thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Bennett, for the confession. I know it is good for the soul. I appreciate your prospective suggestions, as well.

Senator Durbin.

STATEMENT OF SENATOR RICHARD J. DURBIN

Senator DURBIN. Thank you, Mr. Chairman. It is a pleasure to be with you at this new committee alignment. We see some new faces but some similar challenges to what we have faced in the past.

I come from a railroad family. My mother, my father, my two brothers and I all worked for the New York Central Railroad in East St. Louis, Illinois. I have many fond memories of steam locomotives and trains and just loved them as a child.

But I do not come to this hearing motivated by memories. I come to this hearing motivated by the economic reality of Amtrak in Illinois today. Amtrak in Illinois serves 3 million passengers a year. By Senator Bennett's standard, we are in the range of 8,000 to 10,000 passengers each day.

Amtrak is a huge part of our State's economy—2,000 employees. The thought of those 3 million passengers losing Amtrak and then turning to cars on the road is a frightening thought. The traffic congestion, the pollution that would result from it—how can that be good for us as a Nation? How can that possibly be a move in the right direction?

Many of the passengers, incidentally, happen to be college students. We serve a lot of campuses with Amtrak. I have met with the presidents and leaders at those universities and colleges downState who say the reason they bring kids in from Chicago is because students know the Amtrak service is going to be there to Champaign. It is going to be there to Macomb. It is going to be there to Quincy and all the other campuses served, Bloomington and other places. So it is not easy to replace that by saying buy all those kids a car. Let us take care of it that way. How can that possibly be the answer to moving people efficiently in an environmentally sensible way?

Let me just add one footnote. It is not as if the State of Illinois is just saying give, give, give. The State of Illinois is a contributor to Amtrak—a substantial contributor—$12 million a year from a State budget that is in trouble. About 90 percent of the operating costs of Amtrak come from our State taxpayers who believe it is important. But for the capital investment in Amtrak and the rest of the operating costs we rely on Amtrak itself.

I will just say one other thing. How many times are we going to go through this debate? How many times are we going to fight this battle? It is getting old. Amtrak cannot improve and modernize its service to the point where it attracts more passengers and more customers unless we are prepared to do for Amtrak what every successful company must do, invest in the future. We need capital investment in Amtrak so that they have better rail bids, faster service, and enough units.

My wife recently took the train with my daughter from Washington to New York. And she said that the entire trip there were people standing in the aisles and sitting in the restrooms. There just were not enough cars to accommodate all of the passengers that were needed. The same thing happened on a recent trip from Chicago to Springfield.

So there is a lot of pent-up demand out there. We need to make capital investments in Amtrak to make it work. I cannot justify every route in America. I will not even try to. But I can tell you in my State of Illinois we stand by Amtrak as an important part not of some nostalgic memory but an important part of our economic future.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR THAD COCHRAN

Senator BOND. Thank you, Senator Durbin. Senator Cochran has submitted a statement to be included for the record as well.

[The statement follows:]

PREPARED STATEMENT OF SENATOR THAD COCHRAN

Mr. Chairman, thank you for holding this hearing today to discuss Amtrak's funding request for fiscal year 2006.

I want to thank David Gunn for appearing before this subcommittee to answer questions and for his good service at Amtrak.

When Congress received the President's Budget Request, many people were surprised to find that funding was not requested for our Nation's intercity train system. It is my understanding that the administration has still not requested funding for Amtrak, and I look forward to hearing from the Department of Transportation's representatives about this rationale.

I hope we will be able to consider legislation that will outline the legal authority for a new national passenger rail system. The Appropriations Committee can't do it all.

Senator BOND. Finally, we will get down to the meat of this and find out how those of you with responsibility and expertise in the area, what your recommendations are. First I call on Mr. David Laney, Chairman of the Amtrak Board of Directors. Welcome, Mr. Laney.

STATEMENT OF DAVID M. LANEY, ESQ.

Mr. LANEY. Thank you, Mr. Chairman, Senators.

I appreciate the opportunity to appear before you today. My name is David Laney. I am Chairman of the Amtrak Board of Directors. Joining me is, as you all know, David Gunn, President and CEO of Amtrak.

On April 21, Amtrak transmitted to Congress and the administration a series of strategic reform initiatives that are aimed at reforming Amtrak and maybe more importantly, revitalizing rail passenger service in the United States. Let me touch just briefly on our package before detailing our fiscal year 2006 budget request.

Our plan advances four essential objectives. First, development of passenger rail corridors throughout the country based on an 80/20 Federal/State capital matching program with States becoming purchasers of a variety of competitively bid corridor services.

Second, return of the Northeast Corridor infrastructure to a state of good repair and operational reliability over the next 4 to 5 years with all users of the Northeast Corridor gradually assuming increased financial responsibility for their share of corridor operating and capital needs.

Thirdly, preservation of our national long-distance system, with gradually restructured routes to address your concern, Senator Bennett, that will over time have to meet minimal financial performance requirements, in some cases requiring State assistance.

And finally, the opening of the intercity passenger rail industry to competition and private commercial participation.

This plan is the product of a significant amount of work by Amtrak's Board of Directors and senior management with considerable input from rail experts from outside Amtrak as well. Additional details on these reforms are covered in my full statement but this is a serious proposal that will revitalize the passenger rail industry if it is implemented and adequately funded. I believe it also answers the call to reform made by the administration and by so many others.

We have provided you with a full copy of the plan and hope you will take it into consideration as we move forward with the reauthorization and appropriations process.

I would also like to add a point and at least emphasize the very thoughtful proposals also from the Inspector General of DOT, Ken Mead. He will get into those this morning, but there is substantial common ground between the Amtrak board's presentation and proposals as well as Mr. Mead's and I recommend his proposals as well for your review.

FISCAL 2006 BUDGET REQUEST

As to the fiscal 2006 budget request, let me turn to that now. As Senator Murray pointed out, typically Congress receives our grant request in February. Since we were well into our strategic planning effort at that time, we elected to defer submitting the request in order to present it in the context of our reform package. The last dozen pages of the reform proposal detail our fiscal 2006 budget request and our requirements, which is $1.82 billion or $1.645 billion if our working capital needs are covered by a short-term credit facility instead of a grant.

We have also included a preview of how we would go about reporting Amtrak's financial information by business line.

Let me make a few points about this funding request. First of all, the increase over our current funding level of $1.2 billion is solely attributable to essential capital spending, not operating expenses. These investments have very lasting value.

The operating side is slightly lower than previous years and reflects the company's ability to keep operating costs constant despite inflation, rising insurance costs and the considerably higher cost of fuel.

During the last 3 years we have not borrowed any additional funds nor have we assumed any new debt except for the DOT loan during the summer of 2002, which is being paid back in annual installments.

We have lowered the head count at Amtrak from 25,000 in fiscal year 2001 to 19,500 today. Our deficit per train mile has decreased from $22 in fiscal year 2000 to $13 in 2004. Ridership, as a couple of you have pointed out, has continued to increase. Last year we had just over 25 million passenger trips, which was a company record. In fact, during fiscal years 2000 to 2004, ridership has grown from 22.5 million to 25.1 million, or 11.6 percent.

We are very confident that there is additional, significant suppressed demand.

On the capital side, we have made significant early headway in addressing the mountain of deferred maintenance in both plant and equipment facing us when the new management team arrived in 2002. The work that we have completed and plan to do is detailed in our budget proposal.

In fiscal year 2006, we expect to continue this type of capital investment, renewal of track, signals, wire, equipment, switches, and interlockings. But we also will begin major multi-year projects to rebuild structures critical to the Northeast Corridor operations. These include replacement of the failure-prone movable bridge spans over the Thames and Niantic Rivers, replacement of the 1930's era cables in the Baltimore tunnels, and major track work on the Harrisburg line. Until we complete the bridge and tunnel work, we will continue to court the risk of a failure that could sever NEC service.

These projects involve outside contractors and long lead times in ordering of materials as well as multi-year funding commitments to support the projects. But when they are completed, the repaired and rebuilt structures will last a lifetime.

CANNOT SURVIVE ON CURRENT FUNDING LEVEL

Finally, it is important to emphasize that Amtrak's board and management have concluded that the company cannot continue to operate on Amtrak's current funding level of $1.2 billion in fiscal year 2006. Moreover, the negative financial impact of the recent Acela problems will substantially deplete our working capital by year's end. We have taken and will continue to take aggressive steps to achieve short-term savings but we have very little maneuverability in our operating budget and cannot responsibly make material reductions in capital expenditures principally tied to Northeast Corridor infrastructure and its state of good repair. Over time, significant savings will be achieved only through aggressive and systematic multi-year transitioning with legislative assistance.

It is for this reason that we have brought forward our strategic reform initiatives to help inform your decision-making for fiscal year 2006 and beyond.

PREPARED STATEMENT

In closing, we look forward to working with you. We fully understand the difficulties you have in this budget year. We also look forward to working with stakeholders in the months ahead as we further develop and implement our reform plan and move this debate forward. I cannot emphasize enough that adequate funding for Amtrak in 2006 will be a critical first step in advancing the objectives of our strategic reform initiatives plan.

We look forward to your questions. Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF DAVID M. LANEY, ESQ.

Mr. Chairman and members of the committee, thank you for the opportunity to appear before you today. My name is David Laney, and I am Chairman of the Amtrak Board of Directors. Joining me is David Gunn, the President and Chief Executive Officer of Amtrak.

On April 21, Amtrak transmitted to Congress and the administration a series of Strategic Reform Initiatives that we believe will help shape the discussion on the future of Amtrak and intercity rail passenger service. While the majority of the report was geared toward the reauthorization discussion, it did contain Amtrak's fiscal year 2006 grant request. I will provide an overview of both.

For the past several months, the Board and senior management at Amtrak have worked to produce a set of proposals to reform Amtrak and revitalize rail passenger service in the United States. The reform initiatives released April 21 are the results of those efforts. The reform plan contains a detailed set of initiatives, some of which Amtrak will accomplish on its own and others which will require government action. Taken together, we believe that Amtrak's Strategic Reform Initiatives can revitalize intercity rail transportation.

Our proposal advances four essential objectives:

—Development of passenger rail corridors based on an 80–20 Federal-State capital matching program, with States becoming "purchasers" of a variety of competitively bid corridor services.
—Return of the Northeast Corridor infrastructure to a state of good repair and operational reliability, with all users gradually assuming increased financial responsibility for their share of corridor operating and capital needs.
—Preservation of our national long distance system, with gradually restructured routes that will over time have to meet minimum financial performance requirements, in some cases requiring State assistance.
—Finally, the opening of the intercity passenger rail industry to competition and private commercial participation.

We have identified three sets of reform initiatives to achieve the objectives that I just mentioned. They include, in general terms, structural, operating and legislative changes.

STRUCTURAL INITIATIVES

As you know, Amtrak has already made substantial progress in establishing an organizational structure and creating management controls which have resulted in cost savings and better management; but there is room for further improvement. We will continue to implement these types of changes and refine those already in place. To build on such improvements, our plan focuses on providing planning, budgeting, accounting and reporting of financial activity and performance along our distinct business lines—infrastructure management, Northeast Corridor rail operations, State corridor operations and long-distance operations. This type of change will improve our own planning and performance capabilities, and enhance the financial clarity of our operations.

OPERATING INITIATIVES

Separately, operating initiatives identified in our plan highlight a range of actions intended to improve the performance of each business line to provide better service, achieve savings and enhance revenues. Our recommendations for changes in legislation hinge directly on creation of a Federal capital matching program. Other recommendations in our view, if implemented, would create a more fertile environment for competition in intercity rail passenger services and operations.

LEGISLATIVE INITIATIVES

The lynchpin of this plan is the establishment of a Federal matching program appealing enough to attract and accelerate State financial involvement in emerging and existing corridors. Continued development of rail corridors is critical to the future of rail passenger service, and the pace of development will increase with the Federal Government as a reliable financial partner—the role it has played for almost half a century with highways, transit and aviation. The demand that exists today for high quality intercity passenger rail in this country will only grow with the rising congestion in highways and airports. A number of States have already begun developing rail corridors, largely on their own nickel. They have recognized the value of passenger rail capacity in responding to increasing congestion, and the popularity of rail service when it is adequately supported. (Ridership on corridor trains has grown 22 percent over the last 5 years.) However, to realize the full potential of intercity passenger rail in addressing transportation challenges will require a Federal match program comparable with other modes.

Returning the Northeast Corridor's infrastructure to a state of good repair is another essential part of our reform proposal. In compiling this plan, we studied various proposals and reviewed models that other countries have pursued for separating the maintenance and operations of busy rail corridors and have concluded for now that the complexities and risks associated with such a split outweigh any benefits. Amtrak owns most of the Northeast Corridor, is the only end-to-end user of the

Corridor and, in terms of train miles operated, is also the majority user. Amtrak NEC trains operate at the highest speeds in North America, and there are still segments of the NEC where Amtrak is the only entity operating trains. Our immediate challenge is to restore the infrastructure to a state of good repair, which we are doing, as detailed in our proposal. Ridership continues to grow along the Northeast Corridor; in the near term we will have to begin planning for additional capacity to meet that ridership demand.

Amtrak operates 15 long-distance trains and for more than half of the States we serve, they are the only Amtrak service. Unfortunately, long-distance trains have become the flash-point in the debate over "reform" of passenger rail service. That single-minded focus is misleading, although our long-distance service presents a variety of challenges. To be clear, Amtrak is committed to the preservation of national passenger rail service. Many communities served by long-distance trains lack real transportation choices and rely on these services. While we believe the continued operation of these trains is important to many communities they serve, they also represent the basis for interconnection and future expansion of rail corridors. We are confident that we will reduce the operating losses on long distance trains through a series of steps outlined in our plan, and we believe those reductions will be substantial; however, we will not eliminate the need for financial support for long-distance operations. Central to this is the establishment of a phased-in performance improvement program that will couple cost-saving efficiencies with revenue enhancement initiatives, so that over time these trains will achieve financial performance thresholds or be discontinued.

Finally, we believe that there are many opportunities for competition in the delivery of rail passenger services. Having a single provider such as Amtrak does allow for economies of scale and certain cost efficiencies. Yet, Amtrak is not always the most efficient provider of rail-related services. There should be alternatives. Key to our plan is the development of a competitive supply industry and multiple service delivery options. Amtrak can take a few essential steps in that direction, but without Federal legislative assistance, we will not reach the station. Some of the legislative decisions in this area will be difficult and will encounter predictable resistance from entrenched interests. Any discussion of competition will involve making decisions about access rights to the freight rail infrastructure, tort liability limitations and limited changes to certain labor and labor retirement laws. We have provided a discussion of these matters in our proposal.

FISCAL YEAR 2006 GRANT REQUEST

Let me turn to our fiscal year 2006 funding request. Typically, Congress receives our grant request in February. Since we were well into our strategic planning effort, we elected to defer developing the request, in order to present it in the context of our reform package. The last dozen pages of the proposal detail our fiscal year 2006 budget requirement, which is $1.82 billion or $1.645 billion if our working capital needs are covered by a short-term credit facility instead of a grant. We have also included a preview of how we would go about reporting Amtrak's financial information by business line.

Let me make a few points about this request.

—The operating request is slightly lower than previous years and reflects the company's ability to keep operating costs constant, despite inflation, rising insurance costs and the high cost of fuel.

—During the past 3 years, we have not borrowed any additional funds nor have we assumed any new debt, except for the DOT loan during the summer of 2002, which is being paid back in annual installments.

—We have lowered headcount from 25,000 in fiscal year 2001 to 19,500—its current level—or a reduction of about 20 percent.

—Our deficit per train mile has decreased from $22 in fiscal year 2000 to $13 in fiscal year 2004.

—Ridership has continued to increase. Last year we had just over 25 million passenger trips, a company record. In fact, during the period fiscal year 2000 to fiscal year 2004, ridership has grown from 22.5 million to 25.1 million or 11.6 percent.

On the capital side, we have made significant early headway in addressing the mountain of deferred maintenance in both plant and equipment facing us in 2002. The work that we have completed and plan to do is detailed in our budget proposal. In fiscal year 2006, we expect to continue this type of capital investment—renewal of track, signals, wire, equipment, switches and interlockings—but we will also begin major, multi-year projects to rebuild structures critical to Northeast Corridor operations. These include replacement of the failure prone moveable bridge spans over the Thames and Niantic rivers, replacement of 1930's era cables in the Baltimore tunnels, and major track work on the Harrisburg line. Until we complete the bridge and tunnel work, we will continue to court the risk of a failure that could shut down NEC service. These projects involve outside contractors and long lead time in ordering of materials, as well as multi-year funding commitments. But when they are completed, the repaired and rebuilt structures will last a lifetime.

Finally, it is important to emphasize that Amtrak's Board and management have concluded that the company cannot continue to operate at Amtrak's current funding level of $1.2 billion in fiscal year 2006. Moreover, the negative financial impact of the recent Acela problems will diminish our working capital significantly by year-end. We have taken and will continue to take aggressive steps to achieve short-term savings, but we have very little maneuverability in our operating budget and cannot responsibly make material reductions in capital expenditures (principally tied to NEC infrastructure, and its state of good repair). Over time, significant savings will be achieved only through an aggressive and systematic, multi-year transition process with legislative assistance. It is for this reason that we have brought forward our Strategic Reform Initiatives to help inform your decision-making for fiscal year 2006 and beyond.

In closing, David Gunn, his management team, my fellow Board members and I look forward to working with you and other stakeholders in the weeks and months ahead as we further develop and implement our plan and move this debate forward. I cannot emphasize to you enough that adequate funding for Amtrak in fiscal year 2006 will be a critical first step in advancing the objectives of our strategic reform initiatives plan.

We look forward to your questions.

Senator BOND. Thank you very much, Mr. Laney.

We are very excited that you are putting forth a workable plan. I must tell you that until somebody can talk to the Office of Management and Budget, no matter how good a plan is put forward, this subcommittee is going to have tremendous difficulty funding it. And with your background, experience and your ability as a skilled counselor and advocate, we are going to have to count on you to help sell that because without the dough this subcommittee just cannot go.

On that bright and cheery note, let me turn now to Mr. Rosen for his comments.

STATEMENT OF JEFFREY A. ROSEN

Mr. ROSEN. Mr. Chairman, Senator Murray and members of the subcommittee, thank you for inviting me here today. You have my full written statement, so I am going to limit my oral remarks to three primary topics.

The first item I would like to address is some comments on the President's budget submission for Amtrak. Some have asked if the administration's budget is serious in seeking reform of Amtrak this year, and it is.

Others have asked if we are serious that if we get real reform, we will support funding for a reformed system of intercity passenger rail. And the answer is that we are serious about that, too.

Still others have asked well, how much money? But I cannot answer that until we get actual reforms. The administration will be prepared to talk about the amount of funding when Congress itself takes serious steps to fix passenger rail. But the reforms have to come first. Otherwise, we know from history, we will never see any real reforms.

The administration is very serious about opposing the status quo arrangement. We do not support continuing funding for a broken system that has proven itself fatally flawed.

So the second topic that I want to briefly address is what constitutes reform? That is a fair question but the administration has submitted its proposals for reform to the Congress, both in 2003 and again this year. Those proposals would modernize, revitalize and enhance intercity passenger rail. The five key principles of those proposals are included in my written statement so I will not go through them because it would take too long here. But I encourage all to review them because they underlie the reforms that we seek.

By contrast, I should say that the administration does not consider a $2 billion a year simple reauthorization to be a serious plan and would certainly not be reform. In fact, any approach that relies on just funneling more money into operating subsidies is not reform.

And that takes me to the third and final item I would like to address for today, that some have already alluded to, and that is that the alternative to legislative reform is not the status quo. As Amtrak itself has said, the status quo is unsustainable. Amtrak continues to spend at a rate far in excess of its revenues. And that is why the $360 million that the President's budget proposes for protecting commuter train service and protecting Northeast corridor trains needs to be taken seriously in the budget. But that is also the reason that those of us who want to save intercity passenger rail hope to work with the Congress to change the system and change where the funding goes.

PREPARED STATEMENT

And while we are working with the authorizing committees to discuss the reform proposals, and we appreciate that Amtrak itself and Mr. Gunn are themselves supporting of the concept of reform, ultimately reform may also need some assistance from this committee as well as intercity passenger rail goes through a necessary transition away from the 1970 model that we have been living with for a number of years to something more contemporary and workable.

Thank you, and I will be pleased, of course, to respond to any questions.

[The statement follows:]

PREPARED STATEMENT OF JEFFREY A. ROSEN

Mr. Chairman, Senator Murray, and members of the subcommittee, I appreciate the opportunity to appear before you today to address the urgent need for reform of intercity passenger rail service before further appropriations are provided to Amtrak.

By now, everyone is of course aware of the President's budget proposal for Amtrak. That budget proposal was meant as a call to action. Fundamental change in the way we support intercity passenger rail service is not only necessary but inevitable. And that change needs to happen this year, before we appropriate one more taxpayer dollar to prop up a fundamentally broken system. As you are aware, the administration transmitted its legislative proposal to Congress, the Passenger Rail Investment Reform Act (PRIRA), and we hope Congress will move quickly to enact needed reforms.

At this juncture, the only funds this subcommittee should appropriate are $360 million to provide for directed service of commuter and Northeast corridor trains in the event the current Amtrak model cannot deliver that service. Intercity passenger rail needs major reform, and it would do more harm than good to simply continue funding the status quo without reform.

Amtrak itself has acknowledged the urgent need for reform, and that the 1970's model of passenger rail should not continue. Amtrak recently released its own strategic plan, which states "Business as usual for Amtrak and intercity passenger rail is not sustainable as currently structured or funded." While it is the responsibility of the Authorizing Committees to consider the reform legislation, the subsidy questions are closely related to the reform issues, so I would like to set forth some of the facts and analysis that underlie the administration's reform proposal to assist in the appropriations process for fiscal year 2006.

First and foremost, it is essential to recognize that the passenger rail service model created by the Federal Government in 1970 is not viable in 2005. The model created in 1970 was a single national monopoly set up to be a private corporation but it has instead become like a government agency relying on Federal support to survive, with a legacy system of routes incapable of adapting to market forces and demographic changes (but with less accountability than a government agency would have). It has little in common with our other modes of transportation and the deregulatory and market-oriented changes other modes have experienced in the last three decades. America's transportation system as a whole—our system of roads, airports, waterways, transit lines, and the mostly private operators who use them—provides excellent mobility, connectivity, and efficiency that have undergirded our economic growth. Sadly, intercity passenger rail has been a different story. The supposedly private for-profit corporation set up in 1970 to provide all intercity passenger rail nationally has never once covered its own costs, much less made a profit. And the Federal taxpayers have infused more than $29 billion into Amtrak during the last 34 years as it has lurched from crisis to crisis without ever achieving a stable and viable business model. Whatever one thinks of Amtrak or passenger rail more generally, this situation has been good for no one.

To some, perhaps this is old news. Congress directed change in the Amtrak Reform and Accountability Act of 1997, and actually required that "Federal financial assistance to cover operating losses incurred by Amtrak should be eliminated by the year 2002." In fact, the notion that Amtrak should operate free from Federal operating subsidies is codified as law in the United States Code: 49 U.S.C. § 24101(d) states that "Commencing no later than the fiscal year following the fifth anniversary of the Amtrak Reform and Accountability Act of 1997, Amtrak shall operate without Federal operating grant funds appropriated for its benefit."

In the 1997 Act, Amtrak was afforded new flexibility to get its house in order. But by 2002, Amtrak's situation was no better; to the contrary, it had grown worse, with massive increases in Amtrak's debt, continuing operating problems, and financial crises in both 2001 and 2002. Amtrak's response once again was to turn to the Federal Government for even greater Federal financial assistance, simply ignoring 49 U.S.C. § 24101(d) as well as §§ 204 and 205 of the Amtrak Reform and Accountability Act of 1997. In no other functioning service market would rising costs and declining revenues be defined as a "success" if this produced a small increase in the number of customers. Yet, that is exactly what the defenders of the 1970 approach now say, as if the loss for each rider were "made up in volume". In 2004, Amtrak increased its ridership by approximately 4 percent to a record 25 million passengers, asked for a record $1.8 billion Federal subsidy, and recorded a financial loss of more than $1.3 billion, of which approximately $635 million was a cash loss.[1] This year again, Amtrak indicates that it may have less than $75 million in cash remaining at the end of fiscal year 2005.

Things do not have to be this way. It is simply untrue that all passenger rail everywhere must have operating subsidies from government. It is simply untrue that there is no alternative to passenger rail remaining the most heavily subsidized form of transportation on a per passenger basis. The administration has made clear that there is an important role for intercity passenger rail in our transportation system, but only with a new model that will be responsive to the needs of the traveling public. We can only get there by reforming the failed model of 1970, and committing to a new approach. That is the point of the President's budget request.

RIDING THE RAILS: AMTRAK'S PAST AND PRESENT

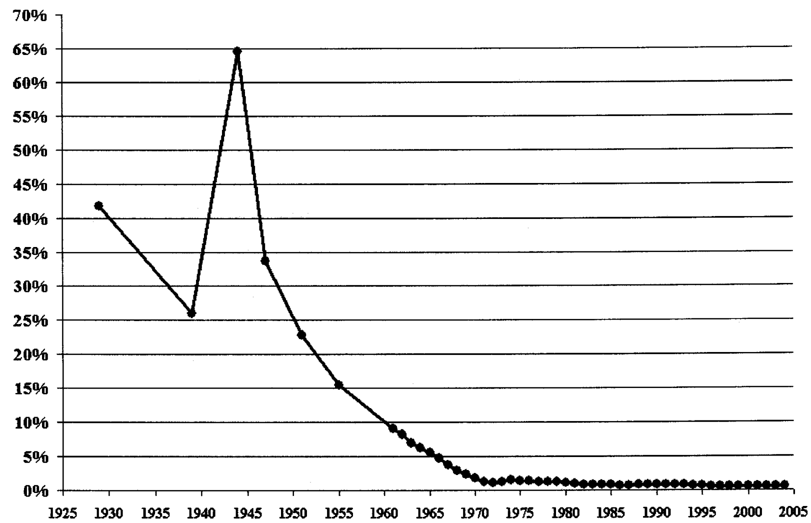
Amtrak was created in 1970 as a private corporation in a restructuring of the larger rail industry, which was in a state of major financial distress. In that restructuring, freight railroads ceased providing passenger service altogether. Instead, for the first time, there would be a single national provider of intercity passenger rail service to replace the multiple regional systems that reflected the areas covered by each of the freight railroads' route systems. The intent was that the national monop-

[1] These are unaudited numbers.

oly would reinvigorate passenger rail by permitting Amtrak to consolidate operations and achieve efficiencies that, after a very brief period of Federal assistance, would preserve and expand intercity passenger rail service as a for-profit company.

By now we know that the hopes of Amtrak's creators have never been realized. Intercity passenger rail service has not been reinvigorated. The Department of Transportation (DOT) expects that each and every one of Amtrak's 15 long-distance trains will this year lose money on a fully allocated cost basis, even excluding depreciation and interest. On a per passenger basis, with depreciation and interest, the loss for long-distance trains ranges from $47 per passenger to $466 per passenger. But the long-distance trains are not alone: with depreciation and interest included, every one of Amtrak's 43 regularly scheduled routes loses money. See Appendix A, attached. After 34 years and $29 billion in Federal subsidies, intercity passenger rail's financial performance has not improved, service and on-time performance are below expectations, and passenger rail's market share relative to other modes has continued to erode. Last year's so-called "record" Amtrak ridership amounted to a one-half of 1 percent share of the total intercity passenger transportation market. Airlines alone carry more U.S. passengers in 3 weeks than Amtrak does in a year.

Rail as Percent of Estimated Total Intercity Passenger Travel, 1929-2004



[SOURCES.—Rail travel: Association of American Railroads, Yearbook of Railroad Facts; Amtrak. Total intercity passenger travel is an FRA estimate synthesized from data provided by the Federal Highway Administration, Federal Aviation Administration, Bureau of Transportation Statistics (including travel behavior characteristics the 1995 American Travel Survey), the AAR, and Amtrak. For rail, "intercity" passenger-miles are an approximation as they include all passenger-miles generated on intercity trains, regardless of the length or purpose of individual trips. All air travel is deemed "intercity." For highway modes (privately-owned vehicles and buses), the synthesis approximates intercity travel as trips of 100 miles or more one-way.]

That also belies one of the frequent arguments of today's defenders of the 1970 model—that the Federal Government supposedly subsidizes other modes of transportation at a greater rate than Amtrak. In fact, fiscal year 2005's appropriated subsidy of $1.207 billion represented approximately 9 percent of the total discretionary Federal funds for the Department—9 percent of Department funds go for one-half of 1 percent of the market. The argument also passes quickly over another important fact: highways, transit and aviation are, unlike rail, funded substantially by user fees and also by State investments. Perhaps most importantly, however, the argument overlooks that Federal financial support for roads, airports, and transit goes to infrastructure and not to operations. In other modes of transportation, Federal aid goes to highway and airport infrastructure, for example, but Federal taxpayers are not regularly asked to write annual billion dollar checks to private trucking companies, private bus companies, private automobile commuters and vacationers, nor even to private airlines, although the taxpayers have regularly done so with regard to Amtrak.

In considering where we are with Amtrak, it is useful to consider the varied things that Amtrak presently does to understand that recent appropriations to this private company have not been limited to rail infrastructure, but also go into actual train operations. Generally, Amtrak's business can be grouped into activities relating to (1) rail infrastructure, (2) corridor train operations, and (3) long-distance train service.

Rail Infrastructure

Amtrak owns its own right of way and rail infrastructure along most of the Northeast Corridor (NEC), except in Massachusetts and part of Connecticut, where the infrastructure is owned by those States. Amtrak also owns some infrastructure in Michigan, as well as train stations in a number of States. Otherwise, Amtrak mostly operates trains on rail infrastructure owned by others.

Within the Northeast Corridor, Amtrak controls the infrastructure not only for its own use, but for use by numerous other railroads and transit agencies.

LIST OF USERS OF THE NEC OTHER THAN AMTRAK

CSX
Long Island Rail Road
Maryland Rail Commuter Service
Massachusetts Bay Transportation Authority
Metro-North Commuter Railroad
Delaware DOT
Rhode Island DOT
Canadian Pacific
New Jersey Transit
Norfolk Southern
Providence and Worcester Railroad
Shore Line East (Connecticut)
Southeastern Pennsylvania Transportation Authority
Virginia Railway Express
Consolidated Rail Corporation

These other users of the NEC pay Amtrak for access and associated services, such as train dispatching. In total, trains operated by other users on the NEC actually exceed the number of trains operated by Amtrak itself on the NEC.

Because of the way the 1970 model of intercity passenger rail was organized, maintenance and development of infrastructure in the NEC has been left to Amtrak.

In fiscal year 2005, Amtrak has budgeted $215 million on fixed facility infrastructure projects, and a total of $587.2 million for capital expenses, most of which will come from the $1.2 billion of Federal appropriations made available by this subcommittee. None of those funds will be allocated to States, or to infrastructure in locations where Amtrak does not presently operate. Federal infrastructure dollars are allocated by a private corporation, Amtrak, instead of by State, local, and even Federal transportation planning officials.

Corridor Services

When viewed from the perspective of moving passengers, and the distance they are moved (passenger-miles), Amtrak can be seen as providing two types of services: "corridor services" of approximately 100–500 miles and frequently under contract to States in which these corridors are located; and "long-distance", primarily leisure travel services. Within the category of corridor services, there are two different types: services on the NE corridor, where Amtrak operates on its own track and infrastructure, and services on other State corridors, where Amtrak operates on track and infrastructure owned and controlled by others.

Northeast Corridor.—Approximately 20 million people, or 80 percent of all Amtrak riders in 2004, traveled on a corridor service. The largest portion of Amtrak corridor trips are on the Washington-New York City-Boston Northeast Corridor (NEC). If one looks at NEC train operations, separate from the NEC infrastructure, this is the one area where Amtrak operates at something close to a breakeven basis.

Other Corridors.—In addition to the NEC main line, Amtrak operates trains for corridor service in 15 other States.

LIST OF STATES WITH CORRIDOR SERVICE

CALIFORNIA: Pacific Surfliner, Capitols, San Joaquins.
CONNECTICUT/MASSACHUSETTS: Inland Route (New Haven-Springfield).
ILLINOIS: Chicago-St.Louis, Illini, Illinois Zephyr, Hiawatha (with Wisconsin).
MAINE: The Downeaster.
MICHIGAN: Wolverines, Blue Water, Pere Marquette.
MISSOURI: Kansas City-St.Louis.
NEW YORK: Empire/Maple Leaf, Adirondack.
NORTH CAROLINA: Carolinian (Extended corridor), Piedmont.
OKLAHOMA: Heartland Flyer.
OREGON: Cascades (with Washington).
PENNSYLVANIA: Keystone Service, Pennsylvanian (Extended corridor).
WASHINGTON: Cascades (with Oregon).
WISCONSIN: Hiawathas (with Illinois).
VERMONT: Ethan Allen Express, Vermonter (Extended corridor).

NOTE.—States listed are the primary States served by each corridor.

In 2004, a total of approximately 8 million people (i.e., approximately one-third of the total Amtrak ridership) traveled on these additional corridor routes. In many instances, these corridors are subsidized in part by States. State operating subsidies for these trains totaled 10 percent of the combined Federal and State funding of Amtrak. However, States have not borne the full cost of these routes, and some States that have corridor trains have not paid anything at all, thereby producing issues of equity among the States, as well as market uncertainties about how travelers value the services. In the aggregate, on a fully-allocated basis, the non-NEC corridor trains (including both corridor and extended corridor service) had an average operating subsidy of $28 per passenger in fiscal year 2004.

Long-Distance Services

Amtrak's 15 long-distance trains have seen declining revenues and ridership—and increasing costs—over the last 10 years. DOT refers to these services as Transcontinental (more than 1 night), Overnight (1 night) or extended corridor (greater than 500 miles, but with no sleeping accommodations). Amtrak presently operates 15 such trains.[2] Amtrak has continued to lose long-distance trip customers to an airline industry that is offering a low cost, high quality service, and to automobile drivers who choose to use highways rather than rail. Amtrak has had little or no success responding to this competition. As Amtrak's presence in this segment of the intercity transportation market has dwindled, Federal subsidies per passenger have continued to grow. In fiscal year 2004, the average passenger on a long-distance train received a subsidy of approximately $214 per trip on a fully-allocated basis,[3] up from $158 in the year 2000—a 35 percent increase quintupling the 7 percent inflation over the same period.

FULLY ALLOCATED LOSSES OF LONG-DISTANCE PASSENGER TRAINS, FISCAL YEAR 2004 [1]

Service Type/Route	Route No.	Subsidy Status: Unsubsidized by a State	Subsidy Status: Subsidized by a State	Fully Allocated Loss (Fully Loaded with Depreciation, Interest, and All Overheads)	Fully Allocated (Loss) Per Passenger	Fully Allocated (Loss) Per Passenger-Mile
EXTENDED CORRIDORS:						
Pennsylvanian	RT57	x		($11,911,500)	($69)	($0.337)
Vermonter	RT04		x	($11,793,249)	($47)	($0.254)
Carolinian	RT66		x	($16,723,244)	($55)	($0.197)

[2] The long-distance routes are as follows: Vermonter, Silver Service, Cardinal, Empire Builder, Capitol Limited, California Zephyr, Southwest Chief, City of New Orleans, Texas Eagle, Sunset Limited, Coast Starlight, Lake Shore Limited, Crescent, Pennsylvanian, Carolinian. The Auto-Train, a specialized service, also operates over a long-distance route but with completely different characteristics. The Three Rivers (New York-Pittsburgh-Akron-Chicago) was discontinued in March 2005.
[3] Fully allocated costs include depreciation and interest.

FULLY ALLOCATED LOSSES OF LONG-DISTANCE PASSENGER TRAINS, FISCAL YEAR 2004 [1]—Continued

Service Type/Route	Route No.	Subsidy Status: Unsubsidized by a State	Subsidy Status: Subsidized by a State	Fully Allocated Loss (Fully Loaded with Depreciation, Interest, and All Overheads)	Fully Allocated (Loss) Per Passenger	Fully Allocated (Loss) Per Passenger-Mile
OVERNIGHT:						
Silver Service	RT16A	x		($173,078,522)	($234)	($0.374)
Three Rivers (discontinued)	RT17	x		($75,173,377)	($492)	($0.990)
Cardinal	RT18	x		($18,602,874)	($209)	($0.497)
Capitol Limited	RT26	x		($43,784,083)	($242)	($0.486)
City of New Orleans	RT30	x		($30,429,407)	($160)	($0.335)
Texas Eagle	RT32	x		($42,914,712)	($183)	($0.282)
Coast Starlight	RT34	x		($63,002,725)	($152)	($0.271)
Lake Shore Limited	RT45	x		($63,803,165)	($228)	($0.387)
Crescent	RT52	x		($64,761,043)	($252)	($0.445)
TRANSCONTINENTAL:						
Empire Builder	RT25	x		($75,338,574)	($172)	($0.223)
California Zephyr	RT27	x		($89,696,739)	($267)	($0.320)
Southwest Chief	RT28	x		($121,849,944)	($420)	($0.390)
Sunset Limited	RT33	x		($44,953,841)	($466)	($0.406)

[1] Source.—Amtrak Route Profitability System.
See Appendix A for a more detailed account.

Moreover, these long-distance trains have had considerable difficulty with regard to on-time departures and arrivals:

ON-TIME PERFORMANCE OF LONG-DISTANCE TRAINS, FISCAL YEAR 2004

Train Name	Service Type	Between	—And	Percent On-Time (Zero Tolerance)	Average Minutes Late per Train (All Trains)	Average Minutes Late per Late Train
California Zephyr	Transcon	Chicago	Bay Area	14.2	136	159
Capitol Ltd.	Overnight	Chicago	Washington	13.8	101	118
Cardinal	Overnight	Chicago	New York via Cincinnati.	33.1	48	74
Carolinian	Extended Corridor	New York	Charlotte	26.9	38	51
City of New Orleans	Overnight	Chicago	New Orleans	47.7	26	50
Coast Starlight	Overnight	Seattle	Los Angeles	10.8	139	157
Crescent	Overnight	New York	New Orleans	41.6	34	58
Empire Builder	Transcon	Chicago	Seattle	68.3	11	36
Lake Shore Ltd.	Overnight	Chicago	New York	8.2	123	134
Pennsylvanian	Extended Corridor	New York	Pittsburgh	17.2	32	39
Silver Meteor	Overnight	New York	Miami	25.6	84	113
Southwest Chief	Transcon	Chicago	Los Angeles	28.5	68	96
Sunset Limited	Transcon	Orlando	Los Angeles	1.6	359	366
Texas Eagle	Overnight	Chicago	San Antonio	41.9	57	98
Vermonter	Extended Corridor	Washington	St. Albans VT	32.1	21	30

Overall, the picture of where things stand in intercity passenger rail service is far from what was hoped for when Amtrak was created in 1970. In short, while service and ridership erode, Amtrak continues to require extraordinary and ever-increasing subsidies from the Federal taxpayer despite the original model's intent and Congress' clear call for an end to operating subsidies by 2002 in the 1997 Amtrak Reform Act.

Commuter Rail.—In addition, Amtrak has contracts to operate trains for certain transit agencies and State governments. These are: Connecticut Department of Transportation Shore Line East (SLE/CONNDOT), Long Island Rail Road (LIRR), New Jersey Transit (NJT), Southeastern Pennsylvania Transportation Authority (SEPTA), Delaware Transit Corporation (DELDOT), Maryland Transit Administration (MARC), Virginia Railway Express (VRE), Northeast Illinois Regional Commuter Railroad Corporation (METRA), Southern California Regional Rail Authority

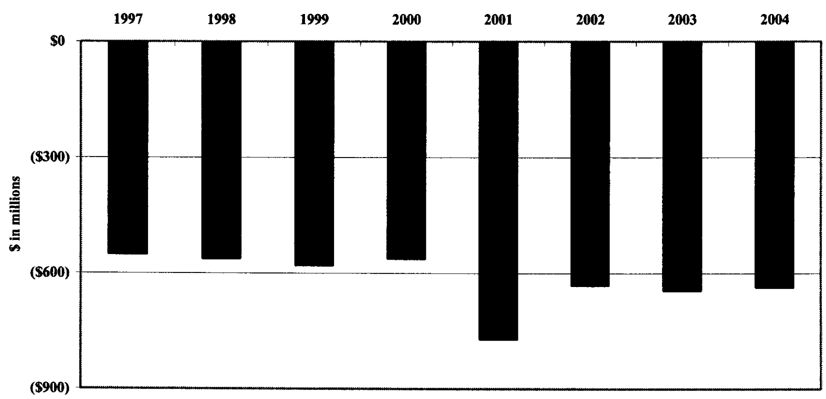
(SCRRA) Metrolink, North San Diego County Transit District Coaster Commuter Rail Service, Peninsula Corridor Joint Powers Board (CALTRAIN), Central Puget Sound Regional Transit Authority (Sound Transit), and Altamont Commuter Express Authority (ACE). In the event of a business failure by Amtrak, the President's budget calls for $360 million to be appropriated to fund directed service of these trains (as well as those of the NEC). Such funding would protect commuter service affecting approximately 2,342 trains and 1,187,860 passengers each weekday for the relevant transit agencies, so that they would not be impacted by Amtrak's problems involving intercity service.

RECENT HISTORY AND THE CALL TO CHANGE

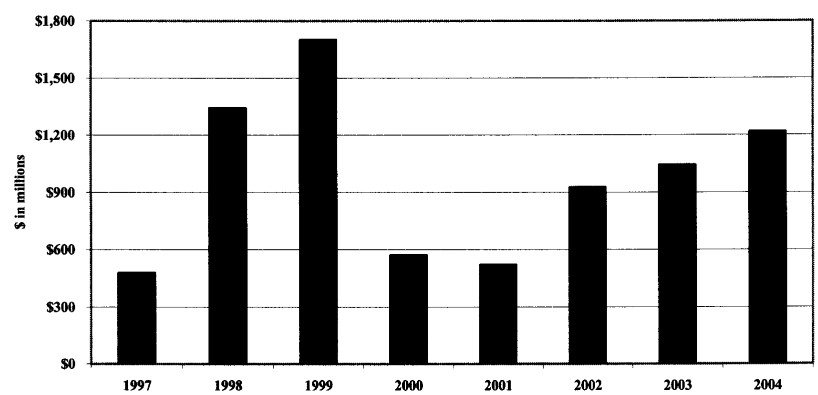
During the 1990's, there was an increasing recognition that the 1970 model of intercity passenger rail had developed some very serious problems. Congress sought to redress some of those in the 1997 Amtrak Reform Act. Unfortunately, the reforms embodied in the 1997 Act did not prove sufficient to solve the problems.

Many of the reforms in the 1997 Act empowered Amtrak to improve its own performance and removed impediments to its doing so. After passage of the 1997 Act, Amtrak's then-management repeatedly reported that it was it on a "glide path" to self-sufficiency by 2002. That did not happen. The problems worsened, and it became increasingly clear that they were not solely the result of business misjudgments, but also involved inherent flaws in the 1970 model.

Amtrak Cash Losses - 1997 Through 2004



Amtrak Federal Appropriations - 1997 Through 2004



Instead of a successful “glide path”, Secretary Mineta was greeted with some unwelcome surprises in his initial experiences with Amtrak during the current administration. Early in 2001, instead of Amtrak being months from self-sufficiency as reported, Amtrak’s then-management advised that Amtrak would be insolvent within 2 weeks unless the DOT subordinated the interest of U.S. taxpayers to a foreign bank so that Amtrak could mortgage its rights to use Pennsylvania Station in New York City. Within a year, Amtrak had lurched to yet another financial crisis, informing the Secretary that if the Department and Congress did not provide the company another $300 million, it would be insolvent within 2 weeks and would shut down commuter and intercity services. In response, to obtain time to assess and identify more long term reforms, DOT provided Amtrak a $100 million loan under the Railroad Rehabilitation and Improvement Financing Program, and Congress provided the remaining $205 million through a supplemental appropriation.

These crises highlighted fundamental problems, some of which needed immediate action by Amtrak, and some of which were revealed to be inherent to the 1970 business model and in need of legislative change. Among the most urgent for Amtrak itself was the state of its financial books and records. Indeed, it took independent auditors almost all of fiscal year 2002 to close their audit of Amtrak’s fiscal year 2001 financial performance. That audit required $200 million in net audit adjustments and found 5 material weaknesses and 12 reportable conditions that needed to be addressed to fix the problems with Amtrak’s accounting practices. It also revealed that Amtrak had taken on almost $3 billion in new debt in order to pay for (1) costly overruns of poorly managed capital improvements, (2) an unsuccessful foray into the express package business, and (3) day-to-day operational expenses.

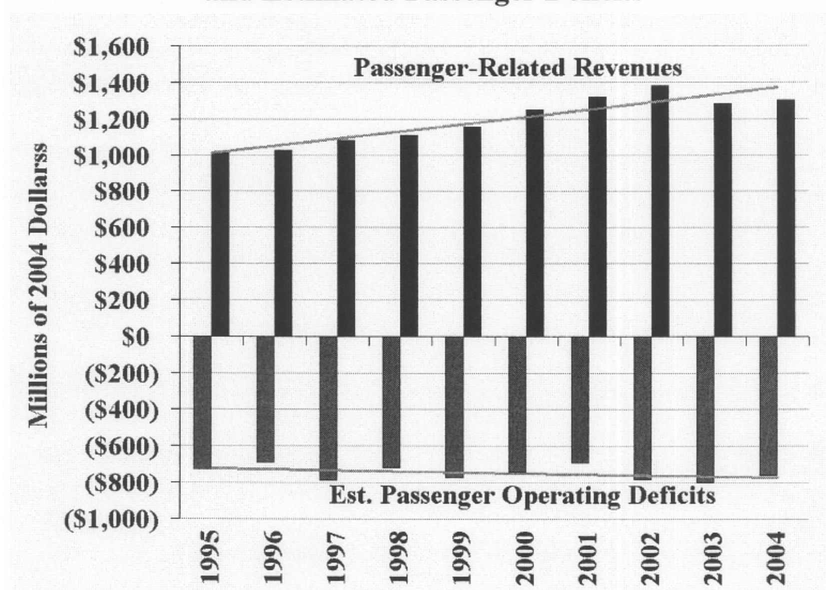
Since 2002, Amtrak’s record-keeping has improved. In 2005, the independent audit was completed in March instead of September and no material weaknesses were found. While Amtrak’s auditors still find significant areas for improvement, they comment favorably on developments over the last 3 years.

Through participation on the Amtrak Board, and through changes to the appropriations process that enabled stronger FRA oversight of the grant process to Amtrak, Secretary Mineta and DOT have sought a variety of improvements that Amtrak could make on its own. That process continues and is ongoing. Happily, Amtrak operates in a more efficient and better way than it did 3 years ago, and the new requirements imposed by recent appropriations bills have produced significant improvements, and need to remain in place.

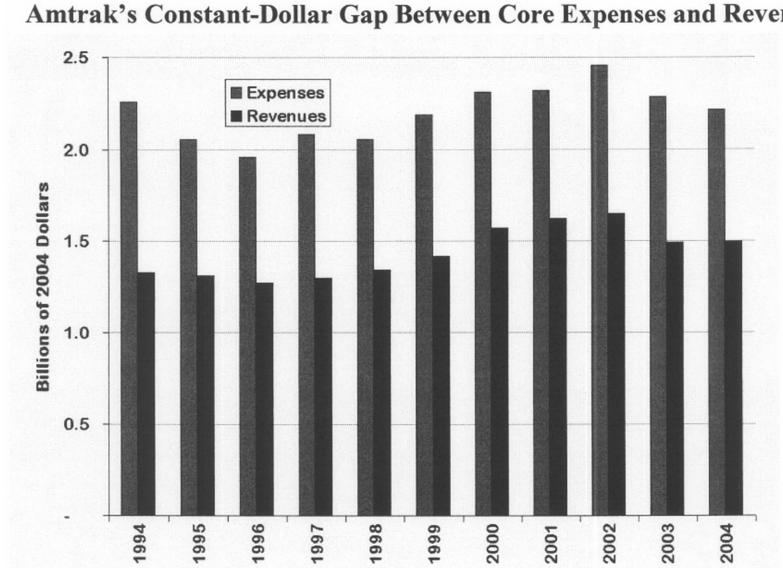
But notwithstanding the very significant management improvements and a much-enhanced and valuable involvement of the Amtrak Board, fundamental difficulties continue to confront Amtrak, because the 1970 model of intercity passenger rail is a framework that is flawed. Amtrak continues to spend dramatically more money than the revenues it generates, and this year is spending at a pace greater than the appropriation from Congress. Amtrak has estimated that by the end of fiscal year 2005 it will have less than $75 million to $100 million of cash remaining, with its costs continuing to far exceed its ticket sales.

As shown by the two charts below, the structural problem in Amtrak’s condition is long-term, and is getting worse, not better.

Amtrak's Constant-Dollar Passenger Revenues and Estimated Passenger Deficits



Amtrak's Constant-Dollar Gap Between Core Expenses and Revenues



Further adding to Amtrak's deterioration is that the company's debt increased massively in the late 1990's, from $1.7 billion in 1997 to $4.8 billion in 2002 (with $3.8 billion non-defeased), without adequately increased passenger revenues to pay the debt service. Because of this increased debt, Amtrak's repayment requirements (principal and interest) are forecasted to be approximately $273 million in fiscal year 2005 (up from $111 million in 1997). Amtrak has recently suggested that the company be absolved from this $3.8 billion debt by the Federal taxpayers' assumption of all of it, as compared with the Federal appropriation covering approximately 40 percent of all Amtrak expenses the last 2 fiscal years. Amtrak would give the Federal Government nothing in return. That is unacceptable to the administration.

The fiscal year 2005 appropriation for Amtrak of $1.2 billion itself represents a 134 percent increase over the appropriation for fiscal year 2001. Amtrak's President has said that as presently configured, Amtrak cannot successfully operate through fiscal year 2006 without much larger amounts of taxpayer funds being allocated to this private company. Indeed, the increase sought by Amtrak—256 percent above the 2001 appropriation—would far outstrip the 22 percent increase in domestic discretionary spending over the same time period. For the Federal taxpayers, that is a spiral in the wrong direction.

Passenger rail is already by far the most heavily subsidized form of intercity passenger transportation. When viewed on a per passenger-mile basis, analysis by the Bureau of Transportation Statistics indicates that the aggregate Federal expenditure for intercity passenger rail is 30 times greater than for commercial aviation. Likewise, the intercity bus industry, where there are no comprehensive or dedicated Federal operating subsidies, carries as many as 350 million passengers annually (according to Eno Foundation estimates)—14 times Amtrak's ridership. (Although not comprehensive or directed, FTA, under 49 U.S.C. § 5311(f) provides for grants supporting rural intercity bus service. This grant program amounted to approximately $22 million in fiscal year 2004, which is a minor amount relative to the taxpayer burden for Amtrak each year.) So continually increased operating subsidies is not the right answer.

What is more clear now than ever is that the basic business model through which we provide intercity passenger rail service in this country—a single national entity called Amtrak—is unworkable and is not adequately positioned to respond to the changing transportation needs of this country. Massive increases in funding to merely slow a downward spiral are neither sustainable nor justifiable. At the same time, doing nothing at all will eventually result in a business failure and a lost opportunity for intercity passenger rail for this country. A change is needed.

The administration's budget request reflects the importance of reform for America's intercity passenger rail system, which Amtrak has been operating at a loss for 34 years. As noted above, Amtrak has received more than $29 billion in taxpayer subsidies, including more than $1 billion in each of the last 2 years, despite the contradicting requirements of the 1997 Amtrak Reform Act. In 2003 and again this year, the administration sent to Congress, the President's Passenger Rail Investment Reform Act. This proposal would align passenger rail programs with other transportation modes, under which States work in partnership with the Federal Government in owning, operating, and maintaining transportation facilities and services.

Deteriorating infrastructure and declining service further the case that, without congressional action on the administration's reform proposals, continued taxpayer subsidies cannot be justified. Consequently, no funding is included in the 2006 budget for Amtrak. Rather, $360 million is budgeted to allow the Surface Transportation Board to support existing commuter rail service along the NEC and elsewhere should Amtrak cease commuter rail operations in the absence of Federal subsidies. The President's budget is a serious call to action: The time for reform is now. If the administration's management and financial reforms are enacted, the administration is prepared to commit additional resources for Amtrak—but if, and only if, reforms are underway. Today is too soon to know if funding will be appropriate, or what the right amounts should be under a new model of intercity passenger rail service.

THE ADMINISTRATION'S PLAN FOR REFORM AND PRESERVATION OF INTERCITY PASSENGER RAIL

As a matter of transportation policy, the administration supports the availability of intercity passenger rail, but with a very different vision than the failed model of the past. Secretary Mineta has repeatedly set out the fundamental principles needed to reform intercity passenger rail and place this form of transportation on a sound footing. These principles are:

—*Establish a long-term partnership between States and the Federal Government to support intercity passenger rail*.—Partnerships between the States and the Federal Government for the planning, decision-making and capital investment in transportation have been one valuable element in the success of Federal programs for highways and transit to date. The States, through their multi-modal planning mechanisms, are in a much better position to determine their intercity mobility needs and which form of investment makes the most sense in meeting these needs than a sole supplier company in Washington, DC. State-supported intercity passenger rail services in places like the States of Washington, North Carolina, California, and Wisconsin have been one of the bright spots for intercity passenger rail ridership. The administration wants to build upon these successes through a new program of Federal/State capital funding partnerships in which the Federal Government would provide matching grants.

—*Require that Amtrak transition to a pure operating company*.—Amtrak today is both an operating company and the owner and maintainer of significant infrastructure that forms a key component of the intercity and commuter transportation systems of eight States in the Northeast, as well as many stations and other facilities that have local or regional transportation importance. These are two very different functions. By having them both reside in the same entity, the company is faced with conflicting priorities, which the company has found difficult, if not impossible, to balance. Infrastructure decisions have depended on Amtrak decisions, rather than those of the States and localities who are largely responsible for such planning in other transportation modes such as highways, airports, and transit. Amtrak, and the Nation's transportation system, would be better off with Amtrak able to focus on one thing—operating trains—and doing it well.

—*Create a system driven by sound economics*.—One of the flaws of the 1970 model is that intercity passenger rail has sometimes been defined by politics, habit and fear of change. That is one reason that some routes have high subsidies, such as the $466 per passenger subsidy in fiscal year 2004 on the Los Angeles to Orlando Sunset Limited. Intercity passenger rail needs to serve the markets where there is an identifiable demand that intercity passenger rail can meet. It cannot and should not try to serve every market regardless of the cost and regardless of the revenue. Just as with other transportation modes and other successful businesses in general, intercity passenger rail needs to have the dexterity to recognize changing business patterns and demand, and that sometimes the services of yesterday are not needed or justified today or tomorrow. Intercity passenger rail service needs to be designed to cost-effectively meet and support the transportation needs of the traveling public and sponsoring public authorities.

—*Introduce carefully managed competition to provide higher quality rail services at reasonable prices*.—For the last 34 years under the 1970 model, intercity passenger rail service has not been subject to the discipline of the market place. On corridor services, for example, States do not have any alternative but to have Amtrak operate the intercity service. This has resulted in a service that is more costly than one would expect in a competitive situation, and which often has not been responsive to changing transportation patterns, demands or expectations. In a free market economy, competition leads to improved cost effectiveness, higher quality and innovation, elements that have been sorely lacking in intercity passenger rail for the past generation. Transition to competition is never easy, but it is necessary for the public to get the service it demands and deserves.

—*Create an effective public partnership, after a reasonable transition, to manage the capital assets of the Northeast Corridor*.—The Washington-New York City-Boston Northeast Corridor main line is the most heavily utilized rail route in the country, forming an essential link for intercity passenger and freight transportation and commuter access to the major cities of the Northeast. By some measures, such as the number of persons per day that use this infrastructure, Amtrak is a minority user of this infrastructure—particularly in urban areas. Transportation services on this corridor need to be insulated from the unpredictable consequences of Amtrak's own finances and needs at any given time. At least initially, the ownership of these assets should be in the public sector, and management and control of this asset should reflect significant input from the States that depend on the Northeast Corridor for passenger and freight mobility.

As noted, the administration's Passenger Rail Investment Reform Act was transmitted to Congress last month. It sets out and details the administration's proposals on specific ways to achieve these objectives. After a generous transition period, intercity passenger rail would become an economically viable and strategically effective mode of transportation, supporting numerous successful rail corridors nationwide. As set out in Secretary Mineta's transmittal letter accompanying our legislative proposal, we look forward to working with Congress to discuss and fashion the specifics of legislation in ways that will successfully reform intercity passenger rail for the future.

In addition, Amtrak itself released its plan of strategic initiatives crafted by Amtrak to begin the process of reform within the company itself. That is a timely development, with many positive elements. Amtrak's own recognition of the need for reform is a welcome response to Secretary Mineta's steadfast resolve to address the problems of intercity passenger rail, and create a viable future. But Amtrak's plan would not accomplish everything needed, and legislation will be needed that achieves all of the objectives set out by Secretary Mineta and the administration.

From an appropriations perspective, it is worth noting that the administration's reform proposals would authorize funding for rail infrastructure to States rather than to Amtrak (except during a transition period). Conversely, some have asked whether it would be sensible to authorize some form of Federal bonds to support Amtrak. That would be a serious error, from multiple perspectives. It is not appropriate to issue government-sponsored or supported debt for a private corporation like Amtrak in this circumstance. Amtrak has no real ability or revenue to repay any bonds. While Amtrak can issue bonds on its own, no one would currently buy them because it lacks the incentives that discipline private issuers. In addition, Federal financing of Amtrak through any non-Treasury debt would be more costly than a General Fund appropriation supported by U.S. Treasury debt. Whatever one thinks about particular forms of bonding for transportation needs, Amtrak is a poor candidate for any such approach.

CONCLUSION

My own experience with Amtrak's Board persuades me that Amtrak itself recognizes the necessity for reform and that time is critical. It is essential that others come to recognize this, too. Without reform, Amtrak is not sustainable at its current level of funding or at any level Amtrak is likely to receive in these difficult budgetary times. Moreover, history tells us that merely throwing money at the 1970 model of intercity passenger rail without addressing the problems that have been identified in the subsequent years does not result in any long-term improvements in Amtrak's finances or quality of service.

Some people appear to assume that reform necessarily means that many areas will lose intercity rail service, but that is not necessarily so. There are other ways to run intercity passenger service and, given the chance, States are likely to try some of them and succeed at improving service and eliminating operating subsidies. The experience of the Alaska Railroad, which has done just that since the State of Alaska bought it from the government 20 years ago, is instructive. It did not change routes; it got creative about providing service based on the markets it serves. Today, the Alaska Railroad gets capital grants, but no operating assistance. It makes a profit "above the rails." One of the Alaska Railroad's innovations is to supplement its basic, year-round passenger service by seasonally hauling special first-class cars belonging to the cruise ship companies. This is the kind of creative adaptation the administration's bill envisions, but making such improvements depends upon freeing intercity passenger rail from the frozen mold of 1970. It should not surprise anyone that continuing to do the same thing that failed before 1970 has failed again.

The administration has been clear that it cannot support the failed model of the past, nor pouring more funding into that failed approach. We have been equally clear that IF meaningful reform is accomplished and implemented, the administration would support funding of infrastructure and transition needs for train operations and related costs. Although this complicates the appropriations process, we do not believe there is a basis for arriving at any "baseline level of support" for Amtrak until Congress has sent significant reform legislation to the President and it is enacted with his signature. In this regard, while the administration maintains that no funds should be appropriated for Amtrak's use in the absence of meaningful reform, any future appropriations should be subject to a variety of necessary and stringent grant conditions to ensure an improved intercity passenger rail system is achieved.

Secretary Mineta and his team look forward to working with the Congress to resolve the recurrent crisis that plagues the old model of intercity passenger rail. Thank you for the opportunity to share our perspective on Amtrak and intercity passenger rail service. I would be pleased to respond to any questions you may have.

Senator BOND. Thank you, Mr. Rosen. Mr. Mead.

STATEMENT OF KENNETH M. MEAD

Mr. MEAD. Thank you, Mr. Chairman.

You know, the appropriations committees have been doing the heavy lift for passenger rail since Amtrak's reauthorization expired in 2002. We have testified several times since then on Amtrak's high debt of nearly $4 billion, large operating losses, poor on-time performance and deferred capital investment in the billions. Amtrak seems perpetually on the edge of collapse.

We are testified again today on the same subject, but with greater urgency. As time goes by, the limp along status quo system of today comes closer to a major failure but no one knows when or where that failure will occur.

The current model is indeed broken and the reasons why go beyond just budgetary shortfalls and extend to matters like who decides on the type and amount of service. Also, other than budget cuts, the current model provides few if any incentives for cost control.

Amtrak is quite literally coming to the end of its rope, now projecting cash on hand of about $30 million at the end of this fiscal year. That will cover less than 2 weeks of Amtrak's operating expenses. And that does not take into account at all the loss off Acela services.

I have heard some discussion of the bankruptcy option, but think that would be a complex and risky undertaking. Rather, a comprehensive reauthorization that provides new direction and adequate funding is needed and is needed soon.

Reauthorization, in our opinion, ought to focus on improving mobility in short distance corridors around the country, not just in the Northeast, and in restructuring long-distance service to complement corridor service. That is going to require new relationships between the Federal Government and the States, among the States, Amtrak and the freight railroads, and also give the States greater authority over passenger rail decisions.

But in order for that to work, Mr. Chairman, a considerably more robust Federal funding program for capital with a reasonable State match is going to be required.

The administration proposal confronts several key issues straightforwardly while leaving others unanswered. We concur with the emphasis on corridor development within and outside the Northeast corridor. These are the places where the demand actually is. And we concur also with the greater decision-making power vested in the States.

Also, reauthorization should leave open the door to competition. Amtrak is the sole provider and has few incentives other than the threat of budget cuts to operate efficiently. But we are not in a position to really say whether or how many potential competitors there might be, but there should at the very least be an even playing field for competition.

Freight railroads own the track outside of the Northeast and they, too, have very legitimate interests.

But a central issue left unanswered by the administration's proposal is the level of Federal funding it supports. This has fostered, in our judgment, a perception that while the States would be given more responsibility and authority, the funding burden would fall largely on them with no corresponding commitment to significantly expand Federal funding.

To be sure, the current model's problems extend well beyond just funding matters but you are going to have to tackle the funding issue to secure anything approaching consensus.

I would like to give you our own take, Mr. Chairman, on the funding situation. For 2005, Amtrak's appropriation was $1.2 billion. In addition, Amtrak anticipates another several hundred million dollars this year in State contributions. If Amtrak receives only $1.2 billion in Federal funds in 2006, service will need to be cut almost certainly in significant ways. For 2006, passenger rail needs Federal funding between $1.4 billion and $1.5 billion plus the existing State contributions in order to move the system forward towards a state of good repair and better performance.

For 2070 and beyond, Federal funding levels between $1.7 billion and $2 billion should put you on the road to bringing the system to a state of good repair and better position the States to invest in rail corridors. That assumes the States would provide a reasonable match of 15 to 30 percent for capital grants, would cover a larger portion of operating subsidies, and that cost-saving measures in such areas as food service would be implemented.

The committee may wish to consider the following, as well. First, a perspective on long-distance trains. It is important to appreciate that while they are highly subsidized and often inefficient, their total elimination will not come close to making ends meet. Savings ultimately would be in the neighborhood of around $300 million and the savings would not be immediate due to the need for labor severance payments. Also, 23 States have only long-distance service today. And of these, 16 have little potential for corridor development in the near term.

Second, formula grants with no match required to go primarily to those States who have only long-distance service today and no real potential for corridor development in the near term and hence, would not see a capital grant program as particularly advantageous to them. Formula grants could be used to help offset the cost of service. Today we send the checks directly to Amtrak.

Third, the Federal Government brings fleet and capital infrastructure to a state of good repair in the Northeast and outside the Northeast with no match required. But thereafter, once it is in a state of good repair, the States must share in the cost of keeping it in a state of good repair.

And finally, Amtrak's high debt. Portions of this debt, which approach about $4 billion, are financed at very high interest rates. One example is 9.5 percent at Penn Station, much higher than the Treasury borrowing rate. But we currently pay the full tab anyway through the appropriations process. Consider discharging portions of that debt where it is financially advantageous to do so and, in return, take title to the Northeast corridor.

PREPARED STATEMENT

Also, I would place very heavy restrictions on Amtrak's ability to incur debt in the future.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF KENNETH M. MEAD

Mr. Chairman and members of the subcommittee, we appreciate the opportunity to testify on intercity passenger rail and Amtrak. Intercity passenger rail is an important component of a balanced transportation system. Amtrak's authorization expired in 2002. In the interim, Congress has provided direction in piecemeal fashion in the appropriations process. We have testified several times since then on Amtrak's unsustainably large operating losses, poor on-time performance, and increasing levels of deferred infrastructure and fleet investment. We find ourselves testifying again today on these same subjects, but with greater urgency. As time goes on, the current limp-along status quo system comes closer to a major failure, but no one knows where or when such a failure may occur.

We reported in November 2004, that the current model for intercity passenger rail is broken. And the reason it is broken goes beyond persistent budgetary shortfalls and extends to matters like who decides on the type and amount of service, who provides service, and who selects the providers. Other than budget cuts or the threat of budget cuts, the current model provides few incentives for cost control or delivery of services in a cost-effective way.

Amtrak is quite literally coming to the end of its rope. Amtrak's most recent cash flow analysis forecasts cash on hand of about $32 million by the end of fiscal year 2005, excluding the impact from the loss of Acela service. This amounts to less than 2 weeks of Amtrak's average cash requirements. For several reasons, a bankruptcy option would be an extraordinarily complex and risky undertaking—in our opinion, one not to be relied upon if the objective is to promote a more rational and reliable national passenger rail system. In short, a comprehensive reauthorization that provides new direction and adequate funding is needed and needed this year.

A reauthorization, in our opinion, should focus on improving mobility in short distance corridors around the country—not just in the Northeast Corridor—and in restructuring long-distance services to complement corridor services. This will require new relationships or partnerships between the Federal Government and the States and among the States, Amtrak, and the freight railroads, and give the States much greater authority and control over intercity passenger rail decisions. But, in order for this to work, a considerably more robust Federal funding program for capital, with a reasonable State match will be required, along with additional State contributions.

The administration's proposal recognizes that the current model is broken and confronts several key issues in a straightforward way, while leaving others less clear or unanswered. We concur with the emphasis on corridor development within and outside the Northeast Corridor—these are the places where the demand is—and we concur as well with the greater decision-making powers given the States.

Also, reauthorization should leave open the door to competition. Amtrak is the sole provider of intercity passenger rail service and, as such, has few incentives, other than the threat of funding cuts, to operate more efficiently. While we are not in a position to say how many, if any, potential competitors there might be, there needs to be a level playing field to promote competition, and consideration must be given as well to the legitimate interests of the freight railroads who own the rail infrastructure outside the Northeast Corridor.

Left unanswered by the administration's proposal, however, is a central issue, most notably the approximate level of funding it supports. This has fostered a perception that while the States would be given more authority, the funding burden for operating losses would fall largely on them, with no corresponding commitment to significantly expand Federal capital funding. The debate on reauthorization would be much better informed if the administration's bill spelled out Federal funding levels with greater clarity. We fully recognize that the problems of the current model extend beyond matters of money, but funding levels are an integral part of any solution and in reaching consensus.

Our own take on the funding issue is as follows. In fiscal year 2005, Amtrak received a Federal appropriation of $1.2 billion. In addition, Amtrak anticipates $140 million in State contributions for operating costs and $200 million for capital projects. In effect, Amtrak had access to funds totaling about $1.5 billion. This level of funding is not sufficient to make progress toward achieving a state of good repair.

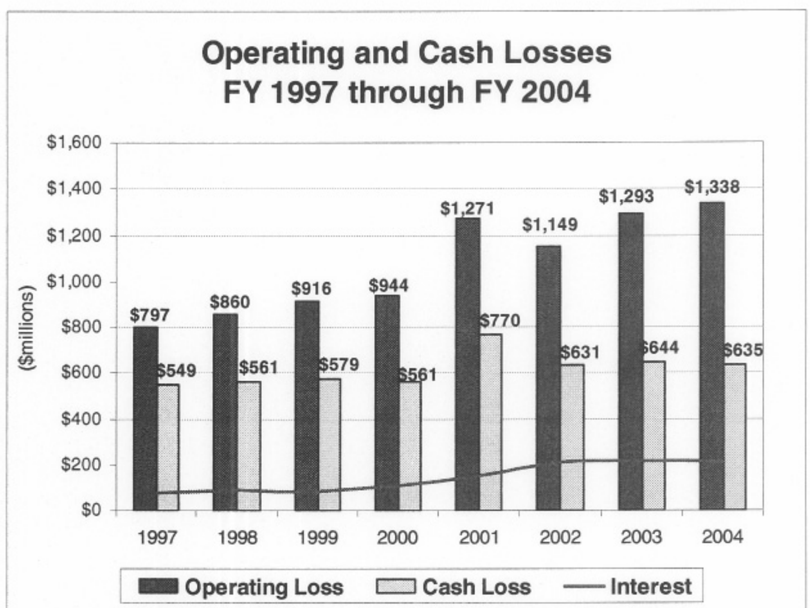
If Amtrak receives only $1.2 billion in Federal funding in fiscal year 2006, even combined with expected State operating and capital contributions, it will likely continue to defer needed capital investment and will need to cut services. Intercity passenger rail needs Federal funding between $1.4 billion and $1.5 billion, plus existing state contributions, in order to maintain the status quo as we know it today. However, this level of funding would not be sufficient to move the system to a state-of-good-repair, let alone permit investment in new corridor development.

For 2007 and beyond, Federal funding levels between $1.7 billion and $2.0 billion would put us on the road to bringing the existing infrastructure and fleet to a state-of-good-repair and better position States to use Federal funds plus their own revenues to invest in rail corridors. This assumes that States would provide a reasonable match of 15 to 30 percent for capital grants and would cover a larger portion of operating subsidies and that Amtrak would implement cost saving measures in such areas as food and beverage service.

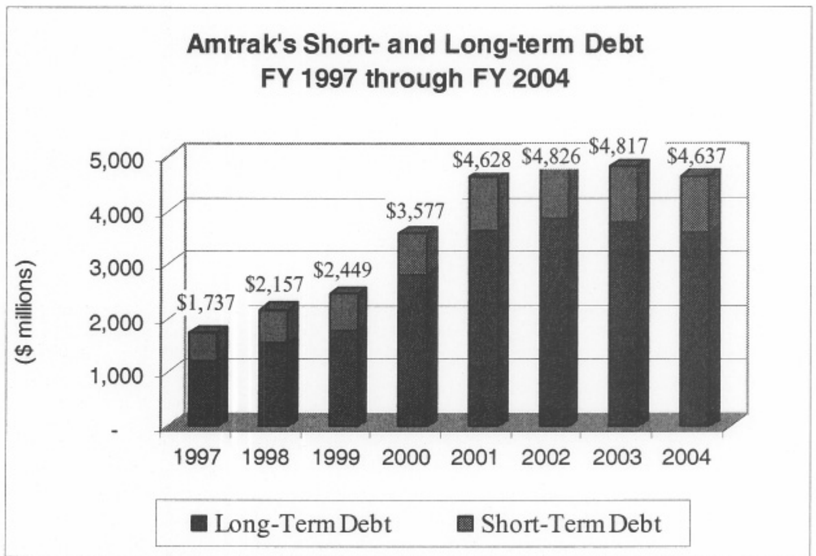
CURRENT MODEL IS BROKEN, RESULTING IN SEVERE FINANCIAL INSTABILITY AND DECLINING SERVICE QUALITY

Despite multiple efforts over the years to change Amtrak's structure and funding, we have a system that limps along, never in a state-of-good-repair, awash in debt, and perpetually on the edge of collapse. In the end, Amtrak has been tasked to be all things to all people, but the model under which it operates leaves many unsatisfied. Consider the following:

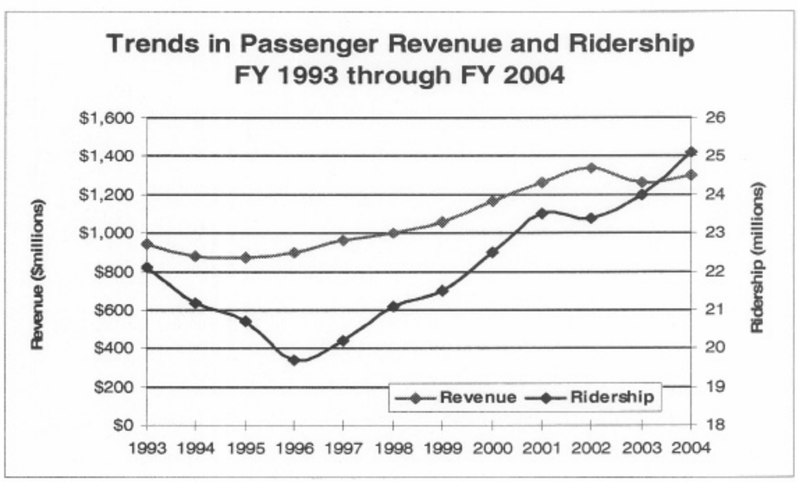
—Amtrak is in a precarious financial condition. Its system continues to suffer operating losses on all but a handful of routes. Losses on some long-distance trains (excluding depreciation and interest) exceed $400 per passenger. For the last 6 years the average annual cash losses have exceeded $600 million. The growth in cash losses since fiscal year 2000 is primarily attributable to rising interest expense.



—Amtrak is carrying a large debt burden. Its total debt grew 178 percent between fiscal year 1997 and fiscal year 2002, although it has declined slightly in the past 2 years. For the foreseeable future, Amtrak's annual debt service payments will approach $300 million.

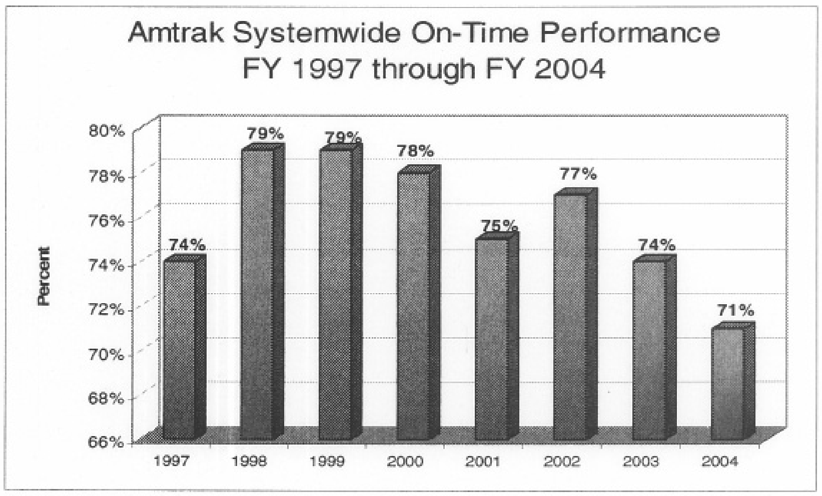


—While ridership increased to 25.1 million in fiscal year 2004, passenger revenues were $1,304 million, below the $1,341 million achieved in 2002, due primarily to fare pressures. For the first 6 months of fiscal year 2005, passenger revenues were $7.4 million lower than the same period in fiscal year 2004.



—Amtrak has an estimated $5 billion backlog of state-of-good-repair investments, and underinvestment is becoming increasingly visible in its effects on service quality and reliability. Deferred capital investment has led to several system failures in recent years, including a failure of a key 12-kilovolt electric cable during the August 2003 northeast power blackout; fallen overhead power lines (catenary) on the line between New York and New Rochelle; and broken bolts on the Thames River bridge in Connecticut. No one knows where or when a critical failure will occur, but continued deferral of needed investment increases the risk that it may not be too far away.

—Further, on-time performance fell from 74 percent in fiscal year 2003 to 71 percent in fiscal year 2004, with even Amtrak's premier service—Acela Express—achieving on-time performance of only 74 percent. On-time performance for long-distance trains averaged less than 50 percent. Last year, the poorest performing train, in this regard, was the Sunset Limited, with an on-time performance of only 4 percent.



Today, Amtrak's corridor trains outside the Northeast Corridor, based on current schedules, average 48 miles per hour and long-distance trains average only 46 miles per hour. These speeds reflect scheduled time and overstate the lower actual speeds due to delays. Deteriorating infrastructure and increasing freight and commuter rail congestion will continue to impact on-time performance.

BANKRUPTCY IS NO SUBSTITUTE FOR REAUTHORIZATION

A rail bankruptcy is an extraordinarily complex and risky procedure, and we cannot predict how the passenger rail system would emerge from bankruptcy. An Amtrak bankruptcy is no substitute for reauthorization. In our opinion, this is not an option to be relied upon if the objective is to promote a more rational and reliable national passenger rail system.

—*Labor Costs*.—Labor negotiations are outside the bankruptcy process. In a non-railroad bankruptcy, the bankruptcy court can cancel or change collective bargaining agreements, which some airlines successfully used as leverage when renegotiating with their unions. In a rail bankruptcy, the Trustee would have to negotiate with Amtrak's unions under the Railway Labor Act.

—*Cash Crunch and Infrastructure Needs*.—Amtrak's cash crunch would be exacerbated in bankruptcy. Once in bankruptcy, vendors often demand cash or provide credit under stringent terms. As a result, absent a Federal cash infusion, there is a possibility that major assets such as Penn Station and the Northeast Corridor would need to be sold or remortgaged to raise cash to sustain operations. Meanwhile, the value of the Federal Government's mortgages on these properties would be diluted, and the infrastructure would continue to deteriorate.

—*Public Interest*.—Once in bankruptcy, a federally appointed Trustee would direct and manage Amtrak. The Trustee must consider the "public interest," which has generally been broadly interpreted as continued operations of the railroad, but in what fashion would clearly be left up to the Trustee, which might not be the best solution or a solution that the reauthorizers would prefer or what the States would prefer. For example, in order to continue operations, the Trustee may need to shut down various State corridors or long-distance service to stop the bleeding of cash and operating losses.

ELIMINATING LONG-DISTANCE SERVICE WILL NOT SOLVE THE FUNDING PROBLEM

Long-distance service has sparked widespread controversy, in part, because of its heavy subsidies. In 2004, long-distance trains cumulatively incurred operating losses of more than $600 million (excluding interest and depreciation). In fact, the loss per passenger exceeded $400 on two of these trains—Sunset Limited and Southwest Chief. Eliminating long-distance service reduces operating losses associated with long-distance trains by about half (or $300 million) but will not make Amtrak profitable.

Because long-distance trains share stations and facilities with corridor trains, eliminating the long-distance trains would not eliminate the shared costs. In addition, Amtrak allocates a share of overhead and infrastructure maintenance to the long-distance trains—some of these costs will be reallocated to all remaining trains. For example, we estimate that $300 million or more in shared and system costs would be shifted to other corridor trains. Thus, the expected net savings are only about $300 million. However, these savings would not be immediate. In fact, in the first year, it may cost Amtrak more to eliminate the service than to operate it because of its labor severance payouts (commonly called C–2).

Long-distance trains represent about 15 percent of total intercity rail ridership. However, many long-distance riders do not really travel long distances. That is, long-distance trains carry only a small number of end-to-end riders. Of the 3.9 million long-distance riders in fiscal year 2004, only 527,000 rode the entire length of the route and another 403,000 rode between city pairs also served by existing corridor service. The remaining 3 million riders traveled along portions of the route. These trips mostly ranged from 500 miles to 700 miles—slightly longer trip lengths than corridor riders.

While eliminating long-distance service may seem appealing from a Federal budgetary standpoint, especially with the large deficits, it ignores the mobility needs of rural areas of the country and the benefits passenger rail provides. Amtrak provides long-distance service in 41 States and is the only intercity passenger rail service in 23 of those States. The questions of whether to provide long-distance service, who makes those decisions, and who funds the losses are critical policy decisions that will need to be made.

WHERE DO WE GO FROM HERE? REAUTHORIZATION GUIDANCE IS ESSENTIAL

The "limp along" approach is costly and leaves many unsatisfied. The current model for providing intercity passenger service does not leave the States in a position to decide upon the best mix of service for their needs—what cities are served, schedules and frequency of service, and service amenities. The model provides little balance between the national goals of an integrated network and regional and State transportation needs. How much funding and who provides the funding—Federal, State, or a combination—are also critical questions that need to be addressed. In providing reauthorization guidance, some core elements need to be considered in determining how passenger rail is funded and delivered, specifically, deciding the levels and mix of Federal and State funding, achieving a state-of-good-repair in the Northeast Corridor, determining the appropriate framework to integrate competing demands of infrastructure and operations in the Northeast Corridor, and paying off Amtrak's legacy debt.

In our opinion, a new model for intercity passenger rail should also include several important aspects. The first is that funding and governance build in incentives for cost cutting. Specifically, eliminating direct subsidies to Amtrak, or any other operator, and channeling funds through the States will likely promote more cost control because an operator will need to better justify costs in order to retain an operating contract. In addition, it will encourage States to maximize efficiency by keeping their own costs to a minimum. Second, the introduction of private competition into the management and operation of intercity passenger rail services will exert additional market pressures on operators to provide cost-effective, higher quality service.

ADEQUATE FEDERAL AND STATE FUNDING SHOULD BE PROVIDED IN ORDER TO RESTORE THE INTERCITY PASSENGER RAIL SYSTEM AND INVEST MEANINGFULLY IN CORRIDOR DEVELOPMENT

Federal funding levels, along with State contributions, have not been sufficient to subsidize operations, address deferred capital needs, and significantly improve service along the existing rail network. In the last 2 years, Amtrak has received annual Federal funding of $1.2 billion. This amount was supplemented by operating and capital contributions from State and local sources—in fiscal year 2004 these were

$135 million and $114 million, respectively. In effect, Amtrak received about $1.45 billion in public funds.

It will require at least $2 billion in funding from all sources to begin any meaningful corridor development. The policy challenge is determining who pays for what portions of the system. Federal funding of $1.4 billion to $1.5 billion would not provide sufficient funding to maintain a 5-year program for restoring the system to a state-of-good-repair. Projects in both the Northeast Corridor and in the corridors and long-distance routes outside the Northeast Corridor would continue to be deferred. This simply maintains the limp-along status quo.

One approach to promote adequate Federal and State funding could be to use a variety of grant programs similar to those used in aviation, transit, and highways that place funds in the hands of States. These programs are based on a combination of Federal/State matches and formula grants. More specifically:

—*Capital Grants With a Reasonable Match*.—Like the administration's proposal, this approach would provide capital grants on a competitively determined basis and would be administered by the Department of Transportation (DOT). States that desire to improve existing intercity rail service and/or develop new corridor services would apply to DOT for a matching grant, similar to the Federal Transit Administration's New Starts Capital Program. The administration's proposal also suggests such a program but provides a 50/50 capital match rate by the end of the reauthorization period. Our view is that a lower State match rate requirement would provide incentives for States to take an "ownership" role in developing rail corridors on a more competitive basis with other transportation modes (historically, highways and transit have used an 80/20 match rate).

To accommodate the need for different types of capital investments, two types of capital matches could be established. For investments that qualify as traditional capital investment, such as track or purchases of passenger equipment, the Federal share could go up to 80 to 85 percent. On the other hand, for investments that qualify as capital maintenance (for example, those under the transit definition) the Federal share might be 70 to 75 percent.

—*Formula Grants With No Match Required*.—This approach provides funds to States outside the Northeast Corridor that do not have corridor development potential and that rely on long-distance trains for substantially all intercity passenger rail service. By discussing this approach, we are not taking a position on the ultimate policy of whether long-distance service should be retained or eliminated but merely presenting it as an approach for funding States that do not have the population densities to support corridor development. There are at least 16 States with only long distance service and little potential for any corridor development. These States are unable to take advantage of the matching capital grants for corridor development.

This approach could initially include sufficient funds to subsidize existing long-distance and corridor services. Over the reauthorization period the funds associated with corridor services would be reduced and then eliminated at the end of the period. Further, we expect the level of Federal funds subsidizing the long-distance services would be reduced to reflect greater operating efficiencies resulting from capital investments as well as other savings resulting from food and beverage service changes, improved labor productivity, and efficiencies that may be introduced by competitive service providers.

As determined by the States, funds could be used to defray the cost of operating subsidies, capital investment, or both, with no match required. The amount of the formula grant could be calculated on the basis of Amtrak's fiscal year 2005 operating loss allocable per embarking/disembarking passengers in the affected State or some other formula that provides an equitable allocation.

—*Restore Northeast Corridor to a State-of-Good-Repair*.—The Northeast Corridor presents a difficult challenge. The funding priority for the Northeast Corridor reflects the accumulated deferral of investments which has resulted in an estimated $5 billion backlog of capital projects, threatening current and future service reliability. The effects of the deteriorating infrastructure are readily evident. For example, Amtrak's reported on-time performance in the Northeast Corridor as a whole between 1994 and 2002 ranged from 82 to 89 percent. In fiscal year 2003, it dropped to about 80 percent. For fiscal year 2004, even Amtrak's premiere Acela service posted an on-time performance of only 74 percent, far short of Amtrak's stated goal of 94 percent. If the decision were made to keep the current Northeast Corridor intact, we estimate Amtrak would need to spend about $550 million annually for an extended period on infrastructure and rolling stock to eliminate the backlog of capital investment in the Northeast Corridor.

Bringing the eight Northeast Corridor States and the District of Columbia together in a short period of time to direct and manage this effort is incredibly complex but may be achievable by the end of the reauthorization period. Recognizing this challenge, one option during the reauthorization period could be for the Federal Government to fully fund the Northeast Corridor's capital requirements until a state-of-good-repair is achieved. This would also address the States' reluctance to inherit a legacy system they did not create. We suggest that DOT distribute funds directly to the Northeast Corridor infrastructure manager separately from the competitive grant process.

Construct for 5-Year Reauthorization Funding

Congress and the administration have a difficult decision to make in determining the appropriate level of funding for intercity passenger rail. The level of funding can obviously vary. We have been giving this some thought and would like to present a construct for consideration. We recognize that many assumptions need to be made about who pays for what and how to balance national, regional, and State transportation needs. Those are decisions for Congress and the administration to make.

In building this construct, we made several assumptions for purposes of illustration as follows.

—Formula grants will not fully cover train operating losses. Amtrak's forecast net cash operating needs (excluding interest) were used as the starting point. The levels of funding represent imputed cost savings of 10 percent per year from a combination of revenue growth and operating cost savings.

—Over the 5-year reauthorization period, Federal subsidies decline for long-distance trains and corridor operating subsidies shift to the States. We expect States to place higher performance and efficiency demands on the service provider to lower operating costs to more affordable levels.

—Debt service is based on Amtrak's projected debt service payments through fiscal year 2009, adjusted for installment payments on their RRIF loan and possible early buyout options on leased equipment.

—Capital requirements to restore the system to a state-of-good-repair are based on Amtrak's Strategic Plan for fiscal year 2005 through fiscal year 2009 and on assumptions we made on allocating capital needs between the Northeast Corridor and the rest of the system. The funding allocation assumes a capital need of $550 million for infrastructure and fleet in the Northeast Corridor and $250 million for infrastructure and fleet outside the Northeast Corridor.

—Funds available for capital match represent funds remaining after state-of-good-repair funding requirements, formula grants, and debt service are met.

CONSTRUCT FOR REAUTHORIZATION FUNDING

[In millions of dollars]

Federal Contributions	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Formula Grants (Capital and/or Operating Subsidy)	570	570	510	460	410	370
Debt Service	276	278	358	306	308	375
Capital to Restore System State of Good Repair	355	655	755	800	800	800
NEC Infrastructure + Fleet[1]	300	525	550	550	550	550
Non-NEC Infrastructure + Fleet	55	130	205	250	250	250
Subtotal	1,201	1,503	1,623	1,566	1,518	1,545
Available Capital for Match	....	....	27	234	432	455
Total Federal Contributions	1,201	1,503	1,650	1,800	1,950	2,000

[1] NEC: Northeast Corridor.

New Federal capital available for State match does not become available until annual Federal funding levels reach $1.65 billion. This construct highlights the policy choice that needs to be made between restoring the system to a state-of-good-repair and investment in new corridor development. At $2 billion, we would expect about $455 million to be available to States to match for use in new and/or improved corridor development.

TOO PREMATURE TO SEPARATE MANAGEMENT OF NORTHEAST CORRIDOR INFRASTRUCTURE FROM OPERATIONS

Proposals to separate the Northeast Corridor infrastructure management and operations into two independent companies present a level of complexity and risk that needs a more thorough examination. At some point down the road, this split might be feasible and may prove a better way of controlling costs. However, at this juncture, not enough is known about the benefits and risks of this proposal. As we witnessed in Great Britain's experience, there are risks associated with establishing a commercial, for-profit entity to operate the infrastructure. Allowing an infrastructure company to operate "like a business" may mean relinquishing control over how certain expenses are cut or which capital investments are made. An infrastructure company focused on its bottom line has incentives to make decisions that are in its financial best interest but may not be in the best interest from a safety or efficiency perspective for the operator. The result could be, at best, disruption to service and a decline in on-time performance and, at worst, compromised safety conditions.

Aside from the risks of separating the infrastructure from operations in the Northeast Corridor, there are benefits to the integration. In particular, an integrated Northeast Corridor provider of track maintenance, capital programs, operations, and dispatching is likely to be more efficient and less costly than two providers, each having a separate organizational support structure. In addition, a bifurcated approach would require a fully functional oversight and control organization at the outset lodged in the Northeast Corridor compact or the DOT to coordinate between operations and infrastructure. If formation of the Northeast Corridor compact is delayed, there could be disruptions to the operation of the corridor.

It may be possible at some point down the road to develop a model where all interests are best served, but a more thorough review and understanding of lessons learned from other similar attempts would be a valuable precursor to such a division in the Northeast Corridor.

PAY OFF LEGACY DEBT AND RESTRICT FUTURE BORROWINGS

As of September 30, 2004, Amtrak had long-term debt and lease obligations of about $3.8 billion with amortization periods extending beyond 20 years. Amtrak's balance sheet shows $845 million in escrowed proceeds to defease a portion of this debt, leaving close to $3 billion in unfunded long-term debt or lease obligations. Under the current model, these obligations are paid for with Federal appropriations. Because portions of Amtrak's debt were financed at higher interest rates than what the Federal Government can borrow, Congress and the administration should consider a one-time appropriation for the specific purpose of discharging any debt that can benefit from the Federal Government's borrowing power, producing long-term Federal savings. For example, Amtrak pays 9.5 percent interest on its mortgage obligation for Penn Station, New York, whereas recent 10-year Treasury notes issued by the Federal Government are yielding a little over 4 percent. In addition, Amtrak's ability to incur long-term debt should be restricted, except for refinancing opportunities that lower interest expense and do not increase the outstanding principal, and no commitments should be made without advance approval by the Secretary of Transportation. In return for discharging Amtrak's debt, title to Amtrak's assets would transfer to the U.S. Government.

Mr. Chairman, that concludes my statement. I would be happy to answer any questions at this time.

Senator BOND. Thank you very much, Mr. Mead.

I apologize for being jumpy but I am going to have to get back to the Highway Bill and I want to ask essentially two broad questions and then turn it over to my colleagues to run this.

First, let me say that when I was governor of Missouri, I started the process of subsidizing Amtrak, convinced by the silver tongue of now Senator Bennett. And Missouri now subsidizes Amtrak at $6.2 million a year, which is behind Illinois, Washington and several other States. And we have a very modest $32 loss per passenger, which it is certainly not quite the best looking one in the whole ugly bunch but it is up there.

Let me ask Mr. Laney and Mr. Mead and others to comment. While we are waiting for the Commerce Committee to act, and I gather your reorganization and restructure has go through the Commerce Committee, we cannot reauthorize in this committee. You are going to have to get it through there.

If Congress does what Congress sometimes does, and that is nothing, would you go bankrupt this year? What would be the prospects of trying to restructure Amtrak in bankruptcy? Mr. Laney?

BANKRUPTCY

Mr. LANEY. Bankruptcy presents an enormous set of challenges and complexities that we have not worked through from start to finish and it is much less flexible in the railroad context than it is in a normal business context.

Nonetheless, we have considered it because of the proposed zero budget from the administration, and DOT.

Senator BYRD. I am having difficulty hearing Mr. Laney. Could we have some way of making it louder?

Senator BOND. Can you pull that up a little closer?

Mr. LANEY. I thought I had run out of funds and you turned off the electricity.

It is an enormous challenge and really limits our flexibility. We have considered it. We do know that without any action by Congress that sometime, my guess is in the first quarter to the first half of fiscal year 2006—and Mr. Gunn may disagree with me and may think it is earlier—depending to some extent on the ultimate impact of the Acela problems right now, that we will in effect run out of cash.

Senator BOND. Can you restructure in bankruptcy or do you have too many costs?

Mr. LANEY. It is totally out of our control in bankruptcy. It is a different structure. There is a U.S. trustee appointed and he, with proposals from DOT, selects someone, in effect, to run Amtrak in bankruptcy.

Senator BOND. Mr. Mead.

Mr. MEAD. Pursuing the bankruptcy approach, in my opinion, is like taking a round peg and trying to pop it through a square hole. The reason why is most people, when you go through this type of bankruptcy, you want to emerge with something that is better or more rational. But you are going to need cash to do it.

The short answer, as I said in my statement, you are going to have $32 million at the end of this year. That is 2 weeks. You are not going to have much cash.

The second, big reason, very unlike the airlines. In bankruptcy for railroads, the labor issues, labor contracts which comprise over 40 percent of Amtrak's budget, they are handled on a totally separate track. They do not go to the Bankruptcy Court, they go to special labor boards.

I do not know if that separate track is going to work very well.

Senator BOND. Do you have a comment on that, Mr. Rosen or Mr. Gunn?

Mr. GUNN. I will agree with my chairman.

Senator BOND. Always a good idea.

Mr. GUNN. But I do think the problem of the threat of bankruptcy is very imminent, given the Acela problem.

Mr. ROSEN. Senator, the only thing I would like to say about that is the preferred course of reform is clearly legislative through the Commerce Committee and in other ways, as well as board actions. I think it would be a mistake for anybody to believe that any approach should be off the table, depending on how events unfold, and that there are airlines that are operating in bankruptcy as we speak today.

And clearly, one of the questions in a bankruptcy that anybody would be interested in is what would the service look like? How would it continue?

And so I do not mean to have this misconstrued to saying that is the preferred option, but I think the complexities of bankruptcy are things that there is some experience with.

Senator BOND. Mr. Rosen, excuse me. I want to ask one big question. Mr. Mead finally referred to what I believe is the 900 pound gorilla in the room. When I talk to my colleagues, the one thing they ask about are what some perceive to be unreasonable labor costs. People talk about 3- and 4-hour workdays, work weeks that are significantly less than 40 hours. What are the impacts? Are the labor costs of Amtrak out of line with other transportation companies and organizations?

I would ask Mr. Mead, Mr. Rosen, Mr. Laney and Mr. Gunn to comment on it. Mr. Gunn.

LABOR ISSUES

Mr. GUNN. I will start. I think if you look at Amtrak's labor situation, first of all, we have made a lot of progress tightening up the operation. As Mr. Laney said, we have dropped our head count from 24,800 to about 19,500. And at the same time we are running more trains and handling more passengers and doing a lot more maintenance work.

The basic problem we have, I think, revolves around some of the work rule issues that we have. I think that if you look at our rates of pay on, for example, locomotive engineer or machinist, the rates of pay are not the problem for those groups of people. The problem is work rules.

To give you a sense of what it means to us, these are probably between 700 and 1,000 people on the payroll that would not be there if you had control over crew consist and if you did not have the shops organized around crafts.

Senator BOND. Is it true that traveling from St. Louis to Kansas City they have to change crews in Sedalia?

Mr. GUNN. I do not know the crew change point on that train right now but——

Senator BOND. It is a 4-hour trip and at one point there was a crew change.

Mr. GUNN. On the Northeast Corridor we get a full day's work out of a crew. I think what they are doing on that is the crew probably takes the train and goes back home. In other words, they swap trains.

To give you a sense of this, an engineer in the Northeast Corridor, a day's work, they come to work in Washington, they go to New York, they have a break, they get back on a train and bring it back to Washington. That is a fairly full day's work.

If we have the frequencies and so forth, we get a day's work out of our train crews. The problem is we may have more people on the train than we need. That is the problem. It is not the basis of pay. That is my opinion.

Mr. MEAD. I think the labor rates are not out of line with what rail people would normally get. But I do agree with Mr. Gunn, that the work rules really do inspire a lot of inefficiencies. Plus, any organization where your ticket sales are exceeding—where your labor costs are exceeding your ticket sales is a prescription for problems. That is the case we have here.

Mr. ROSEN. The only thing I would add is that the difficulties that Amtrak faces go well beyond their labor difficulties.

Senator BOND. Mr. Laney, any comment on that?

Mr. LANEY. No, Senator.

Senator BOND. Thank you very much, gentlemen. I would have to say that to gain support on the floor, I think that the reorganization and restructuring plan may have to address the work rule question because there are a number of people who are reluctant to support anything for Amtrak until that is done.

With that, I turn now to Senator Murray.

Senator MURRAY. Mr. Chairman, I intend to be here for the duration of the committee and Senator Byrd wanted a chance to do a statement and he had another obligation. So I will let him go ahead of me on this round.

STATEMENT OF SENATOR ROBERT C. BYRD

Senator BYRD. Senator Murray, I thank you. You are very gracious.

Mr. Chairman, I thank you for holding this hearing.

I will speak today about the millions of Amtrak passengers who board in stations like Montgomery, West Virginia; Greenwood, Mississippi; Winslow, Arizona; and Cut Bank, Montana.

I recognize that Amtrak has problems. Amtrak provides crucial transportation services, not just for our major cities, but for millions of people across rural America. They pay the taxes that fund infrastructure in Iraq. They help to supply the men and the women from whose veins flow the blood that is shed in the deserts of Iraq. They need service. They are Americans, too.

It is perhaps those citizens who have the most at risk in losing rail service as a result of the Bush Administration's budget. Once those towns fall off the national rail map, they are not coming back.

Mr. Mead points out that many riders of Amtrak's so-called long-distance trains do not really travel long distances. We are talking about passengers who might be riding from Martinsburg, West Virginia, to Pittsburgh, Pennsylvania, on Amtrak's Capitol Limited, or passengers who may be traveling from Hinton, West Virginia, to Maysville, Kentucky, on The Cardinal.

For residents of those communities, Amtrak provides an essential transportation option. Not every grandmother can just get behind the wheel and drive to see her grandchildren. Not every college student has the option of driving home from school for the Easter recess. There are over 120 communities across the Nation that receive regularly scheduled Amtrak service but have no commercial air service whatsoever. Several of these communities have also seen their bus service eliminated as a result of the shrinking of the national Greyhound network.

The administration does not seem to grasp the transportation needs of rural America. Not only does its budget propose to eliminate all subsidies to Amtrak, the administration's budget also proposes to cut in half funding for the Essential Air Service program, causing dozens of communities across the Nation to lose their guaranteed air service.

These budget proposals appear to be consistent with many other provisions in the President's budget that do real harm to the quality of life in rural American communities.

The President's budget includes deep cuts for rural housing loans, and for water and sewer grants that help rural communities have clean water. The President's budget eliminates funding for vocational education grants that help students in rural America who are not going on to college but who need training to get a job that pays a livable salary.

When it comes to the President's budget for Amtrak, we are not talking about just another proposal to cut a program by 10, 20, or 30 percent. We are talking about a proposal to eliminate all of Amtrak's Federal funding and all of Amtrak's available services.

I should point out that, just 2 months ago, I tried to rectify this situation when the Senate debated the budget resolution for the coming fiscal year. On March 15, I offered a bipartisan amendment, with Senator Specter and several other Senators, which sought to boost Amtrak funding to $1.4 billion for 2006. I did not take that funding figure out of thin air. When President Bush submitted his budget request last year for Amtrak, $1.4 billion was the level that he, himself, included in his budget for 2006.

As I stated on the floor during debate on that amendment, the elimination of Amtrak's subsidy, as called for under the President's budget, is not a recipe for a streamlined railroad. It is not a recipe for a more efficient railroad. It is a recipe for a dead railroad.

My amendment sought to bring that railroad back to life as part of the budget for the coming fiscal year. Unfortunately, that amendment failed on a vote of 52 to 46. So, unfortunately, a dead railroad may very well be what we get from the coming fiscal year.

I have been fighting for Amtrak for a long time, Mr. Gunn, Mr. Rosen, for a long time. I was hopeful of landing a rail passenger route in southern West Virginia 30 years ago. In 1974, I had proposed to the Appropriations Committee, Subcommittee on Transportation, that we add money to Amtrak's budget to help bring this about. On April 11, 1974, in a hearing conducted by the Transportation subcommittee, which I chaired at the time, Roger Lewis, then-president of the National Rail Passenger Corporation, Amtrak, told me that $4 million would provide adequate funding to begin a route through southern West Virginia. The route that I had been trying to secure would run from Norfolk, Virginia, to Cincinnati, Ohio, with stops in West Virginia at Bluefield, Welch, Williamson, Fort Gay, and Kenova. I told Mr. Lewis that I would add the $4 million by offering an amendment to the Transportation Appropriations bill.

In answer to my questions, Mr. Lewis said that he anticipated no problem in securing the cooperation of the railroad. He also said that this amount of money would provide adequate funding to initiate capital improvements and initial operating costs for the operation of Amtrak on a new route from Norfolk to Cincinnati.

According to Mr. Lewis, N&W tracks could be used all the way; or, as an alternative, both N&W and C&O tracks could be used. In any event, repairing tracks and rebuilding passenger facilities along the route, Mr. Lewis explained, could be accomplished within 6 months if the railroad labor forces were available and if the N&W Railroad was willing to undertake that program.

On April 24 of that year, 1974, the Transportation Appropriations Subcommittee accepted my amendment, adding $4 million to the Transportation Appropriations bill to provide Amtrak rail service between Norfolk, Virginia, and Cincinnati, Ohio, and on April 30, the full Appropriations Committee approved my amendment.

Then, on March 24, 1975, 30 years ago, the Mountaineer, a new Amtrak passenger train, made its inaugural run in southern West Virginia.

Mr. Gunn, the Amtrak president at that time was Paul Reistrup. He and I were among the passengers on the maiden run. On its daily runs from Norfolk, Virginia, to Chicago, Illinois, the train would stop, as I have already indicated, at Bluefield, Welch, and Williamson in West Virginia, and would be made up of two coaches, a snack/diner, a sleeper, and a baggage car. A guaranteed operation of 2 years for the new route through southern West Virginia had been made by Amtrak.

Mr. Reistrup said that the Mountaineer would habitually lose money and that the run would lose $4.5 million in each of the first 2 years of operation, while taking in only $900,000 in the first year.

I had been instrumental in making the Mountaineer a reality by securing an appropriation of $4.6 million, which was reduced to $2 million in the Senate/House conference. That was an experimental run, and its continuance beyond the 2-year experimental run would depend upon the ridership achieved.

The Mountaineer did not last all that long. I was also instrumental in getting The Cardinal. Amtrak still serves West Virginia, the only State among the 13 in Appalachia that is wholly in the Appalachian regional system.

Unfortunately, a dead railroad may very well be what we get for the coming fiscal year. That would all depend, perhaps, on whether this subcommittee can find the resources to meet Amtrak's needs next year.

Mr. Chairman, I thank you for being a good chairman. I hope that we can come to the aid of Amtrak. We have people down there, people who pay taxes, whose sons and daughters die in the unnecessary war in Iraq, and who pay taxes to build the infrastructure in Iraq. Perhaps, we ought to have Amtrak in Iraq. Maybe we could get more money for it, even though it would lose money. That would not be a question over there, I suppose.

I recognize the problems. I want to help. I, for one, plan to work with my colleagues as best as we can to accomplish that goal.

In closing, I thank my leader on this issue, Senator Patty Murray, for her diligence and dedication to her work in providing the rail passenger service to people like those who have sent me to Washington for eight terms. I fought for them before, and I am going to fight for them now.

Thank you, Mr. Gunn, for your services. Thank you very much. You are trying hard, and I want to work with you.

Senator Murray, the challenge will be considerably greater due to the failure of the Senate to adopt my amendment a while back.

Now, when Cicero spoke, the people said he makes a good speech. But, when Demosthenes spoke, they said let us go against Philip. So, Mr. Chairman, let us go against Philip. Let us go against Philip, Mr. Gunn. Do not lose heart. It is going to be a problem. It is going to be hard work. I will tell you this, people in the rural areas of this country vote, too. Thank you very much.

Senator BURNS [presiding]. Thank you, Senator Byrd. I think I am next on the list here, and I will kind of open up this morning.

I also serve on the Commerce Committee. We have looked at this Amtrak thing for the last couple of years and we have drawn some conclusions from the testimony of Mr. Mead and Mr. Rosen, and then a short visit over here with my good friend from Utah.

We are going to have to be very imaginative if we make this thing work. But we cannot be imaginative if we are not a part of the overall transportation plan of this country and it does not sound like that has been the case.

I am going to be very critical of the Department of Transportation now. You say reforms but I have not seen anybody knocking on my door up here, saying we have got these reforms that we think would work for Amtrak or a national transportation plan. We have not heard that. I have had no request for an appointment to come up and say we should look at this because we think it is a vital part of the overall plan of this country.

And I aim to take this to the Secretary. We cannot expect any kind of imagination to flow unless we get some cooperation down there. Or, if it is not on the radar screen, tell us it is not on the radar screen and we will do something else. We will put it over in another department. Let's put it over in the Department of Defense because we might want to move some troops one of these days. Who knows?

We can sure get it out of here if it is not a priority.

Mr. Rosen, am I incorrect in that statement? What is your take on that?

Mr. ROSEN. Senator, let me first say I would be more than happy to be with you at any time or your staff, of course. So let me put that to the side.

But we have been working with the committee staff and have had a number of consultations. And as you know, I did testify before the Commerce Committee on April 21, both written testimony and oral testimony. The administration's bill was transmitted by the Secretary, I want to say the first week of April. It is substantially similar to a bill that was submitted previously, in 2003. My predecessors, as the Secretary's designee to the Amtrak board, each testified about that bill, Michael Jackson and Alan Rutter.

So I think there has been consistent efforts by the Department to explain, lay out, discuss the administration's reform concepts. But I hear you and we can certainly do more and better. And I would like to work with you.

Senator BURNS. It is going to take that kind of a situation. All of the questions have pretty much been covered. In my case across

Montana, for a transcon, we are a flyover State or we are a ride-through State. We do fairly well up there in the State of Montana in the support of Amtrak.

But you put it through the most desolate part of the State. If you run it down through Billings—and I know I am going to get telephone calls from my people that live in Havre and Wolf Point and Shelby and Whitefish, I will get a letter from them. But we used to have Amtrak service down on the southern part, too. And that connected all of the schools down there. In fact, that is where most of your population is.

Right now we have got about 129,000 people who ride that train in Montana and into some areas that are mostly recreation: over at Whitefish, skiing in the summer, vacation in Flathead. But it is also used by others because we have no bus service. There is no bus service. We cannot make that work.

And I am kind of like Senator Byrd. Those folks up there in those Hi-Line counties vote, too.

So I am going to go back to Senator Murray. I just do not think that we can make it work unless we have got an advocate down at the Department of Transportation. Everybody got all excited the other day when United made their announcement that they are going to forego and abandon their pension programs. And pension programs do not carry people but we sure got excited about it. And now with this, you are touching real people in areas where we have no other alternatives.

You made the statement that you want to go intercity. How many options do people have to get from point A to point B in the inner city? You have your competition bus service You can also go out here from 6 o'clock in the morning until 9 o'clock in the morning on 395, and it is the world's largest parking lot. You can go there and watch. But there are still options. And then there is the Metro. There are options there.

We have no other options. And that is the point I want to make.

ADMINISTRATION BUDGET REQUEST

Senator Murray.

Senator MURRAY. Mr. Rosen, last year, when the Bush Administration sent up its budget request for Amtrak, you proposed to cut Amtrak funding by $300 million. But you said that you would support as much as $1.4 billion each year if your reform proposals for Amtrak were enacted.

When we reviewed OMB's multi-year budget documents, the administration was true to its word. You budgeted $1.4 billion for Amtrak for 2006 and every year thereafter. That was last year.

This year, when you look at the President's budget, he is requesting zero for 2006 and anticipates requesting zero for every year after that.

If that is the case, why is Secretary Mineta publicly stating that the Bush Administration would support $1.5 billion to $2 billion for Amtrak if your reforms are enacted?

Mr. ROSEN. Two things, Senator, let me to clarify. The original proposal that you are alluding to, when the administration proposal was $900 million, contemplated that there would be an increase if the administration's reform proposals were adopted.

As you will recall, they were not adopted to date. And when this year's budget came out and the Secretary made clear that the President's current budget was a call to action. It was clear that the earlier budget proposals, if they were a call to action, they did not work.

So the President's budget this year, as a call to action, has at least had the effect of being more effective at calling attention to the need for reform. That is point No. 1.

I indicated in my opening remarks to the effect that we know from history that the reforms have to come first, the money to follow.

The second part is with respect, Senator, I think you are mistaken what you said that Secretary Mineta has said. Secretary Mineta has not said that the administration would support $1.5 billion to $2 billion a year.

What he said was he was asked, I believe, a question about what it would cost to bring the Northeast corridor up to a state of good repair. And he referenced what is a multi-year number, 5 or 6 years I believe, that there are estimates—I think Amtrak itself is estimated approximately $1.5 billion to $2 billion to do that. Although I would add the caveat that Amtrak has begun the process of spending to bring the Northeast corridor to a state of good repair. So some of that money has actually been spent last year and this year.

So I think there may be some confusion or a mistake as to what numbers are being referenced. I do not think the Secretary has said what the numbers associated with a true reform package would be.

Senator MURRAY. Mr. Rosen, let me just share with you that on March 4, 2005, I believe it was on NPR, Secretary Mineta was asked, "The budget says zero dollars. What is the real figure that the administration is willing to spend on Amtrak?" And Secretary Mineta said very clearly, probably in the area of $1.5 billion to $2 billion.

So he has stated that.

Mr. ROSEN. Again, with respect, I think you need to look at the full context of those remarks. I do not think that was a question that—I think it was a question that related to the Northeast corridor.

Senator MURRAY. No, I disagree. Actually, I will read you the whole question. He was asked: "Democrats in Congress who have criticized your proposal have said well, this thing that Secretary Mineta is talking about is not what the budget says. The budget says zero dollars. What is the real figure that the administration is willing to spend on Amtrak?"

To that, Secretary Mineta answered probably in the area of about $1.5 billion to $2 billion. So he has said very clearly.

Mr. ROSEN. Again, I have a different interpretation, that that figure relates to a multi-year capital item.

Senator MURRAY. I do not see any reference to multi-year capital. But I will tell you this, when OMB Director Bolten testified before our subcommittee, it was 3 weeks ago now, I asked him whether the administration would ever consider sending us a revised budget for Amtrak. And Director Bolten was really clear. He said that this committee has received the only budget we should expect to get from Amtrak under any circumstance.

I would like to know what conversation you or Secretary Mineta have had with the White House that makes you think that the administration might request Amtrak funding if a reform bill is enacted?

Mr. ROSEN. I am not sure if I fully understand the question, so let me try this. In formulating the administration's reform proposals, there have been regular discussions with the Office of Management and Budget. And indeed, the reform proposals had to be approved by the Office of Management and Budget when they were transmitted to the Congress, both in 2003 and 2005.

I think the earlier budget proposals that you referenced in the administration proposal for fiscal year 2005 came out, did contain both a number for that fiscal year and a number with regard to what reform funding would look like. This year, a different approach was taken and you have that before you.

Senator MURRAY. Mr. Rosen, you said you did not understand my question. Let me make it very clear.

The administration is saying that zero funding for Amtrak unless a reform is enacted. Director Bolten made it very clear to us that the administration was not going to request additional funding. So where do we get the idea that if Congress does enact reform, that the administration will then request the $1.5 billion to $2 billion that Secretary Mineta is talking about? Are we going to get a request or not?

Mr. ROSEN. So far we do not have reform legislation that has been enacted. I think perhaps that is the key point to start with.

Senator MURRAY. Say we pass reform. Is the administration going to request the $1.5 billion to $2 billion? Or are they just going to say they support it?

Mr. ROSEN. Well, first of all I have told you that I do not think you are accurate with regard to the $1.5 billion to $2 billion figure. But putting that aside——

Senator MURRAY. I am quoting—I will submit this to the record, the statement from Secretary Mineta.

[The information follows:]

[From Morning Edition, National Public Radio, March 4, 1005]

SECRETARY NORMAN MINETA COMMENTS ON THE PRESIDENT'S PROPOSAL TO CUT FUNDING FOR AMTRAK

Mr. STEVE INSKEEP [host]. The Bush Administration says it is not trying to bankrupt Amtrak. In the budget the President sent to Congress, there is no money for the passenger rail system and that prompted an angry response from Amtrak supporters. But the President's top transportation official says the administration is willing to subsidize Amtrak if it's restructured. Norman Mineta is a former Democratic congressman who's now Transportation Secretary.

Secretary NORMAN MINETA [Transportation Department]. The reason that the President has put no funding for Amtrak subsidy this year is that we submitted our reform legislation in 2004. There's been no action on it, and so finally we decided in order to get people's attention, we would just put no money in for the subsidization of Amtrak.

Mr. INSKEEP. The President called a lot of attention to this. He said he was cutting more than 150 Federal programs. Amtrak was described by the administration as one of them.

You're saying the administration didn't really mean that.

Secretary MINETA. If we get the reform that we're looking for, then we will be asking for the funds to fund a national inner-city passenger rail system. And that's why in our reform legislation, what we do is to make Amtrak an operating company. Right now we subsidize Amtrak, and so they put money into their capital investment program as well as the operational side of their program. And the problem is that much of their money goes into the operation of lines that nobody uses. At the same time capital improvements are being starved. So what we're saying is, let Amtrak be an operating company and the Federal Government will do the financing of capital infrastructure.

Mr. INSKEEP. Democrats in Congress who have criticized your proposal have said, "Well, this thing that Secretary Mineta is talking about is not what the budget says. The budget says zero dollars." What's the real figure that the administration is willing to spend on Amtrak?

Secretary MINETA. Probably in the area of about $1.5 billion to $2 billion. Right now the state of the tunnels and all those things are woefully neglected and we would bring those up to good standards and then turn it over to the States. And then we would participate on a local match on the continued improvement of any capital investment that's made into the system.

Mr. INSKEEP. You're proposing that the Federal Government would continue to pay for upkeep of track or new trains, Amtrak would run them and would be expected to run trains that at least broke even or made a profit?

Secretary MINETA. The lines would be determined by States and not by Amtrak itself. As an example, we have now some 12 States that are spending something like $345 million a year for passenger rail service; $140 million of that is for capital improvements. If our bill had been in place then those States would be getting a 50:50 match on the $140 million on capital investment, whereas right now they're making all of that investment with their own State money. By our taking over the capital investment part of it and let the operations of the railroad be done by Amtrak or other operating agencies, they then can concentrate on delivering the service that people deserve. We're treating Amtrak inner-city passenger rail no differently than we treat highways, airport improvements or transit right now.

Mr. INSKEEP. Although, forgive me, you can improve part of an interstate highway and leave the rest of it unimproved for later. But if you've got a rail line that goes across seven States and just one of them doesn't want to contribute, that rail line goes away. It can't run.

Secretary MINETA. No. No. The rail line will still run but we won't stop in that State or open its doors.

Mr. INSKEEP. Do you really think that this system could maintain political support if a number of States stopped having service there?

Secretary MINETA. We have spent over $29 billion in subsidies to this rail system. I don't think we should continue pouring money into a flawed system. If the President and I really were out to kill Amtrak, we wouldn't do anything.

Mr. INSKEEP. Secretary Mineta, thanks very much.

Secretary MINETA. Not at all. It's great to be with you, Steve.

Mr. ROSEN. Rather than debate that, I will put that to the side and say what I said in my opening remarks, that if the Congress itself takes the serious steps to reform and fix intercity passenger rail, then the administration is serious that if we get real reform we will support funding for reformed system.

Senator MURRAY. What does support mean? Does that mean request or you will just say it on the radio?

Mr. ROSEN. It does not mean that we will say it on the radio, but as I have said here and I have said previously, I think it is premature to talk about what exact steps and what exact amounts the administration will take or propose until we have the reforms.

Senator MURRAY. I take it your answer is——

Mr. ROSEN. We know where that leads.

Senator MURRAY [continuing]. We should not expect a request from the administration on the exact dollar amount? They will just say that they support money once reform is enacted.

Mr. ROSEN. I am sorry, Senator, I do not understand the question.

Senator MURRAY. It is a statement. It sounds to me like your response to us is that we cannot expect a request from the administration whether or not we do pass any kind of reform.

I believe my time is up.

Mr. ROSEN. I think what I can say is that if there is no reform, you have the administration's request. But that is not necessarily the end of the story.

Senator BURNS. Senator Bennett.

Senator BENNETT. If I could just pick up on what Senator Murray is saying, and give you a little advice, and I am fully supportive of what you are trying to do. I am fully supportive of reform. And I think the Congress needs a jolt and we certainly have had one.

But I would advise you to define the carrot instead of just saying we will support something. It would be nice to say if you really do come through with the reform, this is what we will do. And I think it is reasonable that Senator Murray is asking for some more concrete definition of what the carrot looks like.

You are saying there is a carrot out there for us. You have hit us with a 2 by 4 between the eyes and got our attention to the fact that something serious has to be done. And I am supportive of that. But having used the stick, I think a little bit clearer carrot would probably be a good idea.

I think that is what Senator Murray is asking for.

With that, let me go back to the subject I have raised. I have here the Amtrak strategic reform initiatives and fiscal year 2006 grant request, provided by Amtrak. I think it is a pretty good piece of work. We keep hearing yes, we are going to reform. In 1997, we were assured by Amtrak's management, Amtrak is absolutely going to be self-sustaining and profitable by 2005. And we heard right up through—pardon me, 2002. And we heard right up through 2001 that they were on track to profitability. And then on 2002, it was well, by the way, we are nowhere near it and the CEO resigned.

We have got to be serious. So let me ask Mr. Laney and Mr. Gunn, if you were kings and had a completely free hand, and you did not have to worry about past contract obligations that you feel now bind your hands, you could have any kind of work rules you wanted, you had access to whatever funds you needed for capital improvements, all of the rest of it. In other words clean sheet of paper time.

Could you design an intercity passenger system on rails that made sense and was sustainable over time? With the assumption that there would be some degree of Federal subsidy? Because I think we probably would have to have a degree of Federal subsidy. I do not think you could expect it all to come out of the fare box. But one would hope it would be a degree of Federal subsidy substantially less than we are doing now.

Is that a possibility? Forget where you are, in terms of the straitjackets of the past that are put upon you. Clean sheet of paper time, you are king. You can devise whatever you want. Could you, in fact, envision a passenger system that worked?

REDUCED FEDERAL OPERATING SUBSIDY

Mr. LANEY. Senator, let me first say I want to hear from Mr. Gunn on this, as well, because his perspective may differ slightly but I do not think much. But let me be king first.

Yes, absolutely. And I think, to a great extent, what we presented in terms of our strategic reform package does just that. We have erased the blackboard and started writing on it again. We have been constrained by some prior decisions by earlier boards and earlier managements and we bear the burden of those decisions and they are difficult. There is no question about it. Whether it is issues with respect to the Acela, whether it is issues with respect to long-distance trains, whether it is issues with respect to debt.

But absolutely, there would be different answers and different responses for our different lines of service. Whether it is the corridor service, Northeast Corridor, or other State service corridors, not only could we, we absolutely should, from a transportation policy standpoint, begin to address in a serious way State corridor issues. There been references to congestion, when it is aviation or whether it is highways. There is a very complementary role for passenger rail service to play.

You project it 25 years, 50 years, 75 years forward, we will have made a serious mistake if we do not begin taking incremental small steps now.

There is also a role for long-distance service.

Senator BENNETT. That is where the argument was going to come.

Mr. LANEY. There is also a role, but it would be a reconfigured long-distance service. And to address some of your issues, I think we have presented, in effect, a systematic approach by which we reevaluate and address current routes, ultimately eliminate some, and may begin to add others over time. But it cannot happen overnight and it needs to be managed carefully. But I think long-distance still plays a role. It just needs to be reconfigured slightly, or significantly.

Mr. GUNN. I basically support what the chairman said, not just because he is my chairman. I actually agree with him. I think that the way that you look at this is that in the future there is no way you get around the fact that the capital is going to have to come from the government, either a combination of State and Federal.

I think the operating deficits can be managed and they can be controlled and reduced, particularly if we have the kind of freedoms that you mentioned. They cannot be totally eliminated. And I do not think they will be eliminated except in some very dense corridors such as the Northeast Corridor. But you have to have volume.

I think the long-distance trains, the deficits can be—there is a lot of things we can do if we have freedom to control those deficits. And I think if you look at our plan, which you have, we actually give you sort of a vision of what would happen over 5 years, in terms of the Federal requirement. You see the operating subsidy dropping—or not going up certainly—but the capital is absolutely a governmental responsibility and you cannot avoid that. This is not a profitable business.

Senator BENNETT. I understand that. And if I may, Mr. Chairman, one last quick question in the spirit of Senator Murray's question, assume that we do everything you are talking about here, that Congress gives you the authority you want. We put in the capital to make the necessary improvements.

Can you give us a ball park as to what the operating subsidy then would be? Would we still be talking about $1 billion year out of the Congress? Or would it come down? You talk about long-distance and we can argue about that. That is $300 million and that is not inconsequential in this situation.

Mr. LANEY. You are just talking about an operating subsidy, Senator, not capital?

Senator BENNETT. That is right.

Mr. GUNN. We made a stab at projecting if our reforms were enacted what the Federal needs would be in fiscal year 2011 which is what, 5 years out. And basically we showed the Amtrak requirement dropping to about $800 million for the whole system. And if you look at this, that is capital and operating. Operating is $220 million.

Right now our operating deficit is about $570 million and we show that dropping to about $220 million. There is a combination of things. It is efficiencies brought about by work rule change, changes in the retirement package and some other things, but also a shift to the States of responsibility for their corridor development if they get the Federal capital.

But you can see the Federal piece certainly not rising. It would drop. We are estimating you can get it as low as $800 million, both capital and operating, if you got the reforms, the real reforms we are talking about. And those are tough. It is the Railway Labor Act piece.

Senator BENNETT. As I say, I think you ought to stress that to the Commerce Committee because $800 million is a much easier pill for the Congress to swallow, particularly in 2015 when it is an even smaller percentage of the Gross Domestic Product than it is today, than the amount we are currently paying today.

Thank you, Mr. Chairman.

Senator BURNS. Senator Kohl.

Senator KOHL. Thank you very much, Mr. Chairman and Senator Murray.

While I share the sentiments of our colleagues regarding the President's draconian approach to reform, I prefer to use my time to assess the merits and viability of passenger rail outside of the Northeast corridor.

Whenever we hear talk of passenger rail, we hear about the Northeast corridor. Indeed, the administration's fiscal year 2006 budget is no exception, providing funding only to operate this corridor should Amtrak be forced to cease operations.

As a Senator from the Midwest and Wisconsin, I have to say I find this approach to be shortsighted and potentially harmful to our Nation's intermodal transportation system.

In the Midwest, as in many parts of our country, passenger rail provides, as you know, a critical link for thousands of travelers.

While I understand that increased ridership does not necessarily equal success for Amtrak, I agree that reform is in order. However, I would argue that forcing the more than 545,000 Wisconsin riders who used Amtrak last year to find another means of transportation does not certainly by itself equal reform.

I do not think that anyone here would argue that shutting down Amtrak in the Midwest will result in reaching agreement on plans to reform the system. Putting more cars on congested roadways and more travelers in overcrowded airports cannot possibly be the solution and I hope that we can arrive at better suggestions.

Mr. Gunn, we have heard the administration talk about the need for reform at Amtrak, and as part of that reform the need for greater State investment in passenger rail. As you know, Wisconsin has been a leader in this effort, providing 75 percent of the necessary funding for the highly popular Hiawatha service between Chicago and Milwaukee. This line has continued to break all-time ridership records over the past years. Without the funding that Amtrak is requesting today, will this line be forced to shut down? And if so, when?

Mr. Mead, I would appreciate a comment from you.

Mr. GUNN. If the administration proposal went through and it was bankruptcy, the line would cease to operate.

Senator KOHL. It will cease to operate.

Mr. GUNN. It would still run freight and Metra but Amtrak would cease to operate.

Senator KOHL. Mr. Mead.

Mr. MEAD. I would not going to go so far as to say that Amtrak would totally cease to operate. I would say that there would be almost certainly very significant cuts in service, including the route that you mentioned.

Senator KOHL. That Chicago to Milwaukee——

Mr. GUNN. I was referring to if the administration's budget proposal went through, zero, we would cease to operate.

Mr. MEAD. I am sorry, I misspoke. Certainly, $360 million is just not going to—you are going to have to have a shut down. I was referring to $1.2 billion, which is the current year's appropriation. If you just reenacted the 2005 appropriation for 2006, that would give you $1.2 billion, you are going to have very significant cutbacks in service.

Mr. GUNN. You will have a cash crisis. If you have $1.2 billion, you will have a cash crisis and we will be right back where we are today very quickly.

Senator KOHL. I think we all recognize, and I am sure you know, that that particular line is really, really successful and serves an important purpose.

Mr. GUNN. Since the airport station opened, we have had ridership growth of 30 percent, 25 percent in the last few months.

Senator KOHL. Increase.

Mr. GUNN. Yes, because of the airport station, which is just south of Milwaukee. It has just taken off.

HIGH-SPEED CORRIDORS

Senator KOHL. I worked to get funding for that so I am very much aware of what you are saying and I cannot imagine a decision that, in effect, would close down that route.

Yesterday, I met with a group of constituents from La Crosse, Wisconsin. Currently, La Crosse is only served by the Empire Builder line with one round-trip stop in the city each day. My constituents shared with me the potential economic impact of bringing high-speed rail to the western side of Wisconsin.

Due in part to the heavy debate over Amtrak's funding needs, the debate over the merits of high-speed rail seems to have quieted. I did note, however, that the administration zeros out funding for the next-generation high-speed rail program which funds the research needed to determine the viability of high-speed rail in America.

Mr. Mead, can you provide some insights as to why the administration would zero out funding for this relatively modest program? Do you believe that there is any merit in having high-speed rail outside of the Northeast corridor? And Mr. Gunn, I would appreciate your view.

Mr. MEAD. I think it depends on what your definition of high-speed rail is. I think the average speeds of some of these long-distance trains that we have today is around 46 or 48 miles per hour, and that is scheduled. That does not count whether there is going to be delays. So if you go up to about 80 miles an hour, I think for those people that ride those trains that are doing 46 miles an hour, that would be relatively high speed.

Actually, I would just like to, if I might, just take a moment to point out something that is in the administration's bill that I think is very important. The administration's bill proposes capital grants to develop rail corridors such as those that you are describing. The problem is that the States are saying well, this is nice. It is a capital grant program. But how much funding is the Federal Government going to put into it?

And it becomes a chicken or egg issue, in my judgment, that the States are not going to buy into a capital grant program and take on more decisions and take on more responsibility and authority for making rail decisions that affect their corridors and agreeing to a capital grant program until such time as they understand the financial consequences of that.

And I think that is a core element of the debate here, is the uncertainty over what the funding conundrum is going to look like. That certainly is what Senator Murray's line of inquiry was after.

Senator KOHL. Mr. Gunn.

Mr. GUNN. I would only comment that Amtrak's management position has been that there are a number of corridors outside the Northeast that should be developed and we worked with the States for them. For example, the Milwaukee and perhaps onto Madison, Chicago to Madison, is one of those corridors where there is real potential. There are also corridors in California and in the Northwest.

Our view is that they should be done incrementally. In other words, when you go into these, do not go in trying to go to 150 to

200 mile an hour trains. What you want is to get up to the 90 or 100 mile an hour trains, which we can do with conventional equipment, and have frequent service. That is the key, good, solid and reliable service. But it does not have to go 150. And you can do it on a relatively modest budget if you use existing technology.

But, I think, we have about eight corridors that we think are really ripe for development if the States get this new State/Federal partnership where there is capital money available. But they have to know what that is. But there are corridors, definitely.

Senator KOHL. Thank you. Thank you, Mr. Chairman.

REDUCING THE OPERATING SUBSIDY

Senator MURRAY [presiding]. Mr. Laney, let me go back to you again.

You submitted a grant request seeking $1.82 billion for next year. That is more than 50 percent above your current funding level. And you also, of course, submitted a comprehensive set of reform proposals. As part of that grant request you said—and I want to read it to you—we believe that these initiatives will, in time, dramatically reduce the requirement for ongoing Federal financial support for Amtrak and reinvigorate intercity passenger rail.

How soon would your subsidy needs dip below the current level of $1.2 billion if that reform package is enacted?

Mr. LANEY. Certainly not during fiscal year 2006. There is no question about that. Fiscal year 2006 we would stay at the same level, if not higher. But let me make clear what I said earlier, and that is the increase from $1.2 billion to $1.85 billion is capital only, our capital investments as well as working capital. It is not an increase in operating expenses. The operating expenses are basically flat.

Largely in 2006, it would be an increase, as I mentioned, in capital. And my guess is that capital expense would stay flat but higher for the next 4 or 5 years as we rebuild, in effect, the Northeast Corridor infrastructure and rehabilitate a bunch of very old and tired equipment. And there is enormous demand, I think, growing demand for equipment beyond just the Northeast Corridor.

But I believe perhaps as early—but I do not know, this is conjecture—as 2007 we will see——

Mr. GUNN. It depends on when the reforms are enacted. In other words, the ability to start winding down or trending down some of the cash demands for Amtrak depend upon when you enact a proper capital grant program for the States, an 80/20 program. And then how long you give the States to adopt, to get into that program and to begin to assume full responsibility for the operating deficits for the corridors.

Senator MURRAY. So the costs of Amtrak are not going to be reduced. It is just going to be the States who are going to have to come up with that?

Mr. GUNN. No, actually Senator, there are two pieces to this. If the reforms that we have in there—if we got our work rule reform and we got the Social Security reforms and some other things, there is probably $200 million or $300 million which we could ultimately, over time, reduce.

Senator MURRAY. Over time when? From my understanding, at this point——

Mr. GUNN. We assume, for example, if we got work rule reform, we would implement it through attrition rather than just laying people off. That has been our position with our unions. And so, once you got the reform, it would take a number of years, 2 or 3 years or 4 years, to attrit out the people that were surplus.

Senator MURRAY. To get to the point where you are saving $200 million to $300 million?

Mr. GUNN. One hundred million dollars on the labor. There are some internal reforms that we are going to do, or changes that we want to make in terms of food service and some other things, that will take place gradually over the next 2 or 3 years.

Senator MURRAY. But the vast majority of this is just putting money to the States. It is not like these costs disappear?

Mr. GUNN. A big part. I would not say vast. It is very important, if we can get the changes that we are suggesting, if we can move from railroad retirement to Social Security, if we can get either through reform of the Railway Labor Act or through negotiation and get the work rule reform and make the others, it is probably $200 million or $300 million of operating subsidy that we can deal with.

But it is also—I do not want to be argumentative. It is that there is a significant portion of improving the efficiency of Amtrak.

Senator MURRAY. Mr. Mead, you are familiar with both of the reform proposals. Can you tell us whether you think either of these proposals save any money in the short-term, Federal tax dollars?

Mr. MEAD. Well, they save money in the sense that—some of them, they save money in the sense that they would avoid cost that you would other otherwise incur. But the bottom line in terms of how much money you would need, because of a backlog in capital inside and outside the Northeast corridor, you are going to need some money to put the system in a reasonable state of good repair and to improve performance.

So you are not going to—in my opinion, it is a myth I think that you are going to save your way somehow out of this. There are savings. There is no question. This food service one, for example. I do not mean to get emotional about it, but it is something that they could have been doing for some time. And it is about $80 million, $90 million, $100 million. There is no need to wait for 3 or 4 years to do that.

But I am telling you, I would take the $100 million and I would pump it into capital. That is what we need to do. We are talking about several billion dollars in capital.

The other area that I think that we get some savings on is in this debt service. I think the loan they took out or the mortgage they took out on Penn Station was about $300 million at 9.5 percent. Your committee is paying for that at 9.5 percent. And that means the Treasury Department is, too. So I think there are some savings there.

Senator MURRAY. Can you tell us what your estimate is of what the President's reform bill, if it was passed, would cost us in 2006?

Mr. MEAD. I would put it in at about $1.4 billion or $1.5 billion.

Senator MURRAY. Mr. Gunn, do you have an estimate of what it would cost to implement?

Mr. GUNN. I approach it a little differently, if I may. If you look at the administration's reform package, it basically is internal to Amtrak, restructuring the corporate structure. And I think it will be a disaster because it is impractical. And it does not deal with some of the real issues that need to be addressed that I think the board's reform package deals with.

Senator MURRAY. Can you explain that?

Mr. GUNN. If you look at the administration proposal, what it does, it is based on the assumption that the services we operate can be privatized and contracted out, which they cannot. They are not profitable. You can contract them out, but you have to subsidize them.

Also, the basic proposal is to create three Amtraks instead of one. You have a residual Amtrak, you have an Amtrak passenger service operating company, you have an infrastructure company. And it all has to happen on a fairly tight time frame. That will be extremely disruptive and expensive. It also has some operating problems associated with it.

But you will end up with—overhead departments will have to be replicated. In other words, the way we function now you have one law department. Well, if you have three separate companies, you are going to need three. You have one personnel department, you will have to have three.

And it is all being done in an environment where it is not clear how it is going to be funded. I think it does not address any of the real cost issues that are associated with Amtrak. And what will happen is you will end up with a lot of the service coming off and you will have an enormous C(2) bill, the labor protection.

Senator MURRAY. This committee will not decide the reform package, the Commerce Committee will.

Mr. GUNN. I am just saying it will cost you money.

Senator MURRAY. But you are saying to us that if we pass a reform proposal, we are not going to save money in 2006, which is what this committee is currently looking at?

Mr. ROSEN. Senator, could I suggest that I do not think Mr. Gunn is actually the best expert you are going to find on the administration's proposal. And I would say I think his characterization of it was totally wrong.

AMTRAK FUNDING NEEDS FOR FISCAL YEAR 2006

Senator MURRAY. Mr. Rosen, again, this committee is not here to debate the different reform proposals. What this committee has to do is provide the funds for the expenses for next year.

So what I am hearing is that zero funding is not going to do it and, in fact, it is going to cost more no matter which proposal is put in place in the short term. I think that is what this committee is concerned with.

Mr. Mead, I do want to ask you, for the last 2 fiscal years, the subcommittee funded Amtrak at about $1.2 billion. In fact, the funding level for the current fiscal year is actually somewhat smaller than the assistance provided last year because of the across-the-board cut and the fact that Amtrak is now required to pay back part of its Federal loan.

Even though Amtrak was able to make it through a funding freeze for 2005, you are now testifying to this committee that they need a $200 million to $300 million boost simply to maintain the status quo in fiscal year 2006. Can you explain why that is the case?

Mr. MEAD. It does sound a bit inconsistent, but I can explain it, I think.

Actually, for this year, Amtrak has $1.4 billion already in Federal money. And that is because they closed out the last fiscal year flush with cash. They had $200 million extra, which they are going to spend this year. And that puts you at $1.4 billion, not withstanding the fact that the appropriated level is $1.2 billion.

Now, we are not going to end this fiscal year like we did last fiscal year. I have pointed out in my statement that we are going to have about $30 million or $32 million in cash as you roll into the new fiscal year. So it kind of makes the time pressures on the appropriation process more of a priority.

Senator MURRAY. Are you certain that Amtrak services would have to be reduced if we froze Amtrak funding at $1.2 billion?

Mr. MEAD. Am I certain?

Senator MURRAY. That Amtrak services would have to be reduced if we did $1.2 billion?

Mr. MEAD. Senator, I think that—I am concerned about the capital condition in the Northeast corridor. I do not want to analogize the situation to the kid at the dike where he is putting his fingers in the different cracks in the dike. But I am concerned about the number of go slow orders in the Northeast corridor. And I think Amtrak would have no choice but to cut back service in some significant ways.

Senator MURRAY. Mr. Gunn, what are your views?

Mr. GUNN. To build on what the Inspector General said, I think that he has explained why the $1.2 billion does not work because we are spending this year at the rate of $1.4 billion. But what makes the problem even worse is that we have a number of very serious infrastructure issues that have to be dealt with which add up to about $100 million that are not in this year's budget. So that gets you up to like $1.5 billion.

If you were to drop back to $1.2 million, what would happen is you would basically have—you would have $350 million available for capital instead of the $650 million that we are saying we need.

The problem is that we have already—with the lead times on materials, the $350 million would be—probably $100 million of it would be for material which would sit because you would not have the money to install it. So your actual capital available for the railroad would be about $200 million or $250 million.

And if you look at our budget right now, just the car budget for the Northeast Corridor would be $100 million of that, to repair the Amfleets, to rebuild the Amfleets. You would have almost no money for infrastructure work. You would have $100 million for infrastructure.

That is not sufficient to maintain a high-speed railroad. What will happen, the Inspector General is correct, you immediately will have slow orders show up. But more importantly, the operating budget will go through the roof because you will have emergency repairs all over the place. It will quickly come unglued.

Senator MURRAY. To that point, you were required to suspend all service of Acela, high-speed Acelas, a few weeks ago because of the brakes. My understanding is that the loss of revenue from that is requiring you to eat up a lot of your available cash right now.

Mr. GUNN. Yes.

Senator MURRAY. What confidence do you have that Amtrak will be able to finish this year, knowing that, with a cash positive situation?

Mr. GUNN. I think we will probably limp into next year.

Senator MURRAY. What is limp?

Mr. GUNN. By limp, I mean we will have like $20 million left in the bank, something in that neighborhood.

Senator MURRAY. That takes into account the Acela?

Mr. GUNN. Yes, I think that will be the case. But I really—the problem we are having is that the ridership is still moving around. In other words, we have got replacement service in effect and the riders appear to be coming back. But we are definitely going to be hurt to the tune of $5 million a month net. That is an optimistic number. It depends on what that number actually turns out to be.

Senator MURRAY. Mr. Rosen, are you and other members of the Amtrak board monitoring the situation?

Mr. ROSEN. Absolutely, and I think that one of the things that the company is going to need to do is look for ways to reduce expense and conserve cash.

Mr. GUNN. The reality is at this point we do not have a lot of options left to conserve cash.

Senator MURRAY. Mr. Rosen, if it looks like Amtrak is going to sink into bankruptcy before the end of this current fiscal year, is the administration looking at a supplemental appropriation request for Amtrak to keep it out of bankruptcy?

Mr. ROSEN. I think that the board is looking carefully, as is DOT, at what the cash situation is, and that it will be incumbent on any responsible management to look for ways to make that situation work. I cannot speak for all of the board members but I have some confidence that all of the board members will, in fact, want the company to do that.

Senator MURRAY. So it is possible that we could see a supplemental appropriation if we see a bankruptcy occurring?

Mr. ROSEN. Senator, I was referring to monitoring the cash situation and the company taking appropriate steps to ensure that it is satisfactory.

Senator MURRAY. Mr. Gunn, let me go back to you. You have been required to operate a railroad in the midst of all this debate over proposals by the administration to put Amtrak into bankruptcy. I am concerned about how the railroad's day-to-day finances have been impacted by the language in the President's budget stating the administration's intention to put the railroad into bankruptcy. And I am curious how that and the Senate vote that failed to reinstate your subsidies may have impacted your daily finances?

Have any of railroad's costs, be they borrowing costs or insurance costs or expense costs been negatively impacted by the discussions of bankruptcy or the failed vote in the Senate to restore your subsidy?

Mr. GUNN. Yes.

Senator MURRAY. Can you be specific?

Mr. GUNN. A number of things have happened. One, on insurance, we did have an insurance policy that was up for renewal. And it was an important policy. And I think we probably ended up spending $500,000 to $1 million more than we would have. We had our bond rating downgraded. We are beginning to get from certain—and I do not want to be specific—but we are beginning to get from certain suppliers requirements for changes in payment terms. We are pretty current. We pay on a current basis. We try to be a good neighbor in that sense. But we have a number of fairly large accounts that are talking about our escrowing cash or giving them cash in advance.

We have been unable to close our books, and that means the meter is still running on our accountants. There is nothing wrong with the books; the issue is the management letter. So there has been a number of real impacts, and the biggest impact which could happen, of course, is on the payable side, commercial payables.

Senator MURRAY. We are going to have a vote in just a few minutes so I will end shortly. But Mr. Rosen, I just want to say that the only funding for passenger rail included in the President's budget is the $360 million for the Surface Transportation Board. As a matter of law, those funds can only be used to continue the operation of commuter rail services that operate over Amtrak property or by Amtrak employees once Amtrak ceases to operate. That is what the law says. The funds can be used once Amtrak ceases operations.

Your formal statement kind of glossed over that fact and you seemed to imply that this funding provided to the Surface Transportation Board could actually be used to continue operations of Amtrak trains on the Northeast corridor.

So Mr. Gunn, I want to ask you to clarify this question. If this committee adopted the President's budget of providing zero to Amtrak and $360 million to the Surface Transportation Board, do you think that the Northeast corridor trains will be able to operate next year?

Mr. GUNN. Absolutely not. I can give you a real simple reason why. If you look at the engineering department's operating budget and capital budget for fiscal 2004, for example, it was $550 million, $150 million operating and $400 million capital. And basically that is all corridor, 90 percent of it is corridor.

But on top of that, in order to run the corridor, you have to have a payroll department, an accounting department, a law department. You have to have the support. You have to have procurement.

We gave the IG—actually the FRA Administrator but it was also to the IG—a report a year or so ago where we calculated the cost of a stand-alone corridor and it is $1 billion a year plus.

Senator MURRAY. So would it be even safe to operate the commuter trains under these conditions?

Mr. GUNN. I cannot answer that. I do not know how they are going to spend the money without an organization to spend it. That is the problem. We are the ones that spend the money, that know how to fix the wire, the signals, the track. If we are gone and have been liquidated, I do not know who spends the money.

Senator MURRAY. Mr. Mead, do you want to add anything else before we recess?

Mr. MEAD. Just that I do not think anybody really thinks that the $360 million is the best way to go. It is a road we have never been down before. I do not think anybody really wants to go there.

Senator MURRAY. Thank you very much. Mr. Rosen, you look very anxious to clarify.

Mr. ROSEN. I would like to add a couple comments to that, if you give me 1 last minute here.

The question as to whether the STB's funding could be used for Northeast corridor trains would require a legal determination as to whether those trains, particularly the ones that make multiple stops, could be deemed to constitute commuter service. So I think there is a legal question there that it would have to be resolved. And it is not a given that it would only be the trains operated by say New Jersey Transit or SEPTA and others.

Second, one should not forget that the Northeast corridor trains, on the operating side, operate at something approximating break even. They do generate cash. It is not a given that those would need to stop if Amtrak was otherwise in a problematic financial situation.

Senator MURRAY. Unfortunately, we have a vote. I have to say that Mr. Gunn, let me just ask you, how many years have you spent working in the railroad and transit industry?

Mr. GUNN. Forty-one.

Senator MURRAY. Mr. Rosen, how many years?

Mr. ROSEN. How many years working in the railroad industry?

Senator MURRAY. I am sure you are a great lawyer but I just wonder how much time you have spent working in the railroad and transit industry?

Mr. ROSEN. Given that I have been a lawyer my whole career and have not been a train operator, I think you know the answer to that.

Senator MURRAY. I appreciate that. So you cannot blame me for considering Mr. Gunn's views to be authoritative on this.

Mr. ROSEN. I hope you will take my views as the authoritative ones on the administration's reform proposals, rather Mr. Gunn's, too.

ADDITIONAL COMMITTEE QUESTIONS

Senator MURRAY. Any additional questions submitted to your department should be answered in a timely manner and will be included in the record.

[The following questions were not asked at the hearing, but were submitted to the agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO THE AMTRAK BOARD OF DIRECTORS

QUESTIONS SUBMITTED BY SENATOR CONRAD BURNS

Question. Your proposal for long-distance trains requires the performance of trains to be measured against a set of undetermined performance criteria, which would seem to be mostly—if not entirely—financial. Under such a system, how would the public service value of Amtrak be measured?

For example, if folks are riding the Empire Builder to go to a doctor, or to receive long-term medical care, the cost of that service might not pencil out, but it is certainly valuable. How would that be considered, under your proposal?

Answer. The clear signal we have received from Congress and the administration is that financial performance must improve. The Board agrees with that message. Nonetheless, I anticipate that the criteria for evaluating the performance of long distance trains will attempt to factor into account public benefits and not just financial performance. For example, the route performance criteria might include a measure that reflects the number or percentage of passengers on a long distance route traveling to/from communities where alternate public transportation services are limited or non-existent.

Question. Your proposal also relies heavily on the development of corridor trains. Do you have a sense of what the real potential for such service is?

Answer. Despite the absence of a Federal corridor rail program, 13 States are currently partnering with Amtrak to fund the operation of corridor services in shorter distance markets (less than 500 miles). Many of these States have also made capital investments with their own funds. The growth in ridership and service that has resulted from these investments—on the Amtrak Cascades route in Washington and Oregon, the Capitol Corridor in California and the Hiawathas route in Wisconsin to name just three—demonstrates the potential for corridor rail development in densely populated corridors throughout the country.

Due to the lack of a Federal capital program for States, there is no data source to indicate the potential for development of corridor rail service. Knowing this, over the past 2 years, Amtrak has surveyed States to get an indication as to their plans for existing or future corridor development. In 2004, 29 States responded to the survey and provided details about their plans. Many of them also indicated that lack of a Federal funding match program is a major impediment to corridor development, and that enactment of such a program would act as an incentive to more aggressively develop existing passenger rail corridors or begin developing new ones.

Based upon the information States provided in the 2004 survey, the Corridor Appendix to Amtrak's fiscal year 2005–2009 Strategic Plan (transmitted to Congress and available at www.amtrak.com) identified eight "Tier I Corridors" and four "Tier II Corridors". These are corridors where States have "ready to go" plans—including capital investment plans and funding commitments for State matching funds—for corridor development projects that could provide significant near-term benefits if Federal dollars were made available to match State investments.

Question. Can you discuss the recommendation to shift new workers away from the Railroad Retirement system into Social Security?

Answer. Amtrak's Strategic Reform Initiatives propose that the provision of intercity passenger rail services be opened to competition, and that intercity passenger rail be placed on an equal footing with other transportation modes. Requiring Amtrak and many potential new operators of interstate passenger rail service to pay Railroad Retirement taxes places interstate passenger rail at a disadvantage with respect to other transportation modes. For example, the airline industry is subject only to Social Security, and a large portion of its retirement obligations to its employees has been assumed by the Federal Government as a result of airline bankruptcies. The fact that some potential operators of intercity passenger rail might not be subject to Railroad Retirement taxes under existing law also creates inequities that ultimately must be eliminated to create a truly competitive market. Conversely, potential interstate passenger operators are unlikely to attempt to enter the Amtrak market as competitors if the cost of doing so includes Railroad Retirement taxes.

Amtrak believes that placing all new intercity passenger rail employees under Social Security is the best way to transition to a level playing field and reduce Federal subsidy requirements without impacting the retirement planning or benefits of current Amtrak employees and retirees.

QUESTIONS SUBMITTED TO AMTRAK

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

VETERANS ADVANTAGE

Question. Thousands of North Dakotans depend on Amtrak each year for their transportation needs. However, long distance trains, including the Empire Builder that serves my State, are under attack by the Bush Administration. The administration provides no Federal subsidy in its fiscal year 2006 budget for Amtrak's long distance rail service. I understand that Amtrak has submitted a sizable request for funding for next year, and I will do what I can to support it as a member of this subcommittee.

On a related note, I would like to talk to you about a program to provide discounted train service to America's veterans. For more than 2 years, Amtrak offered a 50 percent discount for veterans in off peak periods. I am told that this was a very successful program.

You may recall that this committee included language in the 2004 conference report strongly urging Amtrak to continue the 50 percent discount for veterans. Would you please let this committee know what Amtrak intends to do in the future about this program?

Answer. As you know, Veterans Advantage (VA) is a paid membership program, and the discount associated with this program is only available to their subscribers. Amtrak currently offers VA members a 15 percent discount.

The 50 percent discount that you refer to was initiated as a promotional offer, and the promotion had a mutually agreed upon end date of December 2003. This deep discount offer was never intended as a permanent fare program. VA was aware of the terms and conditions of the promotional discount and knew that it would expire in 2003. No other business partner with Amtrak received as generous an offer as what was given to VA for this promotion.

Last year, in an effort to work cooperatively with VA, Amtrak offered a buy one get one free promotion that was rejected by VA. Amtrak then offered a limited 50 percent off promotional program to VA members for the fall of 2004 that too was rejected by VA. The Amtrak offer was from September 14, 2004 through February 8, 2005. VA sent a letter dated September 16, 2004, declining the Amtrak 50 percent discount offer. Since then, Amtrak has tried to work reasonably with VA in the hopes of reaching a mutually beneficial arrangement for additional temporary promotional offers for its members, yet our offers have been turned down.

I want to be clear that for the past year we have worked sincerely to find a mutually beneficial solution to this matter. In fact, Amtrak not only continues to offer a 15 percent discount to VA members, but the program is also promoted on Amtrak's website, system timetables and other marketing materials. In addition, to provide the program with an incentive to attract new members, Amtrak is also offering 500 free points in its Guest Rewards program to new Veterans Advantage members. Amtrak remains committed to continuing to work with VA and its members.

AMTRAK'S IMPACT ON RURAL COMMUNITIES

Question. Do you believe long distance passenger rail routes will be able to survive if States are left held responsible for making up the funding? Has any State indicated to you that they would have the resources to make up such shortfalls?

Is it your expectation that some of the long distance routes would cease to exist?

Answer. Under Amtrak's Strategic Reform Initiatives, States would be required to provide operating funding for long distance trains only if, after efforts to improve performance, a particular train still fails to meet minimum performance thresholds, and then only to cover the "gap" between the threshold amount and the train's actual operating losses. While no State has indicated that it is in a position to bear the full operating losses of multi-State long distance trains, we believe that it is possible that some States might provide some "gap closing" amounts required under this proposal.

Amtrak does not anticipate that long distance routes would survive if States were responsible for covering all operating losses. Significant impediments to States assuming such responsibility include the large number of States (generally 6–12) served by each long distance route; differences in relative benefits received by individual States; and variations in States' financial resources, transportation policies, and constitutional statutory frameworks governing transportation funding. It bears noting that on no occasion in Amtrak's 34-year history has a group of States offered to provide operating funds to retain long distance routes slated for discontinuance.

Whether some trains are ultimately added to or subtracted from the long distance system will depend upon the performance of individual routes and, for any routes that do not meet minimum performance thresholds, States' willingness to fund a portion of operating losses so that those thresholds are met.

AMTRAK AND COMPETITION

Question. Part of the Amtrak reform plan is aimed at promoting competition. Have other rail operators indicated to you that they wish to provide passenger rail service for the long distance routes, such as in my State of North Dakota?

Answer. No other railroad has indicated to Amtrak that it is interested in operating long distance trains. Some private companies have expressed very preliminary interest in providing on-board services (food and beverage/sleeping car) on long distance trains. Amtrak remains open to other providers assuming additional services, or ultimately operating entire routes, if legal and contractual impediments are addressed.

CONCLUSION OF HEARINGS

Senator MURRAY. The subcommittee stands in recess, subject to the call of the Chair.

[Whereupon, at 11:32 a.m., Thursday, May 12, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]