

S. 1991, NATIONAL DEFENSE RAIL ACT

HEARING

BEFORE THE

**COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION**

UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

MARCH 14, 2002

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ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

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S. 1991, NATIONAL DEFENSE RAIL ACT

THURSDAY, MARCH 14, 2002

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

The Committee met, pursuant to notice, at 9:30 a.m. in room SR-253, Russell Senate Office Building, Hon. Ernest F. Hollings, Chairman of the Committee, presiding.

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

The CHAIRMAN. The Committee will please come to order. I have a statement, and we have an excellent panel of group of witnesses. If this was a hearing on the privatization of the railroads, I would be a good witness. Just a few weeks ago, I was going from London to Harrogate, less than a hundred miles, at a cost of \$250 round trip, and the train runs each hour. So I got on, right quick like, and caught it and did not have a seat because the train that I was to get on was an hour behind, and the one I got on was behind an hour. Thereby, I was on the wrong train without a seat.

Be that as it may, we had privatization in the United States. The railroads came in 1971 begging us to get rid of passenger service, and they gave us hundreds of millions of dollars in equipment, support and everything else, and then the government joined in with the same thing. We got the cars, we got the routes, we got the roadbeds and everything else of that kind, and we have given the passenger rail system benign neglect, using Senator Moynihan's phrase for the minority population. We have given it benign neglect, and it has limped along acting as if we could make a profit.

Now, if Enron is the biggest bankruptcy, I think this one is the second biggest or maybe even bigger bankruptcy. We need \$1.2 billion to keep it going. In an emergency supplemental we will be asked to provide funding. Otherwise, the proposal before the Committee this morning is not a fix of Amtrak.

I hate to say the word "Amtrak" because you say that to a Member, of course, and they say "that is a dog, do not put me on that thing because that is all we have been doing is limping along fixing a broken system." This is an entirely new endeavor to try to put in a national defense rail system, somewhat like we did in the mid-1950s with the interstate, to actually put the money in to improve the roadbed. Amtrak has 730 miles of rail in the Northeast Corridor and there is 22,000 miles of rail operated by freight railroads. We want everybody to put in their suggestion for improving the rail system and get it going here.

We want to take over the wonderful endeavor, or not take it over, but support the endeavor being made in the various regions and in the various States. This is not just a Northeast Corridor problem. It is a national problem. 9/11 taught us that we have got to have a national rail system. In 1999, of the industrialized countries, we are number 25 in spending on rail.

Let us get going. Let me yield to the distinguished Ranking Member, Senator McCain.

[The prepared statement of Senator Hollings follows:]

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

This legislation will establish a strong and efficient national passenger rail system. For far too long, we have neglected investing in our nation's passenger rail system. We have taken an active responsibility in developing the infrastructure of all other modes of transportation, whether it has been federally funding the development of the interstate highway system, subsidizing airport construction, or taking the responsibility for dredging harbors and channels or building locks and dams. Now it is time to build a world class passenger railroad system in the U.S.—we know it can be done—Japan and France provide two models of successful passenger railroad service. The time to move ahead is now—we cannot wait for highways and airports to become so clogged that they cannot operate any longer. Rail systems are not built in a day. We need to engage in long-term planning to address future passenger transportation growth and show forethought in crafting transportation solutions; not wait for an impending crisis. My legislation provides the vision to begin to do this.

The atrocious events of September 11th, 2001, and the aftermath which followed exposed the vulnerability of our society and our economy when transportation choices are limited and our mobility is diminished. In the aftermath of the horrific attack on the World Trade Center and the Pentagon, we were forced to adjust to a transportation system that was without access to aviation. That should make us all evaluate the problems inherent in a policy that results in overall dependence on any one particular mode of transportation. We need to have a more balanced system of transportation for passengers in this country. Our economy depends on it; our travelers deserve it; and our roads and airports could operate more efficiently in a balanced system.

After the Federal Aviation Administration grounded all flights following the terrorist attacks on September 11, 2001, travelers flocked to Amtrak. Whether people had to travel for business, to help with rescue efforts, or just to get home, Amtrak kept our American citizens moving during a time of national emergency.

The situation not only proved that Amtrak works, but that passenger rail is a critical part of our transportation infrastructure during a national emergency or security crisis. Amtrak provided a critical transportation link, carrying 35,000 passengers along the Northeast Corridor every day, and hundreds of extra carloads of mail for the U.S. Post Office in the days following the terrorist attacks.

Transportation security—an essential part of our national security—requires a balanced and competitive system of transportation alternatives. In September, we found that our dependence on the aviation system almost crippled us. We cannot afford to rely on any single mode of transportation; we need to ensure that we have a balanced system that includes a sound passenger rail system. We also know that passenger railroads use less fuel per passenger mile than highway vehicles and commercial airlines. During these times of oil-consciousness, a larger presence of passenger rail in our transportation system would reduce our nation's dependence on foreign oil.

Passenger railroads, the interstate highway system, and our national aviation network have all taken different paths to their current roles in our national transportation system. The tales of their development stand in quite a stark contrast from each other:

The interstate highway system has received significant attention and federal funding since the construction of the Lincoln Highway in 1913 and the Rural Post Roads Act of 1916, and later during World War II with the Federal Highway Act of 1944. It was not until 1956, however, that the government began heavily promoting highway transportation with the passage of the Federal Aid Highway Act of 1956. The Act established a Highway Trust Fund based upon federal user taxes, in order to finance up to 90% of state construction costs of the \$25 billion dollar

plan to pay for new roads, and the construction of the Eisenhower National Interstate and Defense Highway System.

Similar policies and federal attention for aviation, resulted in a strengthened infrastructure, and follows much the same story of the highways system.

Passenger rail service was once a vital instrument in the transportation needs of our nation. For instance, during World War II, not only did the railroads transport 90% of all defense freight, but also 97% of all defense personnel on their way to theaters of action. By the end of the war, railroads accounted for three quarters of the common carrier share of intercity traffic, with airplanes and buses sharing the remaining quarter of traffic. However, with national focus turned to aviation and highways, by the late 1960s most rail companies were petitioning the government to discontinue passenger services because of losses.

Amtrak was created as a federal corporation in order to relieve the railroad industry of these unprofitable passenger operations, and in the interest of maintaining a national passenger rail network. But in retrospect, Amtrak was set up not to thrive and expand passenger rail service, but really to just maintain the status quo of 30 years ago. That attitude persists even today. Since 1971, Amtrak has received only \$25 billion in public subsidies; during that period, the United States invested \$750 billion on highways and aviation.

So one problem becomes all too clear—that U.S. passenger rail infrastructure has no stable funding source, in contrast to highways, aviation, and transit. In fact, per capita spending on passenger rail is much lower than many other countries: the U.S. ranks behind Britain, France, Japan, Canada, Luxembourg, Austria, Switzerland, Belgium, Sweden, Denmark, Italy, Ireland, Spain, Norway, Czech Republic, Finland, Slovakia, Portugal, Poland, South Africa, Greece, and Estonia. Including these countries, no passenger rail service in the world has built and operated a passenger rail system at a profit. All have required government support for construction and maintenance, or operating support, or both. That same principle holds true for highways and aviation, which have required substantial federal spending since their beginning and continue to receive generous federal subsidies today.

Those who want passenger rail to operate without federal assistance—ultimately forcing more travelers onto cars, buses and airplanes—argue that we should not “subsidize” passenger rail. But we subsidize the building of roads and highways with tax dollars. We subsidize the building of airports and pay for all of the equipment and people needed to run our air traffic control system. We consider those subsidies to be worthwhile investments in our economy and our quality of life. We must make the same investment to create a world-class passenger rail system in order to see the same kinds of benefits.

While that argument should stand on its own, here’s something the highway and airline crowd can take to the bank: moving more short-haul travelers to rail service reduces congestion on our already overcrowded highways and eases congestion at airports. It also provides real competition to airlines on short-haul trips.

Over the past 30 years, the lack of investment and attention to the needs of passenger rail infrastructure has resulted in a weak passenger rail network, and has caused a strain on the capacity of other modes of transportation in many areas of the country. The Amtrak Reform and Accountability Act of 1997, and preceding statutes, resulted in creating conflicting missions for Amtrak: serve a public function by operating unprofitable long-distance routes, but also attempt to operate at a profit. To add insult to injury, Amtrak has been forced to delay capital improvement projects having important long-term benefits in order to attempt to meet the mandate of the 1997 Act. Congress passed this misguided law in 1997 requiring Amtrak to operate without government support by the end of FY2002. But there is no truly national passenger train service in the world that makes a profit. Requiring Amtrak to make a profit has forced the railroad to forgo long-term capital investments in favor of short-term, bond payment shell games. Instead of investing in modern trains and infrastructure upgrades, Amtrak was forced to mortgage Penn Station just to pay the electric bill.

From this, it is evident that we need to reevaluate our nation’s rail passenger policy, and clearly define a role for Amtrak. A strong federal role was required to establish the interstate highway system and the federal aviation network. And now, federal investment in passenger rail infrastructure is critical; once again, federal leadership is required to address the needs of a reliable, safe, secure passenger rail network.

This legislation provides a blueprint for the future of passenger rail in the United States. The bill will help develop high-speed rail corridors, which are the building blocks for a national passenger rail system. This will allow regional transportation solutions to play a part in the national system. It will also aid in the development of short distance corridors between larger urban centers, as well as provide funding

to preserve longer distance routes for those communities that do not have the population densities to merit air service—sometimes the train is their only alternative to driving. Finally, it will provide Amtrak with the tools and funding it needs to operate efficiently.

This legislation authorizes \$1.255 billion in emergency spending for Amtrak's security and life safety needs. Similar language was included in the Rail Security Act, S. 1550, which was favorably reported by the Committee on Oct. 17, 2001. In that legislation, we authorized funds to be spent on immediate rail security needs, such as hiring more police officers across the entire Amtrak system and modernizing the safety infrastructure of old tunnels.

This bill will give the federal government the script for the role it needs to play in establishing a national rail passenger system. It would not require any state contribution, and would give preference to projects having right-of-way dedicated to passenger rail, involving high-speed passenger service of 125 mph (although operations of 90 mph speeds or more would be eligible for funding), and those connecting to other modes of passenger transportation, including airports.

The bill authorizes \$1.5 billion annually for corridor development. These funds are needed for infrastructure acquisition, highway-rail grade crossing improvement/elimination, acquisition of rolling stock and track and signal equipment. Development of a national passenger rail system carries a high cost, and the federal government must take the lead role in funding it.

This bill will also fund \$35 billion in loan guarantees. This money will dramatically expand the current Railroad Rehabilitation & Infrastructure Financing loan and loan guarantee program. But we also must restructure that program. Since it was created in 1998 as part of TEA-21 bill, the program has processed only a few loans due to unreasonable constraints imposed by OMB. Our bill eliminates the artificial limits on loan amounts, impossible collateral requirements, and unworkable loan cohort structures.

This bill identifies existing high-speed corridors in 29 states and the District of Columbia for priority consideration. Many of these corridors are in areas where people are now driving cars or taking airplanes on trips of 300 miles or less. In these areas, like the East Coast, travelers could take a high-speed train instead—and arrive at about the same time. But right now they don't have that rail option and they won't until we build it.

The passenger railroad system that has worked well in the Northeast can work in other highly-congested areas of the country: the South, the Midwest, California and the Northwest. Thirty years ago, those areas did not have the population to support high-speed intercity rail. But today those areas are growing by leaps and bounds. As the highways in those areas clog up and the planes run three hours late, their governors—many of them Republicans—are asking us for help to build high-speed rail.

A short-term benefit of this legislation will be stimulation of the economy by providing jobs in developing new corridors. This bill ensures that fair labor standards for all projects receiving funds under it, including payment of prevailing wages and allowance of collective bargaining over wage rates.

Another immediate benefit will be the closing/improvement of highway-rail grade crossings in high-speed rail corridors. Under this bill, funds are set aside specifically for these important safety improvements.

This legislation will provide the necessary funds of \$1.31 billion for Amtrak to repair and upgrade the track it owns and operates in the Northeast Corridor. This corridor is a prime example of the benefits we can attain when there are transportation choices for travelers. The Northeast Corridor has become an invaluable asset to our national transportation system, and it should not be left in disrepair. This bill authorizes funds to enable Amtrak to eliminate its capital backlog of projects, maintain ongoing projects to capital infrastructure, and improve capacity to accommodate projected growth in traffic. It also allows Amtrak to reinvest revenues from operations in the Northeast Corridor back into the backlog of capital infrastructure projects.

In a nutshell, this is our long term plan to make passenger rail a part of our balanced transportation system. But in short run, we must make sure Amtrak's financial foundation is strong at a time when we are relying on them more than ever. Amtrak's ridership has increased consistently, and they now carry over 22 million passengers per year. This legislation will give Amtrak the tools and funding they need to create a modern, efficient passenger railroad. The bill reauthorizes Amtrak for five years, and fully funds the their capital needs and the operating losses with respect to long-distance service.

This legislation repeals the unrealistic operating self-sufficiency requirements. It also authorizes funding for compliance with environmental standards, and the Americans with Disabilities Act.

This legislation will further aid Amtrak to operate more efficiently. It will require Amtrak to reinvest revenues from non-passenger operations into growth projects outside the Northeast Corridor. It will require revenue from the Northeast Corridor to be reinvested into capital projects on the Northeast Corridor. Finally, it will require an annual independent audit of Amtrak, to be reviewed by the Department of Transportation's Inspector General.

I am pleased my colleagues have joined with me in sponsoring this bill. By developing passenger rail as part of a balanced transportation system, this legislation will lead to the creation of jobs in the short run to stimulate our economy. In the long run, high-speed rail corridors will become a key foundation for our national rail passenger transportation system, which is critical to the strong backbone of a prosperous economy.

Like the interstate highway system, the benefits of passenger rail and Amtrak could be immeasurable, so we have much at stake. While I have outlined an ambitious blueprint, I keep in mind that fifty years ago, the National System of Interstate and Defense Highways was "pie in the sky." Now our successful Dwight D. Eisenhower System of Interstate and Defense Highways and national aviation network are used by many, so much that in many places they are congested and strained to capacity. We should not wait until our current transportation problems reach epidemic proportions; our economy cannot afford it.

**STATEMENT OF HON. JOHN McCAIN,
U.S. SENATOR FROM ARIZONA**

Senator McCAIN. Thank you, Mr. Chairman.

I hope today's hearing will be the start of a thorough evaluation of the intercity rail passenger service and what role Amtrak should have in our nation's transportation system. Clearly, a comprehensive re-evaluation of Amtrak is needed.

In fiscal year 2001, Amtrak's operating loss was \$1.1 billion, the highest ever. The Department of Transportation Inspector General reported that Amtrak made no progress in the last 5 years toward achieving its financial goals, and even though Amtrak has received over \$5 billion in Federal funding over the past 5 years and another \$1 billion from the States, it appears now to be on the verge of bankruptcy.

As you know, Mr. Chairman, I too have introduced legislation to address the future of rail passenger service. That proposal, S. 1958, The Rail Passenger Service Improvement Act, would introduce competition for rail passenger services and privatize Amtrak within 4 years.

To help Amtrak's current financial crisis, this legislation would place Amtrak under a control board modeled after the very successful District of Columbia Control Board. It would enforce the fiscal discipline Amtrak has been unable to apply to itself and oversee Amtrak's privatization.

This legislation would authorize significant funding to address operating capital costs and to transition Amtrak to the private sector. It would also require more involvement, including financial commitments by the States who want to add rail service. To help States meet their increased responsibilities, this bill would give the States the flexibility to use their highway trust fund dollars on rail passenger service if they so choose.

I recognize that not every Member may favor this approach, but I hope my colleagues will be looking at all options for improving rail passenger service. We face a very difficult challenge, and we

would be well served to consider a variety of possible solutions if we are serious about meeting our Nation's transportation needs.

I hope we will have a full and open debate in developing approaches for meeting these needs. I'm concerned that Congress may simply pour more money into Amtrak without addressing its fundamental problems. I believe that is the approach taken by S. 1991. That legislation, S. 1991, would authorize \$14.5 billion for Amtrak over the next 5 years, an average of nearly \$3 billion per year, not counting the \$9.3 billion authorized over 6 years for the development of high-speed rail corridors. That \$3 billion funding level is about six times the amount the appropriators have provided in recent funding measures.

S. 1991 requires virtually no reform or restructuring of Amtrak. In fact, Amtrak would be even less accountable to Congress and the American taxpayer because the legislation would repeal a directive that Amtrak achieve operational self-sufficiency. Amtrak as we know it today would not only be perpetuated, but significantly expanded with the Federal Government's funding obligation.

Under S. 1991, funding of high-speed rail corridors would be made entirely a Federal responsibility, and this obligation would apply not only to capital costs, but what could be large annual operating losses. This is opposite to the direction we should be moving.

In spite of the \$25 billion in Federal assistance invested over the past 30 years, Amtrak only carries 2 million more passengers now than it did in 1979. It serves less than 1 percent of the traveling public. Some argue that Amtrak has been underfunded compared to highways and airports. Well, I remind my colleagues that the infrastructure for those modes is funded through user fees. For Amtrak's customers to fund the appropriations that would be provided by S. 1991, each rider would have to pay a fee of \$190 in addition to the price of each train ticket.

To get rail passenger service on track we need to address a number of tough questions. What is the future for intercity rail passenger transportation service? Where does it attract passengers and where does it not? Does rail passenger service have to mean Amtrak, or after 30 years is it finally time find a new approach? Where might high-speed rail service actually attract enough passengers to be economically viable? How does rail passenger service fit into the national transportation system? What is the most equitable way for the Federal Government, State and municipalities and other rail passenger stakeholders to share the financial burden?

One of Amtrak's biggest problems has been its inability to control the growth of its expenses. The Department of Transportation IG's January report concluded since the 1997 Reform Act, for every \$1 of new revenue Amtrak has received, its cash expenses have risen \$1.05. States complain that Amtrak's bills for State-supported services do not provide a clear and consistent accounting of its costs. In my view, the source of most of Amtrak's problem is Amtrak's status as a government-owned monopoly.

We can address this by introducing competition for passenger service. After all, we do not have one national airline or one bus company. Should not we at least consider the possibilities that

could come to light if we permitted another operator to offer service?

I believe we should authorize the Secretary of Transportation to contract out passenger service to franchisees that meet specified safety and liability requirements. This would not happen overnight, and it should be an option.

I look forward to hearing from our witnesses. I hope each of you will give us your perspective on what needs to be done to creating a more cost-effective and customer-responsive rail passenger program.

I thank you, Mr. Chairman.

[The prepared statement of Senator McCain follows:]

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

Mr. Chairman, I hope today's hearing will be the start of a thorough evaluation of intercity passenger rail service in our nation's transportation system and what role Amtrak has in providing service. Clearly a re-evaluation of Amtrak is needed. In fiscal year 2001, Amtrak's operating loss was \$1.1 billion, its highest ever. And even though Amtrak has received over \$5 billion in Federal subsidies and over the past five years another \$1 billion from the states, it is now on the verge of bankruptcy.

As you know, Mr. Chairman, I too have introduced legislation to address Amtrak's problems. My proposal, S. 1958, The Rail Passenger Improvement Act of 2002, introduces competition for passenger rail services and privatizes Amtrak within four years of enactment of the legislation. To help address Amtrak's current financial crisis, my legislation places Amtrak under a Control Board modeled after the District of Columbia Control Board. I recognize that not every member of the Senate may favor my approach, but I hope my colleagues will be willing to look at other options for improving passenger rail service.

While I hope we will have a full and open debate, I am concerned that Congress will simply throw more money at the problem and not address Amtrak's fundamental problems. This is the approach taken by S. 1991, the subject of today's hearing. The legislation would authorize \$14.5 billion for Amtrak for the next five years, or an average of close to \$3 billion per year, not counting the funds authorized for the development of high-speed rail corridors. And while I support funding to address legitimate security issues on Amtrak, I'm not sure what Amtrak hopes to accomplish with some of the authorizations in the bill—especially the leasing of 10 bicycles. I didn't know it was possible to lease a bicycle other than at the beach.

The bill requires virtually no reform or restructuring of Amtrak. In fact, Amtrak would be even less accountable to Congress and the American taxpayer since the legislation would repeal the requirement that Amtrak achieve operational self-sufficiency. Amtrak as we know it today would not only be perpetuated but significantly expanded—as would the Federal government's funding obligations. Under S. 1991, funding of high-speed rail corridors would be made entirely a Federal responsibility. And this obligation would apply not only to capital costs but to what could be large annual operating losses.

Where is the money for S. 1991 going to come from? It is simply not realistic to think that the nation can afford to spend this kind of money for such a lightly used rail system. In spite of the billions invested over the past 30 years, Amtrak only carries 2 million more passengers now than it did in 1979. Some argue that Amtrak has been underfunded compared to highways and airports. But I remind my colleagues that the infrastructure for those modes is funded through user fees. For Amtrak's customers to fund the appropriations provided by S. 1991, each customer would have pay a fee of \$190 in addition to the price of their train tickets.

We will be failing in our Congressional responsibilities if we simply give Amtrak more money without making another effort to get more value for the taxpayers' investment. Despite testifying repeatedly before Congress that it was on a "glidepath to self-sufficiency", Amtrak has failed to achieve operational self-sufficiency and failed miserably. The Inspector General of the Department of Transportation recently concluded that Amtrak made *no progress* in the past five years toward achieving self-sufficiency.

To get rail passenger service on track, we need to address a number of tough questions. What is the future for intercity rail passenger transportation? Where

does it attract passengers and where doesn't it? Does rail passenger service have to equate to "Amtrak" or can we accept the fact that after 30 years, it is time to find a new approach? Where might high-speed rail service actually attract enough passengers to be economically viable? How does it fit into our national transportation system? And what is the most equitable way for the Federal government, states and municipalities, and other Amtrak stakeholders to share the financial burden?

Amtrak's failure to make any progress toward self-sufficiency does not mean the standard was unfair or unachievable. It means that *more* reform is needed. Amtrak's biggest problem over the past five years has been that it has not been able to control the growth of its expenses. The DOT IG's January report on Amtrak concluded that for every \$1 of new revenue Amtrak has achieved since the Reform Act was passed, its cash expenses have risen \$1.05. States complain that Amtrak's bills for state-supported services do not provide a clear and consistent accounting of its costs. In my view, the source of this problem is Amtrak's status as a government-owned monopoly.

My proposal for Amtrak addresses this problem by introducing competition for passenger service. A new Rail Passenger Development and Franchising Office would be established within the Federal Railroad Administration. Beginning October 1, 2003 the Secretary of Transportation would be authorized to contract our passenger service to franchisees that meet specified safety and liability requirements. Operations could not be authorized if they would result in a significant downgrading in freight rail service.

My proposal would also restructure Amtrak into three subsidiaries to be managed as for-profit businesses: Amtrak Operations, Amtrak Maintenance, and Intercity Rail Reservations. Each subsidiary would be privatized within four years after enactment.

Under my proposal, Amtrak Operations would be prohibited from operating any route on which Amtrak revenues do not at least cover the avoidable costs of providing the service, unless a state or other entity provides a subsidy to make up the difference. While increasing the responsibility of the states on some routes, the bill would also give the states the flexibility to use highway trust fund dollars on rail passenger service.

Additionally, the Amtrak Control Board established by my proposal would approve and amend Amtrak's annual budget and financial plan. It will enforce the discipline Amtrak has been unable to apply itself. The Control Board would also oversee Amtrak's privatization.

Finally, my legislation would authorize funding to address Amtrak security needs and to transition Amtrak to the private sector.

Before closing, I want to mention two other provisions of S. 1991 about which I have serious concerns.

The legislation establishes criteria to be used in allocating funds for high-speed rail projects. The criteria include whether the project encourages the use of automatic train-stop technologies and whether there will be a regional balance in the provision of assistance. But the economics of a proposed project would evidently not be a consideration. I think this is a serious oversight. I am also concerned that the bill directs the Secretary of Transportation to give the highest priority to projects in Chicago, Atlanta, and Dallas/Fort Worth, instead of requiring that all projects be evaluated on their merits.

For high-speed rail projects and other rail rehabilitation projects using Federal funds, the bill makes any person performing rail operations, catering, maintenance, cleaning, construction or other services subject to the Railroad Retirement Act, the Railroad Unemployment Insurance Act, and other railroad laws. This is patently anti-competitive and counter to the flexibility given to Amtrak under the Reform Act to contract out.

I look forward to hearing from our witnesses. I hope each of you will give us your perspective on what needs to be done to create a more cost-effective and customer-responsive passenger rail program.

The CHAIRMAN. Thank you.
Senator Hutchison.

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

Senator HUTCHISON. Thank you, Mr. Chairman. Thank you for putting forward the Amtrak reauthorization bill.

I am very concerned about Amtrak, concerned about the financial condition and concerned that I keep getting the assurances from the leadership of Amtrak that this is a national rail system, but every time there is a budget shortage, the long-haul routes are eliminated, and that means it is not a national system. It is a Northeast Corridor system.

What I want in this reauthorization is the “fish or cut bait” eventuality. We must have a national system that we are going to support fully and fund at a level where it can function as a truly national system. Frankly, Senator McCain, if your legislation permitted a national system, I think some of your reforms might be helpful.

I would not close the door on your reforms as long as your purpose is to have a national system rather than kill one, because I think we need some changes, and we do need to shape up, but we also need to be committed to a national system, not only for our national defense, but also for our homeland security.

I do think that we have seen a situation in which airlines cannot alone fulfill all the transportation needs of our country. We saw a huge rise in ridership during the crisis after September 11. This, if it were a viable national system, could become a viable alternative, a viable part of a multimodal system that allows people in rural areas and small towns to be able to feed into a train system that would allow much more flexibility in transportation options.

I look forward to hearing from all the witnesses. I look forward to supporting Senator Hollings’ bill with whatever input that we can have from Senator McCain and others if we are committed to a national system and committed to a funding level that will support a national system that works.

Thank you.

The CHAIRMAN. Thank you.

Senator Burns.

Senator BURNS. Thank you for the hearing. I look forward to visiting with the witnesses. I have no statement at this time.

The CHAIRMAN. THANK YOU.

Senator Wyden.

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

Senator WYDEN. Thank you, Mr. Chairman, and I think your efforts are really a breath of fresh air at this point, and it is coming at a critical time.

It seems to me that on the current CEO’s watch—Mr. Warrington’s watch—Amtrak has failed to deliver on all of the major pledges that they have made to the Congress, the pledge that they would be self-sufficient with respect to their operating costs by October 1st, and they have not done that.

They said they would make the route decisions on the basis of financial criteria. They have not done that. They said they would run a national system, and they have not done that.

I very much share the view of Senator Hutchison with respect to the way this system operates. This is a system out of the Northeast, for the Northeast and by the Northeast, and I will tell you

we are not, I think, going to abide by that, and I think perhaps Mr. Warrington can tell us what this system is all about.

He comes out of New Jersey Transit, ran the Amtrak Northeast Corridor. Then he is CEO of Amtrak, and now he has gone back to the New Jersey Transit system, and I think it is very curious that at a time when he is working out arrangements to go back to New Jersey Transit, he is cutting routes across the country. He is cutting routes, 18 of them, in fact, unless he gets the additional money.

I am going to ask some questions about that because I would like to know exactly how all of that unfolded. We are having proposals to cut routes in the rest of the country and he is heading back to run the New Jersey system, and by the way, New Jersey Transit operates commuter trains in the Northeast Corridor. So there are some curious processes there at Amtrak, but all of them seem to blend in the same place, and that is, that you have a system for the Northeast Corridor, and at some point I guess they think some revenue is going to trickle down to the rest of the country, and what they are really doing is turning that part of the country into a zone, and I for one am not going to support sending any more tax dollars from Oregon just to run trains on the East Coast, and that is why your bill is so welcome, Mr. Chairman.

The CHAIRMAN. Thank you.
Senator Kerry.

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

Senator KERRY. Mr. Chairman, I appreciate the opportunity to be here. This is a terrific hearing, and I thank our colleagues from Delaware who understand this issue as well as any two Senators.

I'm in support of your bill, Mr. Chairman. I think it is a terrific bill. It is a long overdue one, and it is important for the country, but I have been listening in the last days as the Northwest, Western and elsewhere complaints are lodged with respect to the Northeast Corridor, and believe me, I am very sympathetic to their complaint, but we should not be bamboozled here into creating a sort of false divide that pits us against each other. It is not a problem of the Northeast inappropriately or sort of taking from somehow.

What happens is the system has been pushed in this direction because Congress itself and the administrations have failed to properly allocate resources and structure this, and the reason you are left saying "why is the Northeast getting this?" Well, it happens to have the most ridership and it happens to be a commitment we made many years ago to go do the electrification in the Northeast Corridor. That should be happening elsewhere in the country. That is what a national rail system is about. That is what a national commitment is.

Now I agree with the Senator from Arizona. There are some places where today at this moment certain kinds of commitments do not make sense. They are not going to make sense in terms of transportation needs. They are not going to make sense in terms of economic needs. I believe it is possible to structure a national system that once and for all properly allocates the resources in order to be able to have a working entity.

We have talked about it here in this Committee before. We are the only country in the world, the only one in the world trying to make a railroad system profitable when, in fact, the very foundation of it is incapable of being profitable. I know the Senator from Arizona and others have problems with the labor structure. That is not a differential here. The differential here is that if you do not have a rail system that gets people from here to there comfortably and rapidly and as a legitimate alternative to other systems they are not going to take it and use it and can never make it profitable or even close to profitable.

The rolling stock investment comparative figures that we have looked at before in this Committee between the United States and other countries is a shameful statement about our negligence and unwillingness to provide the kind of rail repair and rolling stock necessary to be competitive.

So my hope is that we are going to end this confusion here so that we allow the system to begin to become more competitive and to function better, Mr. Chairman, and we just have to face some economic realities about how that is going to happen.

I think your bill is a tremendous place to start doing that. I might just mention, Mr. Chairman, the air system of America, those components funded by the Federal Government, does not make a profit and never will. The highway system of America does not make a profit and it never will.

Senator MCCAIN. They are funded by user fees.

Senator KERRY. No. They are funded partly by user fees, partly government.

Then the question is why not allow those fees to be properly allocated? Over the lifetime of the airports, I think we have put something like \$40 billion in the highways, \$16 billion in the airports, and \$33 million into the rail. The disparity in the allocation is the problem.

So we could use user fees just as we do gas tax or have user fees to do that, build a railing system, and you have the equal kind of funding. We do not have an equal funding structure, and that is the problem, and we need to create that change.

The CHAIRMAN. Senator Dorgan.

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

Senator DORGAN. Mr. Chairman, thank you very much. I will be brief.

I am pleased to co-sponsor the legislation that you have introduced. I think it is an important step in the right direction, and I agree with Senator Kerry, there is an incredible discrepancy with respect to support for various forms of transportation, and I am one who believes that we should have a national rail passenger system, support Amtrak, believe in Amtrak, believe we can invest in Amtrak, and I think your legislation is an important step in the right direction.

I'm pleased to co-sponsor it, Mr. Chairman.

The CHAIRMAN. That is our legislation. Efforts are not going to go anywhere on this unless it is our legislation and that is what I have tried and so far with good success. We have got bipartisan

25 co-sponsors in behind this move. We are listening, we are learning, but this is not just for the Northeast.

Senator Wyden's here. Senator Murray is working at the Appropriation Committee level. I'm working with it, and unless we take care and really have a national system with Texas or the mid-States, West as well as the Northeast and everything else, it is not going anywhere.

We have got wonderful witnesses here and the two experts. The Senior Senator from Delaware has traveled more on Amtrak than any of the Amtrak employees, and Senator Carper has been serving on the board.

Let me hear first from the Senior Senator, Senator Biden.

**STATEMENT OF HON. JOSEPH R. BIDEN, JR.,
U.S. SENATOR FROM DELAWARE**

Senator BIDEN. Thank you very much, Mr. Chairman, Members of the Committee. Let me begin first by setting a few things straight just generic, not straight from my perspective.

The fundamental problem here is money. The distinguished Senator from Arizona said we do not have one airline. We probably would have one airline if we did not subsidize them so much and bail them out so much. They would be out of business if we had not come up with about \$14 billion in about a 4-minute debate on the floor of the U.S. Senate.

I say to my friend from Oregon about you do not want to subsidize railroad in the East and you do not want rail in the East when you are not getting it in the West. Well, I think I should stop subsidizing water projects that cost about \$30 billion to keep your State alive and keep my friend from Arizona, him being able to drink water at a cost less than my mother pays for water in Delaware.

I thought we were a Federal system. I thought we made up for each other's needs. I thought we were in the business as United States Senators and the Federal Government to deal with the problems that each of our districts had, each of our areas have. Ours happens to be some incredible traffic congestion. Yours happen to be you do not have water, among other things. That is a little problem. You have got a lot of water someplace, and if we did not spend Federal money to divert it, you would all be in real deep trouble.

So I find it offensive to be talking about how we are not going to help on one end of the country another company because you do not have benefit the same way we benefited. Maybe I should stop voting for farm bills. Maybe I should stop voting for water projects. Maybe I should stop voting for anything that does not directly benefit Delawarans, but I'm not going to do that.

The second point I would like to make is about airports in rural areas. Let us get this thing straight. The people of Delaware pay for people to fly into No Place, Oregon, that no one wants to go to. We pay for it. We pay for it. We pay for it. It is called essential services. Essential services. We just came up with another \$20 million for that, essential services. I do not know why that does not apply about essential services.

Third, the irony of all this is if Senator Hollings' bill does not pass, we are not going to have a national passenger rail system,

but guess who is the only one who is going get to ride the rail? Me. Me, because it is going to survive in the Northeast. We are making money. They are making money in the Northeast Corridor. They are making money.

Revenues are up 40 percent. The number of passengers is up 21 percent or 20 percent. So we are going to be OK. That is the irony of this whole deal. Delaware's going to have Amtrak. Delaware's going to have somebody going up and down the Corridor. We do not have a problem. You all are going to have a problem. You are going to have a problem.

Mr. Chairman, you have the opportunity to do something really significant here with your bill, but there are a few key points that I think need to be made.

I do not need to tell you that our national rail system is at a crossroads, and because of the decades of underfunding, Amtrak is struggling to stay afloat. They imposed drastic spending cuts in the last several months, the deferred capital maintenance projects. They mortgaged Penn Station in New York, the most valuable asset. They slashed employment, and short-term moves have only served to worsen Amtrak's long-term financial viability.

The IG report, you should read the whole report. The IG report says that there is a need for a minimum of \$1.2 billion a year in capital improvement. Now, whoever picks up the railroad, let us remember why they got out of the business, why Union Pacific got out of the business, why Penn Central got out of the business, why the BNO got out of the business. They got out of the business because they could not make any money in the business. That is why they got out of the business.

The reason Richard Nixon came along and said there should be this outfit called Amtrak was just because we needed a national passenger rail service. Somebody had to do it.

Now this \$1.1 billion loss that Amtrak supposedly has this year, that is depreciation in non-revenue losses of \$280 million in actual losses. There would be no loss if we just funded what we authorized the last 2 years. We authorized twice as much as we appropriated. By the way, when they put this new railroad together called Amtrak, I see my friend from Montana, they got a great deal.

Senator BURNS. I did not make an opening statement here.

Senator BIDEN. No, I know that, but I know how critical my friend from Montana is. He is a key player here.

I just want to make a point. We inherited all this rolling stock that was useless. They inherited this stuff that was not worth anything. People were anxious to give it away. They ended up with track that was in disrepair. So they started off kind of slow, folks, because we did not give any money.

Let me cut to the chase here and end by pointing out we have spent \$750 billion on our highway and aviation system since 1971, and \$25 billion in passenger rail service. Make no mistake about it, at the same time we were underfunding Amtrak, we were also placing unrealistic expectations on Amtrak.

In 1997, the Amtrak Reform Accountability Act was passed. Amtrak was mandated to be operational and self-sufficient by 2002. With this, Congress said Amtrak, go be profitable, but also provide

a public service to the Nation. Send railroads and trains places it does not make sense, where it is not possible to be profitable, send them there and then, by the way, with the highway trust funds, with the little funds you were able to get, why do not we allow, just as an illustration, just allow the States, not the Federal Government, but allow the States to say that our rural highway trust fund money that we can now use to build a bicycle path, that we can now use to buy buses and have a bus system, just if the State wants to do, let the State use that money that goes to Amtrak and say we will give you this money if you run a railroad, a passenger train on our service. But all our cement boys here, they all thought that was a real bad idea and you are allowed to build a bicycle path, you are telling me, with highway trust money? You can build a bicycle path and you can buy buses, but you cannot use an existing railroad track that sits in the middle of your State? This is ridiculous, ridiculous.

Kay Bailey Hutchison is right. Let us either fish or cut bait. We have a national rail system or we do not. I am finished. I cut bait. I am out of here.

[The prepared statement of Senator Biden, Jr. follows:]

PREPARED STATEMENT OF HON. JOSEPH R. BIDEN, JR.,
U.S. SENATOR FROM DELAWARE

Mr. Chairman, thank you for the opportunity to appear before the Committee this morning. I would like to take this time to quickly outline a few key points that I think are crucial in understanding the current state of passenger rail in this country, and the ways in which I envision its future.

As we're all well aware of by now, our national passenger rail system is at a crossroads. The decades of underfunding has finally caught up with us. Struggling just to stay afloat, Amtrak has imposed drastic spending cuts in the last several months, deferring key capital maintenance projects and slashing employment. These short-term moves—which includes the recent mortgaging of Amtrak's most valuable asset, New York's Penn Station—has only served to worsen Amtrak's long-term financial viability, and put its future in jeopardy.

We have the chance to change that this year, and S. 1991 represents a solid start towards the goal of a truly national, efficient, and safe passenger rail system. By reauthorizing Amtrak at the funding levels it needs to maintain and grow, this bill is a blueprint for both the present and the future.

For 30 years, Congress has taken a back-seat approach to this matter, stalling and bickering, in the end providing only enough money to allow Amtrak to continue to limp along. Now, we have to end that trend—we have to sit down with governors, mayors, laborers, and all other interested parties, and discuss, as we are doing today, what kind of passenger rail system this country deserves, and how much support from federal, state, and local agencies will be needed to sustain such a system.

And we must not forget the larger context in which this discussion takes place. In the last several years, I have talked with lots of local, state, and federal policymakers about the increasing capacity constraints on our nation's highways and airplanes, which have caused greater pollution and chronic overcrowding. Add to this September 11th, which demonstrated in even starker and more rigid terms how important it is to have a diverse, balanced national transportation system, and it is clear that the federal government must begin to adequately support passenger rail.

Every industrialized country in the world has provided, and in almost every case continues to provide, substantial subsidies to their rail systems, as they understand the enormous capital costs involved in developing and maintaining a national rail system. And yet, in this country, though we have committed strongly to highway and aviation development, we have not yet understood the parallel commitment necessary for passenger rail. Whereas we have spent \$750 billion on our highway and aviation systems since 1971, we have only spent \$25 billion on passenger rail in that same period.

And at the same time that we have been underfunding Amtrak, we have also been placing unrealistic expectations on them. In 1997, when the Amtrak Reform and Accountability Act (ARAA) was passed, Amtrak was mandated to be operationally self-

sufficient by December 2, 2002. With this, Congress said to Amtrak: "be profitable, but also provide a public service to the nation."

This is not the right way to approach this issue. Instead, as S. 1911 would rightly do, we need to move away from threatening to cut off Amtrak's funding, and towards a realization that no system, anywhere in the world, operates without some level of federal and local support.

This legislation lays out the priorities and vision for the future of passenger rail in this country. It provides for a one-time cost of \$1.3 billion for security-related improvements. As I've been saying for months, and as the Department of Transportation and others have concurred, Amtrak needs close to \$3.2 billion to improve its tunnel infrastructure, upgrade its security measures, and invest in other safety programs.

And S. 1911 also provides for longer-term investments in developing the infrastructure for Amtrak's future. For example, it would fund \$1.55 billion annually to the planning and implementation of high-speed rail corridors. As we all know, one of the brightest points for Amtrak has been the development of high-speed rail service. The Acela train is a fantastic success, as it has helped Amtrak increase its revenue by close to 40 percent and ridership by 20 percent in the last several years. The 11 corridors outside of the Northeast that the Department of Transportation has identified have the same potential to vastly improve the efficiency and profitability of Amtrak. The only thing stopping them from developing these routes is a lack of funding from the federal government.

Let me conclude my remarks with one final comment: while it is crucial to set long-term goals for passenger rail, during this reauthorization debate, we should not also forget the immediate concerns facing Amtrak today. As George Warrington, the head of Amtrak, has stated numerous times over the last several months, if Amtrak does not receive a bare-bones minimum amount of \$1.2 billion, more drastic labor cuts, and potentially even route closings, may be the only way for passenger rail to continue in this country. I think everyone in this room would agree that this would be detrimental to our national transportation infrastructure, and so, I'd ask that we continue to work to get Amtrak the \$1.2 billion they so desperately need next year, as we also work to reauthorize passenger rail service for the future.

Thank you, again, Mr. Chairman, for the opportunity to briefly offer my thoughts on this subject.

The CHAIRMAN. Senator Carper, thank you very much.

**STATEMENT OF HON. THOMAS R. CARPER,
U.S. SENATOR FROM DELAWARE**

Senator CARPER. Now, you see the kind of act I have been trying to follow for 25 years in Delaware. I believe what I was going to say has been said. I will not say it.

I do want to say a word about George Warrington. I did serve on the Amtrak board for 4 years when I was Governor of Delaware. I was one of the people on the board who asked George to serve as our interim president for our Amtrak. I asked George Warrington to apply for the position of president of Amtrak.

I have known a lot of people in my life, not just at Amtrak, but in a lot of roles. He is one of the finest people I have ever had the privilege to work with, and as he leaves Amtrak to return to his home in New Jersey, he goes with my thanks and I hope with yours.

I do not know who said this, Harry Truman or somebody else, "the only thing new in the world is the history we never learn" or words to that effect. The only thing new in the world is the history we never learn or have forgotten.

A couple of people alluded to it. We need to say it again. In 1971, when Amtrak was created, it was created because of freights and other rails could not make money carrying passengers. They wanted out of the business, and the deal was they bought some stock in Amtrak. They gave up some of the real estate in the Northeast

Corridor. They gave old track bed, old overhead wires, old repair shops, old train stations, old locomotives, old passenger cars and old dining cars to this new entity called Amtrak, and basically we said as a Congress and as a country "go run the railroad." What we have done for 31, now 32 years is to starve Amtrak for capital investment.

Many countries around the world have passenger rail systems that they are proud of. I would like us to be proud of our national system in America, but what they do in all those other countries where we have ridden their trains from Europe to Japan and other places, they do not starve their passenger rail system of capital. They heavily invest in capital and we simply have not, and the difference shows every time you ride one of our trains and every time you ride one of theirs.

Maybe the folks in all those other countries are stupid or maybe they see something that we do not, and I think what they see that maybe we do not is in those countries it is in their naked self-interest to be less reliant on foreign oil. Many of them have less oil than we do, and by putting together a good passenger rail system, they economize on oil.

Joe and I rode down on the train today that had probably 500 passengers on the train, and along the way, we passed a lot of cars that had one person in those cars, one driver. I can tell you, we are saving a lot of energy compared to those 500 cars we passed with single persons in them.

But not only do the other countries save energy, they end up with cleaner air because of lower emissions. They end up with less congestion on their highways. They end up with less congestions around their airports, and that is why they do it. It is in their naked self-interest, and I would contend that it is in our naked self-interest to do the same.

What kind of passenger rail system do we want in America? This is a timely debate. You ever see the old movies where you have got the damsel in distress tied to the railroad tracks and like the train is bearing down? Every year it is like that for Amtrak, only Amtrak plays the role of the damsel in distress to the train bearing down, and with the train bearing down and the question is, is Amtrak going to be saved?

Another role that Amtrak plays is the role of the beggar with the tin cup coming to us about every year begging for money. Neither role is one that we ought to continue.

Let me just take a moment and just say this is the kind of passenger rail system that I would envision for our country. Joe is right. We are always going to have a Northeast Corridor. We will have train service from Boston to and through Washington, the only place in the country that Amtrak actually owns the track there and the overhead wires that we use. Everyplace else Amtrak is on somebody else's track. They do not like having Amtrak on their track especially, and they let Amtrak know that because they do not give them the rights-of-way.

This is the system I would like for us to consider having for the future. There are a quarter-of-a-billion people who live in America today. Seventy-five percent of them live within 50 miles of one of our coasts. As time goes forward we will have more people and we

will have more densely-populated areas in our country. Many of them live in corridors that we represent. The Northeast Corridor is not the only corridor that lends itself to high-speed trains. There are others in the Southeast. There are others in the Northwest. There are others in the Midwest out of Chicago.

What we need to do is to make capital investments in the tracks in those high-speed corridors to benefit Amtrak and also to benefit the freight railroads. We should make those investments with dedicated sources of revenue, with earmarked sources of revenue. We should ask State and local governments to share in the cost of those investments.

Second thing we should do, as Joe said it and others have alluded to it as well. As Governor of Delaware, I found it offensive that I could spend my State's Federal transportation moneys for bicycle paths, for freight railroads or a variety of other uses, but if I thought it was in the best interest of my State to use some of that money for passenger rail service, I could not do that. That is foolishness, and we should stop that.

Next, we should relieve Amtrak of the burden of having to pay railroad retirement for people who retired who never worked for Amtrak. Amtrak spends about \$200 million a year to pay railroad expenses for people who never worked for Amtrak, who never will work for Amtrak, and that should just be stopped. The moneys have to be paid, but it should not be taken out of Amtrak's hide.

There is a great partnership, and George Warrington can tell you more about this, but whenever Amtrak is running on tracks with the freight rails, they can actually carry things other than passengers, and Amtrak is doing a very good pilot project with the Burlington Northern and Santa Fe rail where they actually carry commodities, not just packages of mail and express, but actually commodities, perishables and nonperishables on the tracks of the freight railroads. Amtrak makes money doing it. They split the profits with the freights, and it gives the freights a reason to want Amtrak to be in their system.

I think we ought to expand services like the Auto Train. Some of us have taken the Auto Train. It is the longest train in the world. It actually can make money, a train on the West Coast called the Coast Star. People pay a premium in order to ride the train to see some of the most beautiful landscape in America. We expanded some of those services where the ride is really the view, not the destination, but the ride itself is the deal.

Amtrak owns the Northeast Corridor. It is a valuable piece of land. We can use it for all kinds of things from fiber optic to rural electricity, swing electricity up and down the Northeast Corridor, making money to do that.

Last, if we actually make the investments in the Northeast Corridor to fully harness the potential of the new Acela Express trains, some of us are going to ride that train when we go up to New York in a month or so for our caucus. We do not fully utilize the potential of that train, and the reason why is because of the track. That has not been upgraded sufficiently. The overhead wiring is old. The signaling is old. We do not fully use the capacity. Even so, Amtrak, I think, now carries over 50 percent of the passengers. There are

more passengers on trains in the Northeast Corridor than go by air.

This is just a thumbnail sketch of a system that can actually survive and not just survive, but make this system a system that can make us proud. It needs to start with a vision. I like the vision in your bill. I am interested in learning more about what Senator McCain has to say, and I very much appreciate the chance to be here today.

Senator BIDEN. Mr. Chairman, could I have 60 seconds?

The CHAIRMAN. Sure.

Senator BIDEN. Only 60 seconds. Three points. Number one, we are going to spend \$112 million to service 78 cities in the year 2002, which is 20 percent of the entire Amtrak budget. Got that? We are going to spend a \$112 million straight up Federal revenue to service 78 cities for airports. We are going to spend \$500,000 for all of Amtrak.

Number two, we have an \$8.5 billion deficit in the highway trust fund this year. Mark my words, we are going to take out of general revenues another \$4 billion. We are going to take probably \$4 billion this year to subsidize the highways. If I am wrong, I will be happy to say I am wrong, but I will make a bet that you all are both putting another \$4 billion beyond the revenues into highway.

The last point is, we promised that on October 16 we would take care of the security problems of Amtrak. We made that commitment. We passed it out of here unanimously. I cannot even get it up for a vote, because there is secret holds on not being able to deal with the security interest of Amtrak, and there are more people right now as I speak in New York City in tunnels that were built in 1919, with no lighting, no ventilation, and no escape than there are on 747s right now.

The CHAIRMAN. Very good. You both are very knowledgeable and have been a terrific help to us as we move this bill along.

Senator WYDEN. Mr. Chairman, I am going to be very brief. I just want to ask Joe a quick question. First, so you know, in 21 years in the Congress, I have voted every single time for the dollars that you all have been interested in, and I think what people in Oregon are concerned about, people in the West are concerned about now, and I think this is something we can walk out of here and agree on, is we want the calls on the merits. We want the calls on the basis of objective criteria, and I think what really set people off in the West is when those trains were eliminated, other trains were continued, but the GAO said we were less cost effective.

I think probably I would like, as we walk out the door, in an effort to find some common ground is an agreement that would just call these on the merit, because in my part of the country, people are doing everything except holding bake sales to keep their train service coming.

We have small towns—at least in Oregon, Joe—that have voted to levy per capita assessments to keep trains going on themselves, and I think if we can just walk out of here saying we are going to have as part of the Hollings bill, we are going to have these decisions based on the merits, I think we can come together and make some common ground, and if you want to get a quick reaction to

that, maybe the Chairman will allow that, give us a chance to walk out of here and an opportunity to make some progress.

Senator BIDEN. Well, I think it should be made on the merits. You may be right that it was not made on the merits. I am not aware that it was not made on the merits.

I would like to add Wilmington, Delaware, to the 78 towns that are subsidized for air traffic. We do not have any air transportation in Delaware. I would like to have that considered on the merits. We would join some of the towns that get subsidized findings, and let us do it all on the merits. I am ready to do it.

Senator CARPER. Mr. Chairman, neither Joe nor I are interested in running trains where people do not want to ride trains, and we are not interested in running trains where State and local governments are not interested in providing some support. If people want to ride the train, if State and local governments want to provide the support, we should not let trains go.

The CHAIRMAN. Very good. We thank you both. The Committee is indebted to you all.

Senator BIDEN. Does the cowboy have any questions?

The CHAIRMAN. We have got nine other witnesses here before us this morning. Thank you.

Now, we have panel number one: Michael Jackson, Deputy Secretary of the Department of Transportation; Kenneth Mead, Inspector General of the Department of Transportation; and George Warrington, the President of Amtrak. Please come forward. We welcome you all this morning.

Your statements will be included in their entirety, and you can summarize if you wish. Let me start with Mr. Warrington, if you do not mind, Michael. Let us see what the gentleman says about Amtrak and what we are going to get done.

**STATEMENT OF GEORGE D. WARRINGTON,
PRESIDENT AND CEO, AMTRAK**

Mr. WARRINGTON. Thank you very much, Mr. Chairman and Members of the Committee. You have my formal statement which we got over to you yesterday, and I would like to summarize that statement by making a couple of very short points here.

This gets to some of the issues that you raised Senator Wyden. I will tell you that the basic underlying model for intercity rail service in the country really does not work, and it does not work anywhere in the world. I think we have all come to that conclusion, and it does need to be fixed appropriately.

I will tell you that we have tried very, very hard to make that model work. We have managed costs aggressively, particularly discretionary costs. We have squeezed revenue from every conceivable source across the operation, including all of our assets, and we have also explored and developed other financing techniques to generate revenue to hold this system together. When I came to this position, I know that there were a number of folks who believed that I was a Northeast Corridor guy, that I had a secret plan in the vault to dismantle this system, that my interest was the Northeast Corridor interest and that I had substantial bias in that direction. I will tell you that that is simply not the case at all.

I recognize and thoroughly understand that this Congress established clear expectations about a national system. The reason we have pushed as hard as we have on revenue and cost and creative opportunities to generate income here, whether it be mail and express, equipment leasing, pursuing fiber optics, pursuing highway transmission, all those ancillary businesses that frankly we have been criticized for engaging in, is to hold the national system together while at the same time trying to remain on the glidepath.

I always have been and have assured Senator Hutchison that I am committed to this national system. I have worked very, very hard to try to hold this system together as we have reduced Federal support and within the context of significant undercapitalization.

I think looking forward what is most critical here is that those expectations, which many of you have expressed here this morning and that were clearly established earlier in those days when I first came to Amtrak about a national system, be aligned with public investment, because in the end, much of what we do is really a public service.

We have worked hard to create a commercial culture inside the corporation, but in the end it is a public service, some of which is an essential public service that I would, as Senator Biden has said, make analogous to an essential air service to rural and principally Western communities across the country.

I think the Congress and the Administration need to once and for all bring to closure what the system is, which as a matter of public policy really does constitute the third leg of the transportation stool, particularly in the context of the highway and aviation systems being reasonably built out.

Amtrak cannot do that alone, and in fact, what Amtrak has tried to do is hold that system together. I think the Congress and the Administration need to align public investment with that defined system, like the interstate highway system in 1955, as a matter of national transportation policy. Amtrak cannot do this alone, and Amtrak cannot carry this burden on its back. The Federal Government needs to establish as a matter of national transportation policy, as it did when it defined the interstate highway system, that there is a 10- or 15- or 20-year defined intercity rail passenger system that is a matter of public policy. The debate, frankly, is much less about Amtrak and should be about the government's national transportation policy with respect to rail investment over the next 10 or 15 or 20 years.

I will tell you that while there are certainly opportunities around restructuring, there are more meaningful opportunities around significant State and freight railroad engagement and partnership as such a system develops.

I think fundamentally at the beginning, for any vision to be executed here, which is the case anywhere around the world, it does have to be a substantial Federal commitment and Federal investment such as that which took place decades ago with respect to the aviation and highway systems. I think this is fundamentally a Federal transportation policy question.

I will be leaving Amtrak soon, and I just wanted to say that I want to thank all of you for all of your support. I want to also

thank you for focusing on and bringing this important matter to the table and hopefully to closure in the near future.

I also want to take this public opportunity to sincerely thank all of the folks at Amtrak who I have worked with over the years, management and the troops. They are an outstanding group of people who are incredibly passionate, interested, engaged and service-oriented in what always has been a very, very difficult environment, and I will miss them immensely.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Warrington follows:]

PREPARED STATEMENT OF GEORGE D. WARRINGTON,
PRESIDENT AND CEO, AMTRAK

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear before you this morning. All of us at Amtrak appreciate your leadership on passenger rail issues, and we welcome this discussion. In addition to my statement this morning, I have submitted for the record a copy of our Business Plan and Legislative Grant Request, which was sent to Congress on February 15, and which provides more detail about our past, present and future issues.

Mr. Chairman, we especially appreciate that this hearing marks the beginning of a forward-looking discussion about the proper scope of our national passenger rail system—and sources of adequate, predictable funding to support that system. As you yourself have noted, it took a sustained federal commitment to build our national highway and aviation systems, both of which have become essential ingredients in our economic vitality and quality of life. Going forward, it will take the same kind of federal responsibility and vision to build a passenger rail system that delivers comparable benefits.

Mr. Chairman, before I comment on re-authorization and the legislation currently before this committee, I want to briefly provide a bit of context that everyone should keep in mind as we discuss these issues.

First, it's ironic that Amtrak finds itself in today's difficult position, because the demand for passenger rail—and the recognition of its critical role in our transportation system—have never been stronger.

- Since 1996, our overall ridership has grown by 19% to an all-time record of 23.5 million passengers.

- Also since 1996, Amtrak's ticket revenue has grown by 40% to \$1.1 billion, and overall revenues have risen by 38% to \$2.1 billion.

- We have developed successful partnerships with a growing list of commuter agencies and private sector partners, and we have won increased state operating contributions for state-supported services.

- We launched North America's first all-new, high-speed train, Acela Express, which has carried more than 1 million guests in its first 14 months of operation.

- We have instilled a greater emphasis on customer service, which is reflected in the industry's only satisfaction guarantee.

- We have developed new business and analytical tools that have enabled us to operate more efficiently. And we have reined in the growth of discretionary spending, achieving zero growth in expenses over the last year, excluding depreciation.

Certainly, we are far from perfect, and our work is far from done. But in a number of critical areas, we are better positioned to meet the country's needs than we were just 5 years ago.

The second bit of context that everyone should understand is the economic realities underpinning passenger rail service. All over the world, passenger rail is a competitive mode of travel in relatively high-density areas and for trips of up to 350 miles. Rail is much less competitive for longer-distance, lower-density routes.

This means that a national passenger rail network in the United States will never be profitable on a classic, commercial basis. While some routes will cover their own operating costs, other routes will need operating support, even after internal cross-subsidies. And none of our routes will ever cover their cost of capital. No one should be surprised by any of this, as every other transportation mode in the United States and every other passenger rail system in the world relies substantially on public funding.

As I mentioned a moment ago, we have worked very hard and successfully to maximize revenue opportunities and to control our discretionary expenses. And while we have made significant progress, the reality is that it will never be enough to fully cover the costs of today's national network.

The third piece of context that everyone must bear in mind is that Amtrak is expected to move in two directions simultaneously—to maintain a national network including many segments which will require ongoing public support, while at the same time becoming operationally self-sufficient. As a result of the successful initiatives I mentioned earlier, Amtrak has been able to accommodate a nearly 90% reduction in its federal operating support from \$319 million in FY '99 to \$40 million this year, excluding RRTA. But the only practical way to maintain a national network with declining levels of operating support is through borrowing and cross-subsidies from our profitable lines of business. But borrowing drives up our debt load, and cross-subsidies deprive us of resources that could otherwise be re-invested in modernized fleet, facilities and technologies.

Fourth, on top of conflicting policy mandates, Amtrak has had to cope with inadequate levels of public investment for the system we were expected to maintain. Over the last 31 years, our federal funding available for capital investment averaged less than \$325 million a year, for a 22,000-mile system. The total capital funding over 31 years—about \$10 billion—is still a fraction of what this country invests in highways and aviation in a single year.

Mr. Chairman, as you yourself have pointed out, passenger rail is the only mode of transportation in the United States that does not have guaranteed appropriations and a dedicated source of capital funding. Highways, aviation, transit and ports all have this predictability. Passenger rail is the only mode subject to the uncertainties of the annual appropriations process. And the result is deferred modernization, higher maintenance costs for aging assets, and higher debt service due to our dependence on private financing.

The more recent factors that have affected our performance are the recession, the higher security costs stemming from September 11, and the actions of the Amtrak Reform Council, which have had a direct cash impact of \$52 million since November.

But rather than dwell on the combination of factors that have undermined America's passenger rail system in the past, I think the DOT Inspector General said it best in the *Wall Street Journal* on January 28, and I quote: "For what it has been charged to do, it's amazing that Amtrak has gotten this far."

Mr. Chairman, there is one more piece of information about the passenger rail system that is widely misunderstood, and that is our operating losses. In FY 2001, Amtrak's operating losses were just over \$1 billion. Of that total, depreciation expenses were \$488 million, excess RRTA was \$183 million and net interest expense—driven by inadequate levels of federal capital—was \$80 million. So as you can see, more than 80% of the operating losses were attributable to these three mandatory items alone, and nearly 50% was non-cash depreciation.

Mr. Chairman, I hope these comments shed some light on the challenges facing us all, as we work together to improve and transform Amtrak. In particular, I hope I've made it clear that any future course of action that relies primarily on short-term business actions within the current policy framework will fail. Likewise, any proposal to fix Amtrak's problems by splitting it into several parts is a distraction from the fundamental issues.

After the latest round of expense reductions, capital deferrals, and revenue actions, Amtrak will have improved its financial position by a total of \$543 million during FY 2002 and 2003 without compromising safety or eliminating any train services. But having cut nearly to the bone, with a mounting capital backlog and our financial flexibility impaired by uncertainties about the policy process, we are running out of tools and time.

Indeed, the time has come for Congress and the Administration to put the country's passenger rail system on a firmer foundation—because our country needs it.

Even before September 11, our highways and airports were reaching capacity limits. And in the aftermath of September 11, the need for a balanced transportation system couldn't be clearer. Passenger rail offers additional benefits—as an engine of regional economic development, as a cost-effective way to expand transportation capacity, and as an environmentally friendly way to expand capacity without increasing our reliance on petroleum.

As I said earlier, I want to briefly speak about reauthorization and talk about the legislation currently before this committee. Both you, Mr. Chairman, and Senator McCain, have introduced legislation that would begin the debate on Amtrak's reauthorization and the future of intercity passenger rail service in this country. Although the bills differ in approach, you have both recognized that a substantial federal commitment will be required to fully develop the potential of intercity passenger rail service.

As I've said before, the key questions that need to be answered in this debate are: What is the scope of the intercity passenger rail system that's needed? What will it cost? And how will we pay for it? But, in the end, Congress and the Administra-

tion will ultimately decide the size and scope of the system and how that will be paid for. Amtrak commits to you that it is ready to contribute to the debate in a direct, honest, and transparent manner. Whatever you choose to do, my only strong recommendation is that you do it sooner rather than later.

We look forward to working with you, other Members of Congress, the Bush Administration, Governors, Mayors and all interested parties across the country to ensure a strong and vital passenger rail system. Moreover, as this debate moves forward, I want to assure you that Amtrak is prepared to share the expertise that we have developed over 30 years of operating America's passenger rail system. We have devoted a great deal of thought and analysis to these questions. There is no doubt that we can build a national passenger rail system that makes America proud and meets her need for a balanced, efficient transportation system. We simply need to summon the political will, and we appreciate your leadership in that regard, Mr. Chairman.

That concludes my presentation; I'll be happy to answer questions.

The CHAIRMAN. Well, the Committee, Mr. Warrington, thanks you very much. I join in the sentiments of Senator Carper. You have done an outstanding job and the best job that could be done under the circumstances.

Let the record show that we asked, of course, Secretary Mineta to appear. He had a conflict, but added that his designee on the Amtrak board was the Deputy Secretary Michael Jackson, and the Committee is pleased to recognize you now, sir.

STATEMENT OF HON. MICHAEL P. JACKSON, DEPUTY SECRETARY, DEPARTMENT OF TRANSPORTATION; ACCOMPANIED BY HON. ALLAN RUTTER, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION

Mr. JACKSON. Thank you, Mr. Chairman and Members. I am grateful for the opportunity to speak before you today.

Amtrak's financial condition is grave. Since Secretary Mineta was assigned to the Amtrak board and assumed that position, I have, as his designee, as you say, Mr. Chairman, been attending to meetings and working with George Warrington and Amtrak staff on these issues.

We have had three objectives since roughly a year ago last May when I first sat down and attended a meeting: One, understand the financial facts about Amtrak; two, get them out to the Congress and to the public; and three, encourage and support an effort this year to reauthorize national passenger rail service.

As we sit here and grapple with this Amtrak problem, we have made progress, because a year ago when we started looking at these issues there was a sense that everything was OK, we are on a glidepath. We have serious financial problems at Amtrak, and I think they have been well described by the Members and by Amtrak so I will not spend time on that. It has taken us 30 years to get to this point, but it is a crossroads and time to fix this in some fundamental way.

The Administration is grateful, Mr. Chairman, for your legislation and that of Senator McCain being placed on the table because they begin the very detailed debate about the specifics of what we have to do to structure an outcome that is going to be acceptable to the country and that will not just punt this problem forward once again. So we are grateful for your efforts and welcome the opportunity to dig into those details.

We are continuing a review of the specifics, not only of these pieces of legislation that are on the table here and in the House,

but of the core sets of problems. I would like to outline just briefly as an introduction some of these ten questions that we are trying to work our way through, because when you add the answers up to these ten questions, you have the outline and the details for a piece of legislation that can get us where we need to go.

The first question the Administration is asking itself is should we continue to support Federal funds for intercity passenger rail, and I want to say at the outset that Secretary Mineta has been clear on this. So we know the answer to that one from his perspective, and I absolutely share it, that intercity passenger rail is an indispensable part of the national intermodal transportation network and we must have intercity passenger rail in some viable form.

Second question—have we understood adequately the major financial and policy drivers that make Amtrak incapable of financial self-sufficiency? The Board has undertaken an outside study of these areas. Internal to the Administration we have done the same. Inspector General Mead has contributed significantly to our understanding of these issues, and I think that we just have to make sure that we all lay on the table the significant drivers and then look at the legislation against those problems, those drivers.

Third question—what kind of passenger rail system should we support? We have tried to lay out the range from nothing at all to an extensive network of high-speed rail that complements the system that we have and grows it and builds it, and there are pros and cons for each of these.

There are three or four or five major different options in between the beginning and the end. We think that each has significant cost and policy questions, and I think there has to be clarity first and foremost about what we are trying to accomplish. Are we trying to fix Amtrak and basically maintain what we have? Are we trying to grow a high-speed rail network and make it viable for the long haul? This clarity about what we are trying to accomplish is important. Is it a national network or is it a regional network? This is the beginning point for making sound policy here.

Forth, and most importantly, and I agree with the Senator Biden and Senator Carper, both of whom said the same thing, the most important question here is how much is it going to cost? How much is it going to cost? When we know what we are trying to do is the preferred approach and how are we going to pay for it. This is the core set of issues. How should we divide up those payments?

The Federal Government has a role. We agree with that. The States we think should have a partnership, should have a role. In the West, we see some significant investment in capital already, and in the East we have different approaches. So I think that there is a role to look at how to pay for the approach.

Fifth, Amtrak has to contribute in the fare box and in operating efficiencies beyond what it is doing now. There is work, as George Warrington has said, that we can do and structures that make sense to make the operating efficiencies more effective.

Sixth question—how are we going to pay for this? What specific funding mechanisms are needed? A dedicated fund or not? Should Federal funds cover both capital and operating expenses?

Seventh question—does Amtrak’s current organizational structure provide the right way to deliver needed services? The report suggests fundamental changes here. Senator McCain’s legislation also does. I think it is important to look at the question of the structure of Amtrak, the structure of a national passenger rail system and how best to achieve it.

Next, how do we deal with track access and safety issues? These are important questions. There is congestion on the freight tracks, increased demand on the Northeast Corridor, grade crossing issues. These have to be part of the legislation that we work through.

Ninth question—we know what we want and we know how to pay for it. How do we get there? What type of transition is necessary? The transitional issues are very, very important. We cannot flip a switch and change the system overnight.

Finally, the question of what is politically possible. There is a range of views in this Committee and certainly in the Congress, and we have to work through the question of what we can do. These are expensive investments. They are important investments and we have to look to figuring out how we balance the multiple needs that we have in our transportation network.

So this is an orientation, Mr. Chairman, how we are looking at these sets of issues, and we welcome the ongoing conversation with you and your Members.

[The prepared statement of Mr. Rutter follows:]

**Statement of the
Honorable Allan Rutter
Federal Railroad Administrator
Before
Committee on Commerce, Science and Transportation

U.S. Senate
March 14, 2002**

Mr. Chairman and members of the Subcommittee: I am honored to be representing President Bush and Secretary of Transportation Mineta as the Administration and the Congress begin our discussions which will hopefully lead to a consensus on a new national policy on intercity passenger rail and the Federal role in support of that form of transportation.

Secretary Mineta has advocated the need for this policy since he first joined the Amtrak Reform Board of Directors last summer. He and I hope that we can determine what this Nation's transportation system needs from intercity passenger rail, how decisions will be made on where and how service is provided, how extensive a system can be afforded, and how it will be paid for.

Today, I want to help lay a foundation for the development of that policy by sharing the facts about rail passenger service as it is currently constituted. By doing so, I hope I can help the committee as it considers possible solutions by describing the nature of the problems to be solved. In this testimony, I will:

- Describe the current financial challenges facing the National Railroad Passenger Corporation, or Amtrak;
- Offer an analysis of the current rail passenger system; and
- Detail its efforts to ameliorate its fiscal condition.

One other note about nomenclature: intercity rail passenger service is the only mode of transportation that is synonymous with a corporate brand. We must be able to differentiate between the public policy issues associated with the form of transportation – intercity rail passenger service – and the financial and other challenges faced by the corporate provider of that service – Amtrak. I will try to distinguish between issues facing rail passenger service (general) and those facing Amtrak (particular).

There Is a Role for Intercity Passenger Rail Service

Amtrak service between Washington, D.C. and New York City has shown that this mode of transportation can be an irreplaceable part of a regional transportation system. Sustained double-digit growth in ridership on Amtrak's Pacific Northwest route has shown that there are other corridors where there may be potential for passenger rail. And, as demonstrated in the aftermath

of September 11th, a strong argument can be made for flexibility and redundancy in this Nation's passenger transportation system that could be provided by intercity passenger rail.

Intercity rail passenger service provides more than mobility to the Nation's transportation system. Large portions of the Northeast Corridor main line between Washington and Boston host some of the most intensively used commuter rail operations in the U.S. If intercity rail passenger services were ended in the Northeast Corridor or on the West Coast, highways and airports would suffer additional congestion in the short term at a time when drivers and travelers already face significant frustration and delays. These indirect roles in aspects of the national transportation system must also be considered as we work to formulate the new policy on intercity passenger rail.

At the same time, we must confront the realities of Amtrak's deteriorating financial condition, the challenging fundamental economics of passenger rail and the practical limits to Federal financial resources dedicated to transportation and the many worthwhile demands currently being placed upon those resources.

Amtrak Faces Financial Challenges

In fiscal year 2002, the Federal Government will provide Amtrak almost \$840 million in cash to support its operations and essential capital needs, not counting \$100 million that was specifically earmarked to improving the safety and security of the aging rail tunnels owned by Amtrak that provide access to New York City. Despite these funds and an additional \$133 million in financial support expected from Amtrak's State partners, the Corporation has been forced to undertake a number of actions, including some that are short-sighted but necessary to continue operations through the fiscal year.

One of the actions recently announced by Amtrak is a deferral of \$175 million in capital projects involving equipment refurbishment and capacity and reliability improvements. In addition, the operating budget will be reduced by \$110 million through a 4 percent staff reduction, reduced advertising, delayed modernization of information technology systems, and reduced training. Together these actions will reduce the quality of Amtrak service in 2002 and succeeding years. Amtrak's management is to be commended for taking these steps on its own to conserve its cash resources, rather than asking for supplemental funding from Congress.

The adequacy of these actions to close the budget gap is dependent upon assumptions about the depth and duration of the economic downturn's impact on business and discretionary travel as well as the bottom line impact of specific actions to be implemented. Given the uncertainty in the economy and other external factors that might affect Amtrak's business plan, policy-makers in the Administration and in Congress should be prepared for the possibility of a greater cash shortfall that might require additional and more stringent measures to successfully manage the Corporation's cash resources.

Amtrak's fiscal challenges will continue into FY 2003. As the Committee is aware, Amtrak recently announced its plans to provide the statutorily-required notification to the States that, absent a higher level of appropriations for FY 2003 (which Amtrak projects to be \$1.2 billion),

service on most long-distance trains will be terminated on October 1 of this year. But even these actions would not be sufficient to achieve the vision of Amtrak established by the Amtrak Reform and Accountability Act of 1997, which is of a Corporation that can provide high-quality cost-effective passenger rail service without depending upon a Federal operating subsidy. As I will discuss later, Amtrak can improve its financial performance by cutting trains and routes, but cannot break even by means of cutbacks alone.

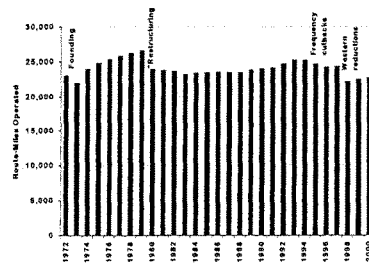
Amtrak's financial challenges will extend into the foreseeable future unless we – the Administration and the Congress – can agree on how to make intercity rail passenger service work better and within the level of fiscal support that we can afford. To provide a starting point for those discussions, I wish to provide some of the Federal Railroad Administration's (FRA) observations on the state of intercity rail passenger service today.

Intercity Rail Passenger Service Has Changed Little in the Last 30 Years

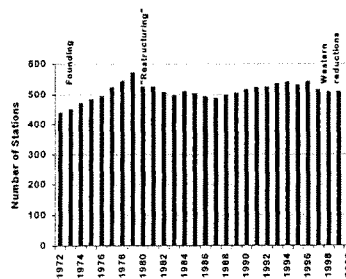
Amtrak's Network Limits Its Competitiveness

Since Amtrak's first full year of operations, the system route-mileage operated has remained in the 22,000 – 25,000 mile bracket. Even the route restructuring of the late 1970s and the elimination of two Western connections in the late 1990s made little difference in the overall scope of service. The service adjustments in the mid-1990s focused on reducing frequencies rather than shrinking the system map. Likewise, the number of stations served has hovered at about 500 for the last 30 years.

Amtrak's network size, in route miles: Essentially unchanged since 1972



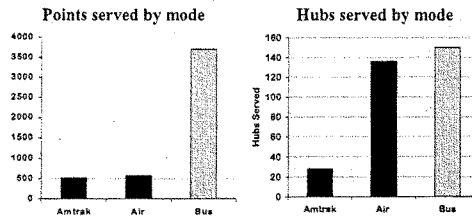
Service coverage, in stations served: Also basically unchanged



Source: Amtrak annual reports.

Currently, Amtrak serves the same number of stations as the airlines serve airports. There is a qualitative difference, however: many of Amtrak's stations serve communities too small for scheduled air service, and some important metropolitan areas (i.e. Nashville, Tennessee, Columbus, Ohio, and Phoenix, Arizona) lack Amtrak service entirely. Greyhound's bus system, with its many stops, can schedule service to many more points than either rail or air. More important, however, is the nature of the service offered at these stations: only 25 to 30 of

Amtrak's stations would be regarded as realistic transfer points between intersecting routes, while 136 airports are classified as hubs and Greyhound claims 150 major terminals.



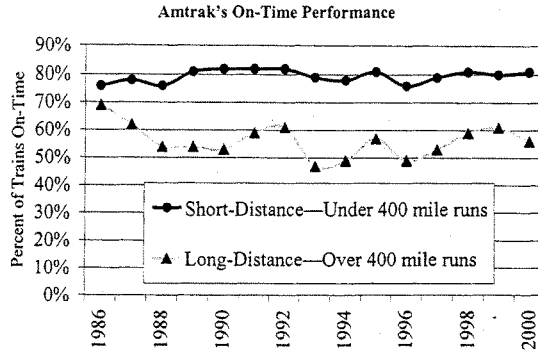
Sources: Amtrak Annual Report, 2000; Amtrak National Timetable, route map; National Transportation Statistics 1999, table 1-2, Number of civil certificated airports; Bureau of Transportation Statistics, "Airport Activity Statistics of Certificated Air Carriers"; www.greyhound.com/company/factsheet.shtml, "3700 destinations"; www.greyhound.com/company/factsheet.shtml; "150 company-operated terminals"

Today's passenger rail system – unlike the much more extensive system of Amtrak's predecessor railroads – is largely linear, connecting most stations to other stations on the same route. While transfers among lines are possible, transfer points are few in number, and low frequencies in most of the country undermine the practicality of changing trains. By contrast, scheduled air service in its entirety is a true network. With the highway system as ubiquitous as it is, Greyhound can maintain a network pattern as well, and the automobile can reach every corner of the 48 coterminous States.

A linear system like Amtrak's faces severe limitations on the number of city pair travel markets it can effectively serve. This fundamental constraint – totally apart from the frequency, quality, and price of the service – has significant consequences in terms of total market share. If a prospective traveler "can't get there from here" by a particular mode, that mode simply can't compete for his or her business.

Amtrak's Schedule Reliability On Much of Its System Is Poor

Amtrak's on-time performance for trains with runs under 400 miles has remained in the 80 to 90 percent bracket since the mid-1980s (with an on-time measurement tolerance of between 10 and 20 minutes). By contrast, long-distance trains (over 400 miles) – which currently generate the majority of system-wide passenger-miles – have suffered a marked decline in punctuality, from almost 70 percent in the mid-80s to about 55 percent today (with a measurement tolerance of 20 to 30 minutes). These averages mix the superior performances of selected routes (the New York–New Orleans *Crescent* had an 80 percent on-time record in FY 01) with the unreliability of others (New York–Florida *Silver Palm*, 36%; Chicago–Texas *Texas Eagle*, 25%; Washington–Chicago *Capitol Limited*, 44%). These figures do not indicate the seriousness of the lateness, which can be of many hours' duration per train.



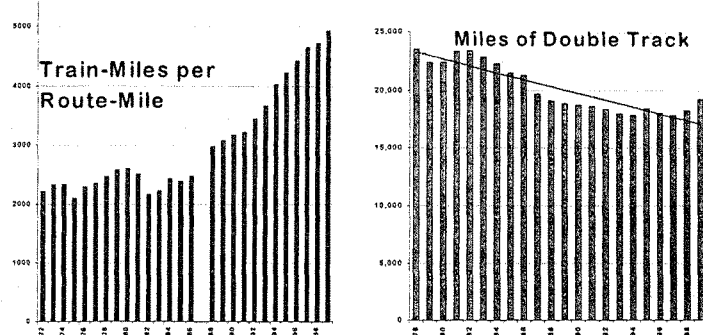
Source: Amtrak Annual Reports, 2000 and prior years

Although the airlines, too, have suffered declines in punctuality, at least before September 11th (the industry was 73 percent on time in 2000, down from 82 percent in 1997), Amtrak's combination of slowing schedules³ and lateness on some long-distance routes has exacerbated passenger rail's inherent travel time disadvantages compared to airlines and even automobile travel.

Increasing Freight Traffic Hurts Amtrak's Performance

The reasons for Amtrak's declining on-time performance are many and complex. One obvious cause is the increasing traffic density of America's freight railroads. As shown in the following chart: train-miles per route-mile have risen by 150 percent since the 70s, while double-track route mileage operated is down by almost 20%. This is a strong indication that the intensity of use of rail infrastructure assets is at an all-time high, which is of great importance to the private sector owners of the infrastructure. But the congestion that has resulted from this increased intensity of use has affected the timeliness of both passenger and freight services. This is only one factor, but clearly an important one. Of the 40,000 hours of delay to Amtrak trains reported in FY01 through June, one-third accumulated due to interference from other trains – mainly freight, but also Amtrak and commuter runs. Other major causes of delay include "slow orders," maintenance work, equipment trouble, and trains held for passenger connections.

³ For example, the fastest scheduled timing between New York and Chicago by rail in the mid-1950s was 15.5 hours; at Amtrak's founding, it was 17 hours; today, it is 19.6 hours, representing a 25 percent lengthening of scheduled trip times in 50 years.

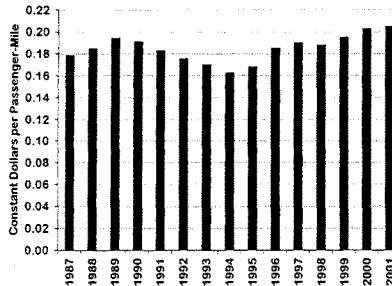


Source: Association of American Railroads, Yearbook of Railroad Facts; Analysis of Class I Railroads.

Nationwide, Amtrak Cannot Compete With Other Modes on Price

On average, today's Amtrak fares are about ten percent higher than they were in 1987 on a constant dollar basis. More to the point, since 1994, Amtrak has raised its system average fares dramatically – by about 25 percent. These Amtrak fare increases merit comparison with trends in other modes.

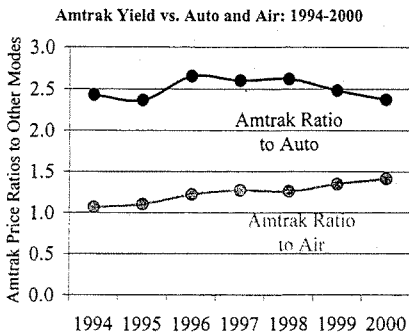
**Amtrak Yield, or Revenue, per Passenger Mile:
1987-2001**



Source: Passenger Transportation Revenue (in constant dollars deflated by CPI) and Passenger-Miles from Amtrak Annual Reports

FRA analysis shows that as of the end of 2000, Amtrak's per-mile fares remained almost two-and-a-half times as high as the perceived costs of driving. The rail fare increases had, in that regard, partially negated the effects of the gas price hikes in recent years. With constant dollar airfare yields declining and Amtrak fares increasing, Amtrak's average fares were approaching fifty percent higher than those of air. These fare comparisons were system averages and will

vary among markets and among service types. Still, nationwide, there was an obvious dissonance between the relatively high – and growing – fares and the declining timeliness of the service provided by Amtrak.



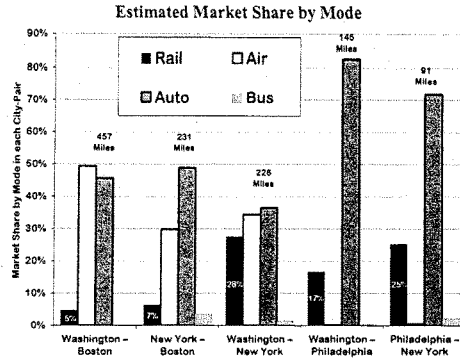
Sources: Amtrak Annual Reports; American Automobile Association, *Your Driving Costs*; FAA, *Statistical Handbook of Aviation*; Bureau of Transportation Statistics, *National Transportation Statistics*; Air Transport Association, website www.air-transport.org.

Amtrak's Competitive Posture Varies by Market

Although Amtrak's product is not available nationwide at high quality, intercity passenger trains can attract significant market shares where they provide a competitive quantity and quality of service – even at relatively high fares. The prime example, of course, is the Northeast Corridor (NEC), where FRA has estimated that Amtrak holds a seven percent share of intercity traffic by all modes in all city pairs and a substantially higher percentage of the combined air/rail trips.

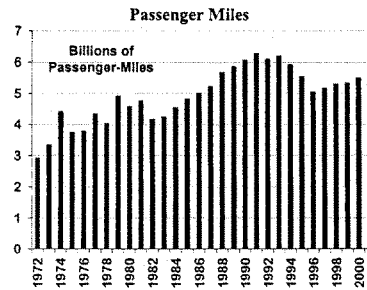
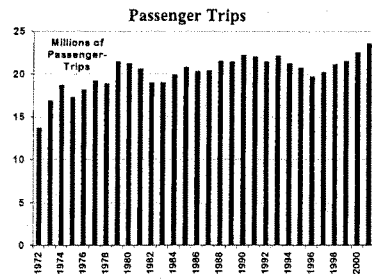
In specific markets, like New York to Philadelphia and New York to Washington, rail can reach market shares of 25 percent and more of all trips and in excess of 50 percent of the combined air/rail trips where rail travel times and service can compete with those of other modes.^b Under present circumstances – for instance, with reduced service at Reagan National Airport – those market shares can be expected to increase markedly.

^b Market shares are based on 1993 estimates prepared for FRA's commercial feasibility study of high-speed ground transportation, the most recent study of its kind.



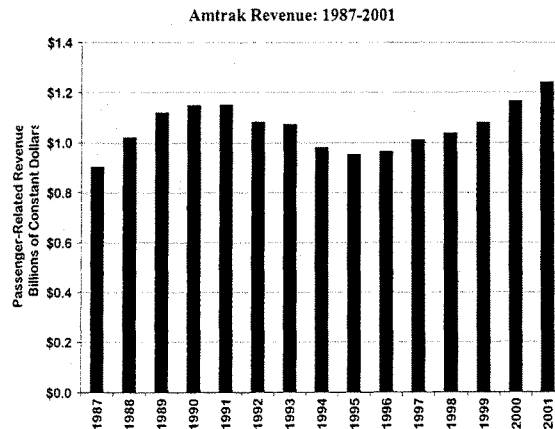
Source: Volpe National Transportation Systems Center, supporting data for the Commercial Feasibility Study based on 1993 estimated traffic levels for the various modes. No more recent study of this kind has been done.

In viewing ridership trends, some emphasize the number of passengers carried. From that viewpoint, the traffic has grown in the past four years to the highest level in corporate history: 23.5 million passenger trips. All the traffic losses of the early 1990s would seem to have been reversed. However, by treating all trips the same, regardless of distance, this measure distorts the transportation economics of the service. Another measure of traffic volume, passenger-miles, shows why. From a disastrous first full year in 1972, with three billion passenger-miles, Amtrak had rebuilt its volume to a peak of over six billion passenger-miles by 1991. However, by 1996, fully one-fifth of the peak volume had been lost, due to a marked reduction in service (15 percent fewer train-miles in 1996 than in 1993) and a worsening fare differential in comparison with other modes. There has been growth since the low point in 1996, but not enough to offset the long-term decline. The Corporation today generates about 800 million fewer passenger-miles than it did at its 1991 peak and this decline occurred during a significant expansion in total passenger mobility in the U.S.



Source: Amtrak Annual Reports.

Since 1997, the slight rebound in traffic and the continuing fare increases has led to the highest passenger-related revenue levels in Amtrak's history. On a constant-dollar basis, however, passenger revenues are only eight percent above those of 1991—not a significant percentage in light of the company's increased costs. These restored revenue levels have come from a much smaller traffic base than in the early 1990s.

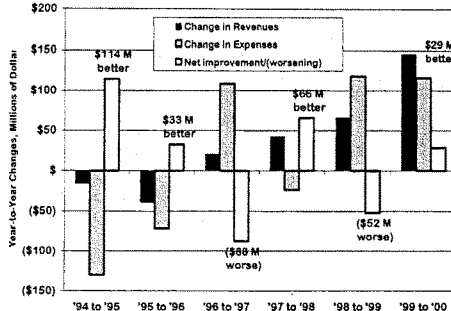


Source: Amtrak Annual Reports and detailed financial statements. Constant 2000 dollars based on GDP deflator.

Amtrak Has Been Unable To Improve its Fiscal Health

Although it has tried, Amtrak has made very little progress in improving the economics of its core^c passenger and allied businesses since the mid-1990s. Indeed, from 1994 through 2000, the net constant-dollar reduction in the annual operating deficit for the "core" amounted to about \$100 million; this is to be compared with an annual deficit in the range of \$600 to \$700 million during that period.

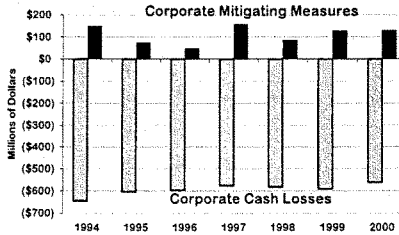
^c This "annual operating deficit for the core" excludes all State subsidies and other Federal and State payments. All monetary amounts are constant 2000 dollars.



Source: Amtrak detailed financial statements.

Diversification of the Revenue Base Has Not Eliminated Amtrak’s Deficits

Amtrak’s diversification of its revenue base has not had any appreciable impact on the corporate cash loss since 1995 (as calculated by the DOT Inspector General). In the chart below (which presents Year 2000 constant dollars), “Corporate Mitigating Measures” are the difference between the annual operating deficit for the “core” and the Corporate Cash Loss as calculated by the Inspector General and include such items as commuter profits, profits from reimbursable businesses, and commercial development activities.

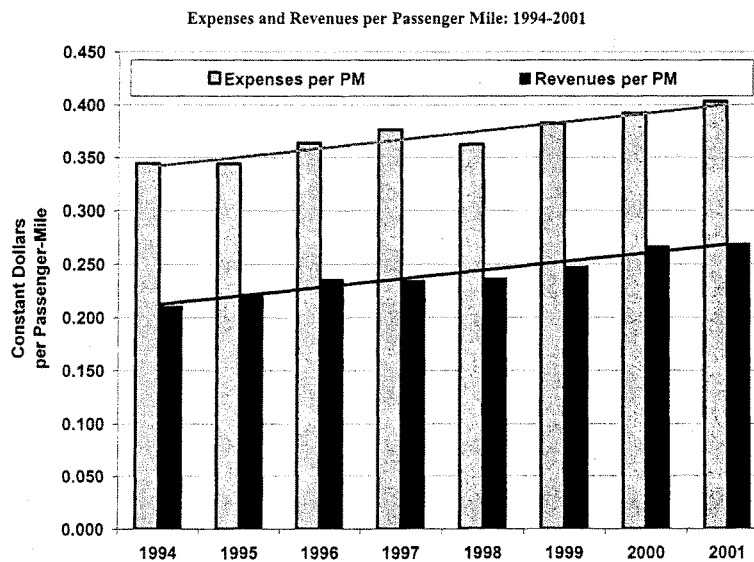


Source: Amtrak Annual Reports; Amtrak detailed financial statements; reports of the Office of Inspector General.

The foregoing facts lead to a simple but key conclusion: Amtrak’s corporate performance relies on the marketability and cost-effectiveness of its primary business: passenger transportation. That Amtrak’s marketability is weak – at least under normal circumstances – is evident from the previous discussion of its service quality.

Operating Efficiency Declines as Expenses Outpace Revenues

On a constant dollar basis, the cost to generate each passenger-mile on Amtrak has grown by about 17 percent since 1994 – or about 2½% per year – thus counterbalancing any benefit from increased revenues, as the chart clearly indicates.⁴ Indeed, the trend lines for the expense and revenue increases are parallel rather than converging. Had expense increases been held to inflation from 1994 to the present, the system-wide deficit per passenger-mile would be only 7½ cents, almost half the 13½ cents that Amtrak presently generates; and the cash losses would likewise be about half of what they are today. Thus, despite commitments made when the last round of labor negotiations was concluded, Amtrak’s productivity has declined in real terms since the mid-1990s.



Source: Amtrak detailed financial statements; adjusted to constant 2000 dollars by GDP deflator.

Several factors, some of which are addressed above, correlate with this trend, including:

- Average trip lengths have decreased from 288 miles in 1991 to 235 miles in 2001 – a drop of one-fifth. This means that fixed per-trip costs, like reservations and ticketing, are spread over fewer miles. The result: higher unit costs.

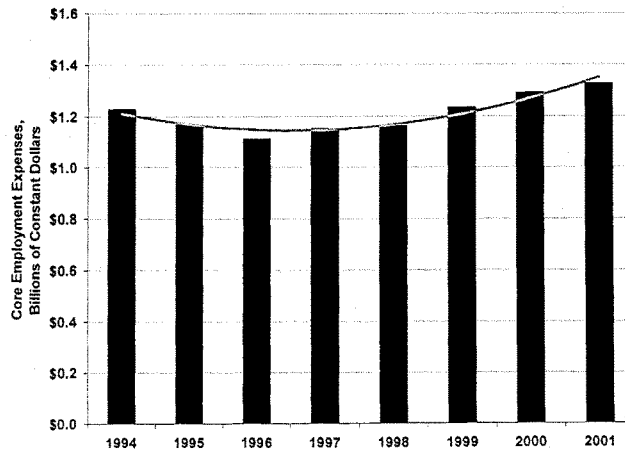
⁴ In the referenced chart, “revenues” are total core revenues less State subsidies and other governmental payments; and expenses are total core expenses, less depreciation but with interest expense included.

- In 2001, train-miles reached their highest level in corporate history, almost 36 million. Since 1996, train-miles have risen more than twice as fast as passenger-miles: 21% vs. 9%. This reflects the restoration of daily service on some routes, like the Texas Eagle, that had previously run only 3 or 4 days a week, and increased frequencies on the West Coast and the Northeast Corridor.
- With more train-miles and less traffic volume than in the past, Amtrak's average trainload of passengers has declined – by almost one-fifth, from 188 in 1989 to 155 today. In part, this reflects the growing importance of short-distance trains, which carry fewer people than overnight or transcontinental runs.
- Finally, since the mid-80s, Amtrak's system-wide load factor has also decreased—from over 50% to about 45%. This shows that the Corporation is having difficulty matching capacity with demand.

Employment Costs Continue to Grow

The most important factor in Amtrak's operating costs is wages, fringes and employee benefits. Employment costs account for almost three-fifths of Amtrak's expenses. This proportion has remained constant since the mid-1990s, an indicator that no substantive productivity gains have occurred during that time. In 2001, Amtrak's core employment expense amounted to over \$1.3 billion, exclusive of the embedded employment cost in capital projects.

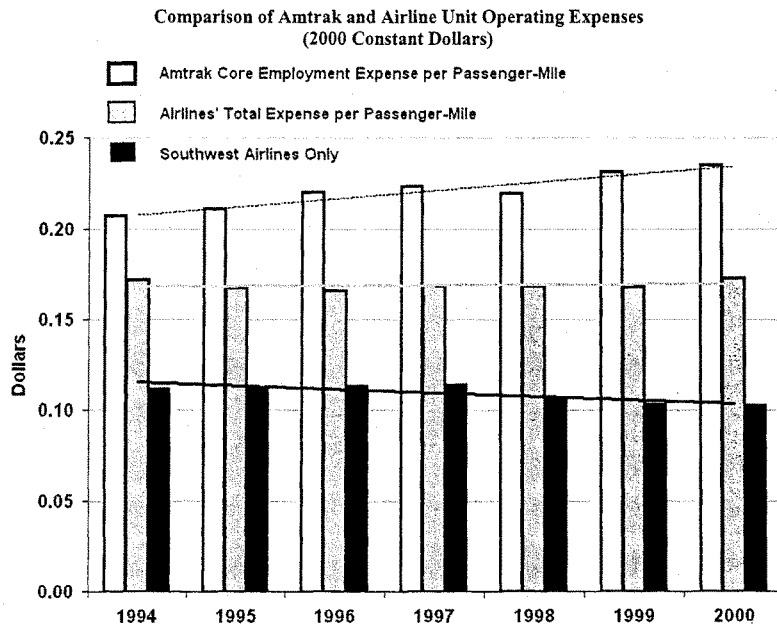
On a constant-dollar basis, core employment expenses are growing . . .



Source: Amtrak detailed financial statements.

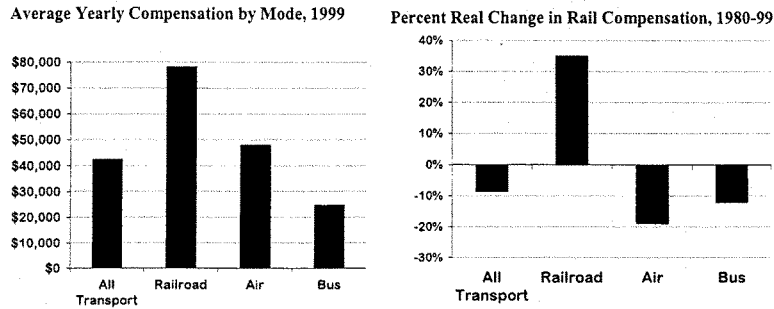
Although annual core employment expenses are growing in the aggregate, they have remained fairly constant on a train-mile basis, at about \$36-\$37 per train-mile. This constancy also demonstrates that no major productivity advances, such as service redesigns or outsourcings of business functions, have occurred in recent years. Increasing train-miles at these constant rates have led to higher total costs.

Since each train has been carrying fewer passengers, core employment expenses have steadily increased on a passenger-mile basis since the mid-1990s, eroding any advantages Amtrak has obtained from higher fares and making it ever more difficult for Amtrak to compete with declining prices for air travel, at least before September 11. The trend for Amtrak does not compare favorably with the total operating expenses of U.S. airlines, and particularly with those of the most efficient carrier, Southwest Airlines. The airline industry has been able to keep its unit cost increases even with inflation, and Southwest has controlled its costs still further. These are publicly available numbers from the Air Transport Association, the Bureau of Transportation Statistics, and the FAA.



Sources: Amtrak detailed financial statements; Bureau of Transportation Statistics, particularly their "yellow" and "green" books; Air Transport Association; Federal Aviation Administration, "Statistical Handbook of Aviation."

Amtrak's unit employment costs exceed the total unit expense of other transportation providers for several reasons, including compensation levels, as well as the rate of growth in compensation, which has outpaced inflation. These intermodal comparisons are based on Eno Foundation data.



Source: Eno Foundation historical statistics; the right-hand chart adjusts the numbers for inflation using the GDP deflator.

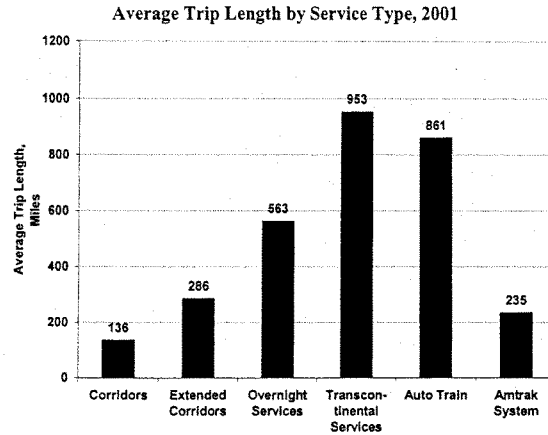
Amtrak has entire employment categories that airlines and bus companies do not deal with: maintenance-of-way employees and dispatchers, for example. While some of these costs are embedded in the funding mechanisms that support these other modes, air traffic controllers work for the FAA and highway maintainers work for State highway departments.

Finally, the Federal Government has had a longer-term involvement in railway labor and management issues, with the result that many provisions are especially applicable to the rail industry – for instance, Railroad Retirement and the Federal Employers' Liability Act – and may result in higher costs for all railroads.

The foregoing discussion is not intended as a comment upon Amtrak's workers, many of whom are as dedicated to their company and its mission as any worker in the country. Nor is it commentary as to the adequacy of the compensation of individual workers or to the quality of their work. It is an observation, however, that if public policy is to dictate that operating expenses must be brought into line with operating revenues, then employment costs as a percentage of revenue must be addressed.

Amtrak's Financial Performance Varies Significantly Among The Different Services it Provides

Amtrak provides five basic types of intercity passenger rail service. These are Corridor, Extended Corridor, Overnight, Transcontinental, and Special Services (i.e., Auto-Train). As shown below, these service types have average trip lengths that are clearly differentiated.



Source: Amtrak route profitability system.

A listing of the various routes, categorized by service type, appears on the following page.

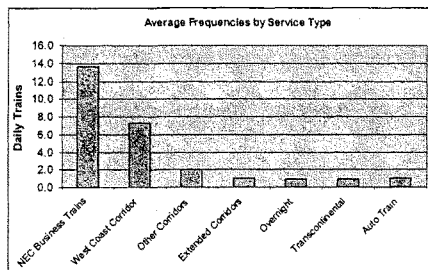
In addition to the average trip length, these services have other differentiating characteristics

- **Corridor** services are characterized by relatively frequent schedules with modest amenities, on routes in the 100–500 mile range. Depending on average speeds and service quality, these trains can serve both business- and personal-travel markets.
- **Extended Corridors** are daytime services on routes over 500 miles in length. These services, also with modest amenities, are few in number, have single daily frequencies, and often have very early departures and very late arrivals at major terminals, making their marketability highly dependent on on-time performance. Extended corridor services cater primarily to personal travel needs because of their relatively lengthy time requirements during daylight hours.
- **Overnight** trains take one night and portions of the adjoining days and are concentrated in two major, traditional traffic lanes: between Northeast Corridor points and Chicago (four daily round trips); and between Northeast Corridor points and Florida (three daily round trips). Other traffic lanes with single daily services include: Northeast Corridor-Atlanta-New Orleans; Chicago-New Orleans; and Chicago-Texas; as well as overnight runs along the Northeast Corridor and the West Coast. These services generally provide sleeping and full dining cars in response to passenger needs and expectations, and as an extension of past practices. Their primary market is evidently for personal travel; the size of any potential business market is unknown because of Amtrak's chronic on-time performance difficulties and schedules that have deteriorated, in many cases markedly, since the mid-1950s.

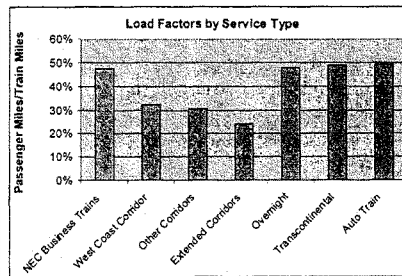
FRA Categorization of Intercity Passenger Train Routes, 2001

Corridor Services	Northeast Corridor Services	Metroliner and Acela Express	
		Northeast Direct	
		Choppers and Keystones (Harrisburg-Phila-NYC)	New York-Philadelphia (Clocker) Keystones (Harrisburg-Philadelphia-New York)
	Empire Corridor Services	NYC-Albany-Buffalo (Empire Service)	
		NYC-Albany-Vermont (Ethan Allan)	
		NYC-Albany-Montreal (Adirondack) NYC-Buffalo-Toronto (Maple Leaf)	
	Chicago Hub Network Services	Chicago-Milwaukee (Hiawathas)	
		Chicago-Quincy	
		Chicago-St. Louis-Kansas City	Chicago-St. Louis St. Louis-Kansas City
		Chicago-Carbondale	
		Chicago-Indianapolis-Louisville	
		Chicago-Detroit Chicago-Grand Rapids (Perre Marquette)	
	West Coast Corridor Services	Pacific Northwest (Cascades)	
		San Jose-Sacramento (Capitol)	
		Bay Area-Bakersfield (San Joaquins)	
CA Coast-L.A.-San Diego (Pacific Surfliners)			
Other Corridors	Raleigh-Charlotte, NC (Piedmont)		
	Fort Worth-OK City (Heartland Flyer)		
Extended Corridor Services <i>(Daylight service routes over 500 miles and extending beyond a single corridor)</i>	Vermont		
	Pennsylvanian		
	Carolinian		
	International		
Overnight Services	NEC Overnight Service	Twilight Shoreliner (Boston-Washington-Hampton Roads)	
		Lake Shore Ltd (Via New York State)	
	Trunk Line Overnight Services (East Coast and Chicago)	Three Rivers (Via Pennsylvania)	
		Capitol Ltd. (Via Potomac Valley)	
		Cardinal (Via West Virginia)	
	Florida Overnight Services (NEC and Florida)	Silver Star (via Columbia SC)	
		Silver Meteor (via Charleston SC)	
		Silver Palm (via Charleston SC)	
Other North-South Overnight (East-Midwest and South)	Crescent (NEC-Atlanta-New Orleans)		
	City of New Orleans (Chicago-New Orleans) Texas Eagle (Chicago-San Antonio)		
West Coast Overnight	Coast Starlight (Seattle-Bay Area-L.A.)		
Transcontinental Services	Empire Builder (Chicago-Seattle/Portland)		
	California Zephyr (Chicago-Denver-Oakland)		
	Southwest Chief (Chicago-New Mexico-L.A.)		
	Sunset Ltd (Florida-Texas-L.A.)		
Special Services	Auto Train (NEC and Florida)		

- **Transcontinental** trains require a trip of two or more nights and are comprised of trains providing service between Chicago (and in one case Florida) and the West Coast. As a result of the travel time involved, their prime market under normal circumstances is for personal, non-time-sensitive travel.
- **Special services** presently consist of Amtrak's Auto Train, which links the Northeast Corridor market (served at Lorton, Virginia, south of Washington, D.C) with the prime tourist attractions of Florida (accessed at Sanford, north of Orlando). It is geared toward extended personal trips or seasonal migrations, and allows customers to take their cars with them.



Source: Amtrak timetables.



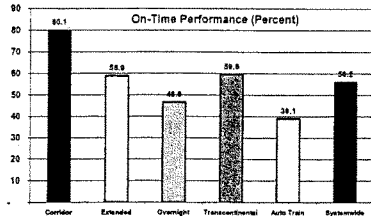
Source: Amtrak route profitability system.

Since the 1990s, the corridors have received the bulk of public attention and investment in passenger rail. However, the other service types still account for the majority of Amtrak's transportation production (measured in passenger-miles) and a very sizable share of revenues. Only in terms of annual passenger-trips do the corridors assume a preponderant role; because of repetitive travel over shorter distances, this statistic does not indicate the number of individuals making use of the various Amtrak services yearly.

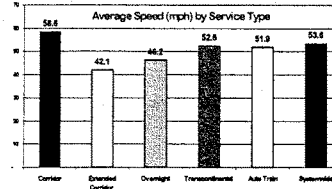
Amtrak's corridor routes offer higher-quality service to passengers, as measured by frequency, average speed, and on-time performance. However, service quality on overnight and transcontinental trains has deteriorated, and in some cases fares have been raised, contributing to a marked decline in ridership in the mid-1990s.

The long-distance trains average only one round-trip daily, speeds well below 55 miles per hour, on-time performance at or below 60 percent and delays sometimes measured in hours. As a result, these trains are at a significant competitive disadvantage versus other modes (in ordinary circumstances), particularly for business and time-sensitive personal travel. Amtrak's high fixed

cost base, low load factors, poor on-time performance, and challenging revenue management conditions adversely affect the financial performance of overnight and transcontinental trains.

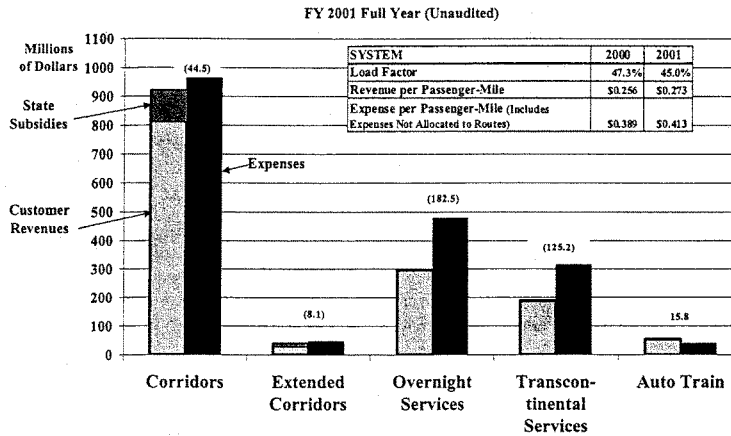


Source: Amtrak on-time data provided to FRA.



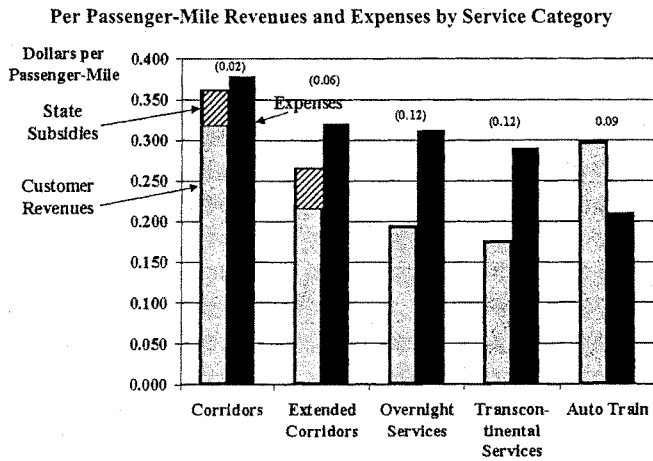
Source: Estimated from Amtrak timetables

FRA has analyzed all segments of Amtrak's network, and has estimated avoidable costs. *These are costs that would be saved if a particular route, or group of routes, were eliminated.* The data represent actual performance in fiscal year 2001 (full year—unaudited). Payments to Amtrak from State governments (which are negotiated each year) are shown separately from ticket revenue.



	Corridors	Extended Corridors	Overnight Services	Transcontinental Services	Auto Train
# of Routes	22	4	13	4	1
Passenger-Trips, mil.	18.8	0.5	2.7	1.1	0.2
Train-Miles, mil.	18.2	1.4	9.5	6.2	0.6
Passenger-Miles, mil.	2550.9	144.9	1532.4	1081.5	184.2

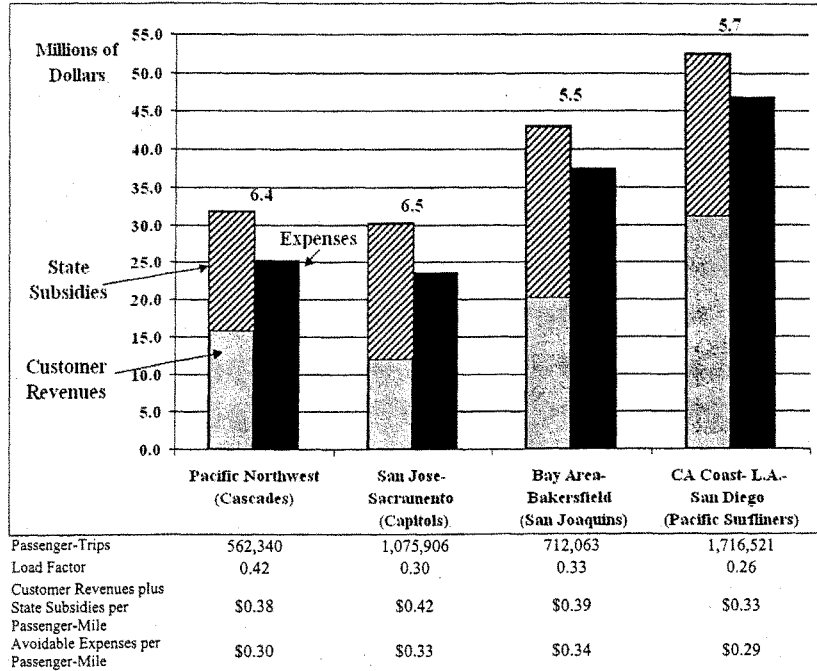
The chart above illustrates that a simplistic solution such as eliminating routes cannot restore the Corporation's financial viability. The long-distance service cuts proposed by Amtrak may ultimately save Amtrak on the order of \$200 million (depending on the application of labor protective conditions in its contracts) and cuts of all overnight and transcontinental service may save as much as \$300 million per year. However, absent major structural changes to the revenue/expense relationship, Amtrak will still not achieve fiscal health. The leading causes of Amtrak's weakened financial condition are crosscutting cost drivers – those costs that impact every train on every route. Cutting certain under-performing routes does not address this structural weakness. The pervasiveness of these crosscutting cost drivers, which affect all service categories—even the corridors, despite higher revenue yields and State subsidies—becomes apparent in the following chart:



States Are Playing An Increasingly Important Role in Supporting Intercity Rail Passenger Service

Amtrak forecasts State payments in FY 2002 of \$133 million, an amount equivalent to nearly 10% of its passenger-related revenues. Validating the importance of State payments to Amtrak today is the chart below, which reflects steadily, increasing demand for intercity passenger rail on the West Coast. The routes depicted here run in California, Oregon, and Washington State. Including State payments, revenues on each of these routes exceed avoidable expenses.*

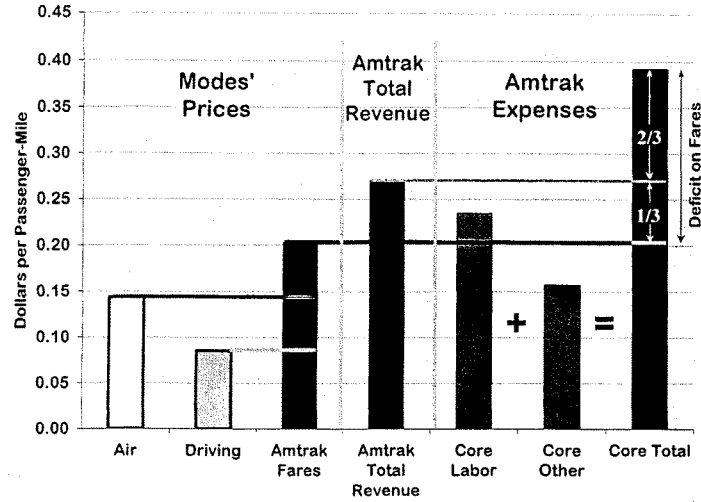
* Data for Fiscal Year 2001. The expenses shown are those which the FRA staff regards as "avoidable" on an individual route basis, and do not include an allocation of costs common to more than one route, or corporate overheads. These estimates are completely independent of, and not comparable with, the terms of any State contracts with Amtrak for reimbursement.



Amtrak's Competitive Posture Shapes Its Fundamental Economics

Given the measurable characteristics of Amtrak's product, one could conclude that airfares – now a third below those of Amtrak – or perceived driving costs – now less than half Amtrak's fares – would constitute the ceiling for Amtrak's fares. Although rail travel attracts business that cannot be totally explained on quantitative grounds, it is difficult to see how Amtrak can significantly raise its overall prices without eroding its traffic base, diminishing its utility to the Nation as a transportation provider, and even reducing its total revenues.

Thus Amtrak is in a vise: It cannot raise its fares across the board because of competitive pressures from other modes, made worse by Amtrak's service quality levels. And historically, it has not only been unable to lower its unit costs, but in recent years has actually seen them rise well above inflation. Therefore, Amtrak's economic stance in relation to other modes is overshadowed by its cost structure.



The discussion above relates to Amtrak's core revenues, i.e. revenues from carrying passengers and mail and express. Amtrak does have other revenue sources, such as facility rentals and commuter management fees. Yet, when these other sources enter into the equation, they propel Amtrak only one-third of the way toward a break-even operation.

Thus the basic economics of Amtrak point to the passenger deficit with its underlying, disproportionate unit costs as the prime target for improvement. Amtrak's basic economic problems are compounded by the debt load the corporation bears. At the end of 2001, Amtrak had long-term debt and lease obligations on the order of \$3½ billion; the company's debt service (principal and interest) is expected to amount to some \$¼ billion in 2002.

With three decades of ballooning expenses, a revenue base that can never expand fast enough to keep up with them, substandard service in most parts of the country that constrains the fare structure, and a traffic level that has actually declined since the early 90s, we must regard the current service provision system as unproductive and unsustainable. Quite simply, it needs to be changed.

Now Is the Time for a Cogent National Policy for Intercity Passenger Rail

For the last 30 years, Administrations and Congresses have addressed intercity rail passenger service by minor adjustments to authorizing statutes and the infusion of funds only sufficient to

keep Amtrak and its current route structure barely solvent. The discussion above provides strong support that we take a different path this year.

Last year and again a few weeks ago, Amtrak's President, George Warrington talked of two conflicting visions of Amtrak – as a provider of a public service at the direction of the Federal Government and as a commercially viable corporation. Mr. Warrington said that these visions are in such fundamental conflict that Amtrak cannot perform either of them well. He has called on the Administration and the Congress to provide clear direction as to what the national interest is in passenger rail service and adequate resources to cover those aspects of the national interest that are not commercially viable.

The Department of Transportation agrees that now is the time to develop a new, clear national policy for intercity passenger rail. The crisis in intercity passenger rail has been decades in the making and will not lend itself to simple solutions. At the present time, the Department is listening to the many stakeholders in intercity rail passenger service to identify their concerns, their needs, and their basic principles so that we can develop the outline of a new national intercity rail passenger policy that can have the broadest possible base of support. Secretary Mineta and I look forward to working with the Congress and others with an interest in passenger service in this difficult but important task.

The CHAIRMAN. General Mead.

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

Mr. MEAD. Thank you, Mr. Chairman. If I could just say a note, too, about working with Mr. Warrington over the past several years, ever since you passed that legislation. You assigned us statutory responsibilities for doing assessments of Amtrak periodically. Mr. Warrington and his team have been terrific to work with, and I regret seeing him go.

I have some slides—or some slides are in front of you—with the blue banner across the top. Many of you Members may reflect that you have heard the financial woes of Amtrak before and can legitimately ask what is different this time, and what is different this time is Amtrak has run out of options. Most everything has been mortgaged that can realistically be mortgaged and sold, then leased back, and I have a real difficulty making the numbers work on the \$521 million budget request which the Administration, when they submitted it, they said it was a placeholder, but it is very difficult to make those numbers work even if all you had was the Northeast Corridor.

I would like to turn to slide one. Slide one I think shows some irony and the irony is that Amtrak's revenue and ridership has shown significant growth since that self-sufficiency mandate was established on the slide, system-wide ridership is represented by that blue line. That grew about 11 percent, and systemwide passenger revenue which is represented by the red line on that same slide, that grew about 26 percent, and that growth trend that began in 1995 actually brought Amtrak to its highest passenger revenue levels in its history. An interesting fact here is that 43 percent of Amtrak's revenue now comes from sources other than the fare amounts.

If you could turn to slide two, unfortunately Amtrak's revenue growth is more than matched by growth in expenses. In fact, since the self-sufficiency mandate was established, for every dollar they are bringing in new revenues, cash expenses increase by \$1.05.

Senator MCCAIN. What percentage of costs are labor?

Mr. MEAD. I cannot say what the exact percentage is, but it has gone up, but not by the same percentages a lot of other categories such as interest, which I am going to come to in a minute. Labor certainly is a huge portion of Amtrak's cost, but I would not want to represent them as skyrocketing and out of kilter by comparison with what is happening in the freight railroads.

On slide three, slide three shows the operating loss for 2001 and for prior years going back to 1990. The dark blue line, that loss shows over \$1 billion. It's about \$129 million higher than its 2000 loss and the largest in Amtrak's history. The dark blue line, it is important to know the delta between the light blue line, and the dark blue line represents the depreciation and that is not bad. It represents capital investment and depreciation assets.

The real test is the cash loss and there is the light blue line, and you see that is \$585 million and under the current law that is the basis for measuring self-sufficiency.

The dark blue line is not. The light blue is, and as you can see that has not gotten any better either. That, in fact, is worse by about \$24 million than it was in 1998, the first year of the self-sufficiency mandate.

If you turn to the next slide, Senator McCain, this is what I was alluded to in response to your question about the growth in expenses. Since 1997, Amtrak's total debt has grown 155 percent. That is a very serious problem here. Gone from about \$1.7 billion to nearly \$4.4 billion. Interest on borrowing was \$24 million in 1994. It is approaching \$180 million or so this year and expected to increase to \$225 million by 2005. When you combine that with the principal payments, you have \$300 million a year, and that is over half of the current subsidy that is going to debt.

Finally, if you could turn to the slide five, this is the last slide I would like to discuss here. What this shows is, as best we can measure it, the results of lack of capital investment, and you can see that despite investments since 1997, Amtrak has not been able to invest sufficiently in its fiscal plan, and the results are becoming apparent. This is total delay for Amtrak trains in the Northeast Corridor and how they have risen between 1998 and 2001, and there is a 75 percent increase in delay, and the Northeast Corridor of all of our corridors is a high-speed rail corridor and you cannot do high-speed rail and have this type of phenomenon occur.

I would like to just make a couple of brief comments on passenger rail options beyond 2003. I think it is a mistake to focus on this operating deficit alone. The real issue is capital and the capital shortfall. It is not true that if you just did away with the long cross-country trains and the long distance trains that Amtrak would be OK. That is not true.

In fact, the net operating subsidy that is required to continue operating the long distance trains, and I will say that again, the annual net operating subsidy that is required to continue operating the most unprofitable long distance trains is less than one-third of the annual capital subsidy to continue operating the most profitable trains in the Northeast Corridor.

I would like to make a comment about the bills that were recently introduced. There is actually common ground between the two bills, and I would like to just mention them. Both bills have in common that an immediate increase in capital funding is necessary. The amount varies, but it is a lot more than we are putting into this system now. The bottom line is there is no future for Amtrak in the Northeast Corridor or anywhere else if we do not deal with the capital situation.

Both bills also establish strong oversight provisions in my view. The type of money that Senator McCain's bill is talking about or Senator Hollings' bill is talking about I would not just hand out to Amtrak. I think it is good Senator McCain's has a control board-type mechanism. Senator Hollings' has it going to the—I think that is an important set of gates to make this amount of money go through rather than just sending it to Amtrak.

Finally, both bills authorize capital funding for security and life safety improvements, including the tunnels under New York, and I think that is very important.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Mead follows:]

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

Mr. Chairman and Members of the Committee: We appreciate the opportunity to testify on Amtrak's performance, budget and passenger rail service issues. Since December 1997, Amtrak has operated under a Federal mandate to eliminate its need for Federal operating assistance by December 2, 2002. Amtrak has not succeeded in implementing enduring financial improvements of the magnitude necessary to attain and sustain self-sufficiency in and beyond 2003. *Despite marked growth in Amtrak's passenger revenues and ridership—26.1 percent and 11.4 percent, respectively—expense growth has more than kept pace, so that for every \$1 Amtrak realized in additional revenue, cash expenses increased by \$1.05.*

Amtrak's operating loss in 2001 of \$1.1 billion was \$129 million higher than the 2000 loss and the largest in Amtrak's history. Amtrak's cash losses, which are the basis for measuring Amtrak's progress towards self-sufficiency, were \$585 million in 2001. This was \$24 million worse than Amtrak's cash loss in 1998, the first year of Amtrak's self-sufficiency mandate.

Amtrak's failure to eliminate its need for operating assistance has detracted attention from the more critical issue, which is how much capital investment will be needed to sustain a system of intercity passenger rail. The long-distance trains, which account for most of Amtrak's cash losses, actually constitute a relatively small subset of Amtrak's capital needs. *The annual net operating subsidy required to continue operating Amtrak's most unprofitable long-distance trains is about 30 percent of the annual capital subsidy required to continue operating Amtrak's most profitable trains in the Northeast Corridor.* The Northeast Corridor alone accounted for about 55 percent of Amtrak's total ridership in Fiscal Year 2001 and contributed about \$89 million in cash profits to the rest of the system, but to ensure safe and reliable operations, most of Amtrak's capital investment dollars will need to be invested there.

Any system of passenger rail—profitable or not—will require substantial and continuing capital funding. Even if Amtrak (or a successor) were to succeed in becoming operationally self-sufficient, it would still require substantial external assistance to address its capital needs. The Northeast Corridor has a backlog of capital investment needs to bring it to a state of good repair that Amtrak has recently estimated to cost about \$5 billion. To address this backlog and make the kinds of annual reinvestment necessary to sustain safe and reliable operations, Amtrak estimates that it will need between \$1 billion and \$1.5 billion annually.

As this Committee continues its efforts to reauthorize intercity passenger rail service, three issues are likely to shape the outcome:

- The substantial level of capital funding that will be required regardless of the operating structure adopted,
- The most equitable and appropriate source and vehicle for funding these needs, and
- The importance of each component of the system from a national, regional, and state perspective and the implications of such for cost-sharing decisions.

Although the Chairman's bill, S.1991, and the Ranking Republican member's bill, S. 1958, differ in their long-term approach to intercity passenger rail service, *they both recognize that an immediate increase in capital funding is necessary.* Given Amtrak's history of substantial operating losses and its capital spending choices as reported in our statutory annual assessments of Amtrak's financial performance, strong oversight provisions should accompany any infusion of capital funding be it to Amtrak or any successor. S.1991 places substantial oversight responsibility with the Department while S.1958 assigns a strong oversight role to an independent control board as well as the Department. We are pleased to see strong oversight provisions in both bills.

Both bills also provide capital funding for security and life safety improvements and we fully endorse these investments as well. However, we note that the ultimate goals for much of the proposed capital infusion are markedly different in each bill. S.1991 foresees substantial growth in capital funding to maintain, improve, and expand the current system under Amtrak's operation, including substantial funding for the development of high-speed corridors. In contrast, S.1958 envisions a restructuring of the current system into separate entities for train operations, maintenance, and national reservations services. Capital improvements are authorized to make a restructured system more viable with the final goal of liquidating Amtrak and privatizing the remaining entities at the end of a 4-year period. Which direction

to take is the province of this Committee and the Congress. We stand ready to provide analytical support to you and your staff as the process moves forward.

DETAILED OPERATING AND CAPITAL COST ESTIMATES MUST BE DEVELOPED FOR EACH PASSENGER RAIL OPTION CONSIDERED.

Congress and the Administration need to determine whether the public interest lies in a linked national passenger rail system, in regional systems of time-competitive routes, in some variation of the two, or in no passenger rail service at all. Once the desired system is determined, a detailed cost analysis, including the funding that will be needed to support operations and adequate capital investment will need to be developed.

On February 15, Amtrak submitted its own grant request to the President, seeking \$1.2 billion for operating and capital needs in Fiscal Year 2003.¹ The request included \$840 million for capital investment needs that Amtrak describes as, "essential for keeping a national rail service network intact," during that year. This "limp-along" budget is substantially greater than the Administration's placeholder budget request for 2003 of \$521 million.

Amtrak projects that over the next 25 years, it will need to invest about \$30 billion in capital projects just to sustain the system as currently structured. Approximately one-half will be needed in the Northeast Corridor, including \$5 billion to address the backlog of state-of-good-repair needs. The magnitude of need makes it clear that neither the Administration's request nor Amtrak's request would allow Amtrak to begin to meaningfully address these needs in 2003. However, it is not clear at this point how passenger rail will be structured beyond that date, which could affect the required level and location of investment.

Congress needs to understand how and where Amtrak intends to use its requested 2003 appropriation before it can determine the appropriate amount of funding. *Amtrak needs to develop specific and detailed information on the exact operating and capital programs requiring immediate funding as well as long-term attention.* More specifically:

- To support its FY 2003 grant request for \$840 million in capital investments, Amtrak needs to provide detailed data on project location, construction schedules, cost estimates, spending plans, and associated assumptions. Amtrak should identify which routes and states would benefit from these investments and describe for each project what the implications would be from a safety, legal, service reliability, and financial perspective (operating revenues and costs) if the investments were not made in FY 2003.

- Additionally, to support its request of \$200 million for the net losses associated with operating 18 long-distance trains, Amtrak should provide details on how it calculated the operating losses for each of the trains, how it derived the internally generated offsetting profits, and the basis for the related capital investment savings. Also, Amtrak needs to provide more specific support for how it arrived at its estimate for \$160 million in excess RRTA expenses.

In order to determine the capital and operating subsidies necessary to support any future intercity passenger rail service, it will be necessary to develop fully allocated cost estimates for each option considered, for example, the current system, the current system minus long-distance trains, the Northeast Corridor only, or existing corridors plus new corridors.

Amtrak's figures are likely to be the best data currently available to establish a cost baseline. From these data, the short- and long-term capital and operating funding needs associated with any potential option for passenger rail could be determined. *This information will be essential to the Congress and other stakeholders if any discussion of route or service restructuring is to be considered. Amtrak should be encouraged to develop these data as quickly as possible.*

FUNDING FOR CONTINUED RAIL SERVICE SHOULD BE SHARED AMONG STAKEHOLDERS

Amtrak has historically received Federal capital and operating subsidies, which it invests systemwide as needed to support operations across a national network. In some cases, states and freight railroads have partnered with Amtrak on a project-by-project basis to fund capital improvements. Some states have also agreed

¹The Office of Management and Budget traditionally requests funds on behalf of Amtrak which it includes in the Department of Transportation budget request. A request was submitted by the Department on February 4, 2002 for Fiscal Year 2003 funds, which included \$521 million for Amtrak's 2003 operations. Amtrak subsequently transmitted its own request to the President on February 15, 2002, requesting \$1.2 billion.

to subsidize the operations of services that Amtrak could not otherwise operate due to the losses associated with these services.

The "formula" for partnering, however, is inconsistent, and some entities have contributed substantially to the growth and operation of passenger rail while others have benefited from service without contributing anything. Work should be done to better identify and allocate the costs of capital and operating investment according to the benefits realized by stakeholders. An important precursor to allocating costs will be determining how each service fulfills our national, regional, and state goals for mobility and other transportation priorities.

IMPORTANCE OF RAIL SERVICE TO A REGION WILL LIKELY PLAY AN INTEGRAL ROLE IN DETERMINING COST-SHARING RATIOS

Once the costs of subsidizing passenger service are identified—both operating and capital—it will be important to weigh the subsidies needed—both capital and operating—in light of national, regional, and state priorities. A number of variables should be considered in these evaluations including the importance of the rail system to regional mobility, essential transportation for small communities, national security, the need for transportation alternatives, relationship to other national priorities including environmental issues, political considerations, and historical or nostalgic importance.

For example, an argument has been made that the rail infrastructure in the Northeast Corridor is a national asset and is essential to national mobility. The Northeast Corridor serves cities with four of the seven most congested airports in the United States, and has for several years carried more passengers between Washington and New York (62 percent of the total) than all airlines combined. Including intermediate stops on the New York to Washington route, Amtrak carries nearly three times as many passengers as the airlines. While the capital subsidies associated with maintaining the Northeast Corridor service may be higher than in other parts of the country, the contribution to regional mobility and the implications on congestion for other modes of transportation without it, may justify the significant capital investment.

Regions and states may decide that even if a service or corridor does not fulfill a national need, it serves a critical regional or state priority. For example, California has decided to subsidize both rail service operations and capital improvement projects to expand rail service within California consistent with the state's sensitivity to environmental issues and concerns about regional mobility.

Assessing and identifying the importance and need of service in a particular region or community will play an integral role in determining who should bear responsibility for financially supporting that service or how those costs should be shared among stakeholders. It is possible that cost-sharing equations would differ in areas where limited demand makes service less of a necessity even though the relative subsidies to continue that service might be far less than what would be required in other, more rail-dependent, communities.

ELIMINATING AMTRAK DOES NOT ADDRESS PRIMARY ISSUE OF CAPITAL FUNDING.

Proposals have been made concerning the possibility of establishing separate entities—either public or private—to address the operational needs and infrastructure needs of intercity passenger rail. While elements of these proposals certainly have merit, the primary issue of funding needs to be resolved first. Amtrak currently estimates that it would need about \$1.0 billion to \$1.5 billion in capital each year just to sustain the current system and another \$0.5 billion each year to begin to develop new high-speed corridors. These needs would not just go away by handing the system or parts of it over to another entity. What it will cost to continue and begin to expand passenger rail in the United States is not dependent upon whether Amtrak is the operator or not. *The debate over whether a private company or government entity should be established solely for the purpose of administering the rail infrastructure investment program is irrelevant if there is no assurance that adequate capital funding has been secured to invest in the system.*

In fact, privatization is not likely to be an option unless adequate funding is secured. If the Northeast Corridor were to be franchised "as is," with its \$15 billion in long-term capital investment needs, few investors would find it a good bargain. For the Northeast Corridor to become marketable, the capital needs must first be addressed, which leads us back to the funding question already on the table: "How much will it cost, who pays, and how?"

The recent experience in Great Britain with rail service underscores concerns about commercializing and separating infrastructure and operating functions. Allowing a business to operate "like a business" may mean relinquishing control over how

certain expenses are cut or which capital investments are made. An infrastructure company that is focused on its bottom line may make decisions that are in its best interest financially, but which may affect the safety or efficiency of rail service operations.

With Amtrak's authorization expiring at the end of 2002, many questions face the Congress about the future of intercity passenger rail in the United States. The question of what kind of system is best for the country is inextricably intertwined with the question of how much the country is willing to pay for such a system. The answers to both questions are most appropriately left to the Administration, the citizens of the United States, and their elected representatives.

We expect that our contribution to the debate will be in helping to frame the questions in such a way as to make the task easier as Congress moves forward to develop answers. As part of our legislative mandate to perform annual assessments of Amtrak's financial condition and needs, we will also provide whatever information we can concerning possible options and the likely costs, risks, or both associated with the various options put on the table.

The following discussion summarizes Amtrak's performance achievements and shortfalls since it received its self-sufficiency mandate in 1997, as well as general performance trends experienced over the past decade. We also offer some observations on Amtrak's Fiscal Year 2003 grant request.

AMTRAK'S PERFORMANCE ACHIEVEMENTS AND SHORTFALLS

In the following section, we highlight some of Amtrak's achievements and shortfalls in financial and operating performance since its self-sufficiency mandate in December 1997 as well as longer-term trends in performance. For the most part, the record shows that Amtrak has fallen far short of its financial and operating performance goals and, as a result, its financial health has significantly deteriorated.

IMPLEMENTATION OF HIGH-SPEED RAIL SERVICE IN THE NORTHEAST CORRIDOR

First and foremost, Amtrak implemented high-speed rail service in the Northeast Corridor. Acela Regional service was initiated on a limited basis in January 2000 and Acela Express revenue service started in December 2000. These accomplishments were not without their downside, however. The electrification of the right-of-way between New Haven, Connecticut, and Boston, Massachusetts, was completed about 1 year behind schedule and more than \$300 million over budget. Similarly, Acela Express revenue service was introduced about 1 year behind schedule with substantial budget overruns. The 20th and final Acela Express trainset is now projected to be in service by the summer of 2002, about 2 years behind schedule.

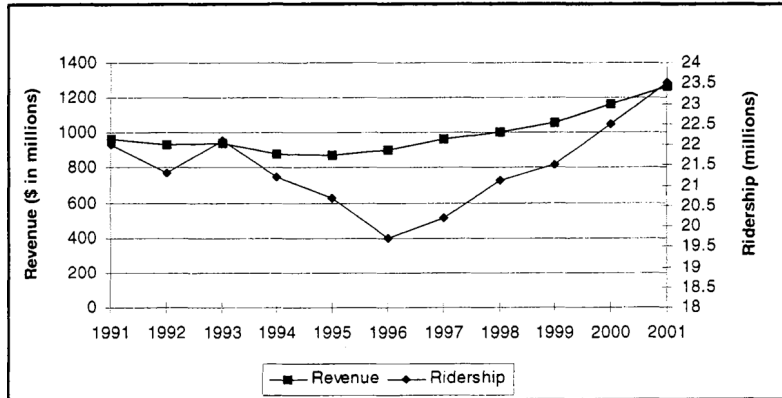
PASSENGER REVENUE AND RIDERSHIP GROWTH

In 2001, systemwide passenger revenue² and ridership improved from 2000, continuing the upward swing of the past few years. Passenger revenues increased by 8.2 percent and ridership by 4.3 percent. The Northeast Corridor experienced the most significant increase where passenger revenues grew a strong 13.5 percent and ridership increased by 4.6 percent.

Systemwide ridership grew 19.3 percent between 1996 and 2001, rising from 19.7 million to 23.5 million. Additionally, systemwide passenger revenue grew 44 percent between 1995 and 2001. The revenue growth trend that began in 1995 has brought Amtrak to the highest passenger revenue levels in its history. Figure 1 illustrates systemwide passenger revenue and ridership growth from 1991 through 2001.

²Financial data for Fiscal Year 2001 were compiled from Amtrak's unaudited internal financial statements.

Figure 1. Passenger Revenue and Ridership Growth Since 1991

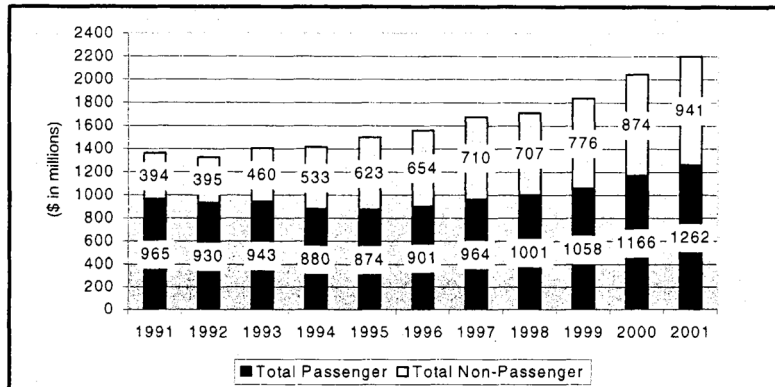


While growth has fallen short of Amtrak's projections for both revenue and ridership, in the current economic climate and in the wake of the terrorist attacks, Amtrak's relative performance has been more positive than its competitors. Domestic air passenger enplanements for the major carriers were down approximately 21 percent for the most recent quarter ended December 31, 2001, compared to the same quarter last year and air carrier passenger revenues were down almost 33 percent. Amtrak's ridership and revenue numbers, however, remained strong. Compared to the same quarter last year, Amtrak's systemwide ridership was only down about 1 percent and passenger revenues were up by 13 percent. It is particularly noteworthy that passenger revenue in the Northeast Corridor grew by 21 percent over the same quarter a year ago.

NON-PASSENGER REVENUE GROWTH

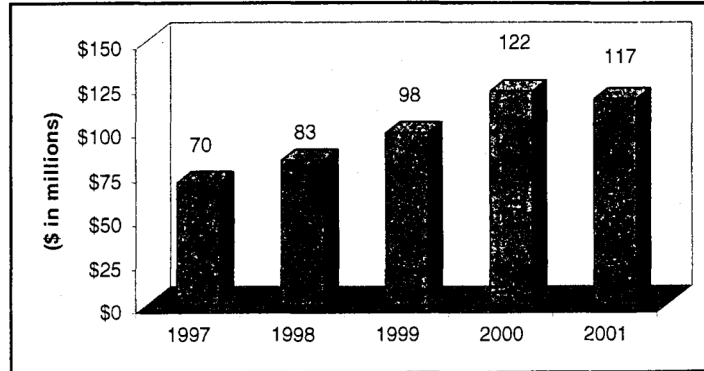
Non-passenger revenue has accounted for an increasing share of Amtrak's total revenues between 1991 and 2001. In contrast to passenger revenues, which grew 31 percent, the overall increase in non-passenger revenue has been 139 percent, rising from \$394 million in 1991 to \$941 million in 2001. Non-passenger revenue includes revenue from operating commuter services, mail and express, reimbursable work, state support for train services, commercial development, and other miscellaneous sources. Non-passenger activities now account for 43 percent of Amtrak's total revenues. Figure 2 illustrates growth in non-passenger revenues between 1991 and 2001.

Figure 2. Composition of Amtrak Revenues, 1991 Through 2001



Amtrak's fastest growing source of non-passenger revenues was projected to come from its expanded Mail and Express business line. To its credit, Amtrak's Mail and Express revenues increased 67 percent, from \$70 million in 1997 to \$117 million in 2001. Figure 3 illustrates actual revenues generated from Amtrak's Mail and Express business line for the 5-year period 1997 through 2001.

Figure 3. Actual Mail and Express Revenues, 1997 Through 2001

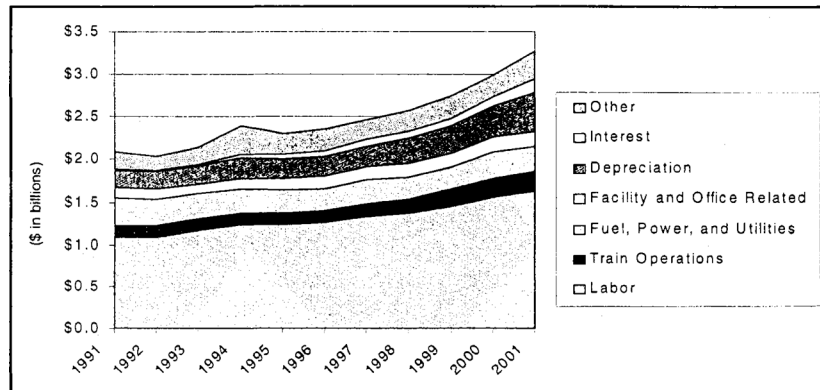


However, this performance fell far short of Amtrak's projections. Amtrak's 2001 Strategic Business Plan projected revenues of \$181 million for 2001, growing exponentially to over \$400 million by 2003. Subsequent issuing its business plan, Amtrak recognized that its forecasts were not realistic and substantially reduced the estimated contributions from the Mail and Express business.

EXPENSE GROWTH HAS MORE THAN KEPT PACE

Since receiving its mandate in December 1997, for every \$1 Amtrak realized in additional revenue, cash expenses increased by \$1.05. Between 2000 and 2001, Amtrak's expenses, including depreciation, grew 9.8 percent, or a total of \$294 million. Viewing expense growth in the longer term, since 1991, total operating expenses have grown about \$1.2 billion, from \$2.1 billion to \$3.3 billion, representing an overall increase of 57 percent. In the same time period, total revenues grew by about \$850 million. Figure 4 illustrates growth in various categories of expenses between 1991 and 2001.

Figure 4. Growth in Amtrak's Expenses, 1991 Through 2001



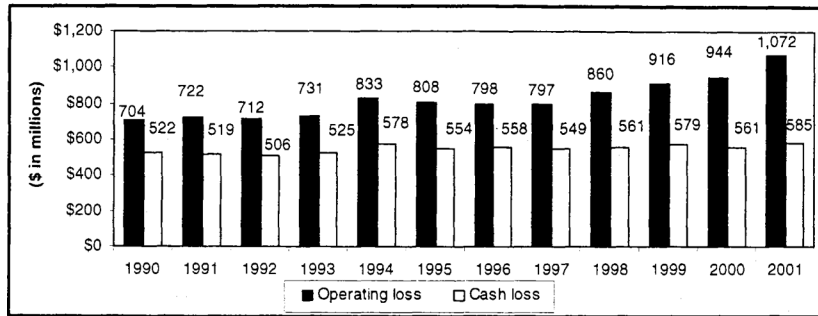
Our assessments of Amtrak's prior Strategic Business Plans identified large gaps in Amtrak's ability to stay on its glidepath. Simply put, Amtrak needed to curtail expense growth by over \$700 million and the railroad did not have concrete plans

to achieve the reductions. In FY 2001, Amtrak began to focus on cost management initiatives but these actions were clearly inadequate.

OPERATING AND CASH LOSSES CONTINUED TO GROW

Continued expense growth coupled with lower-than-projected revenue growth has resulted in operating losses that have continued to increase since Amtrak's mandate was established in 1997. Amtrak's operating loss in 2001 of \$1.1 billion was \$129 million higher than the 2000 loss and the largest in Amtrak's history. Amtrak's 2001 cash loss, which is the basis for measuring operating self-sufficiency, was \$585 million, \$24 million higher than its cash loss in 2000. Figure 5 illustrates growth in Amtrak's operating and cash losses since 1990.

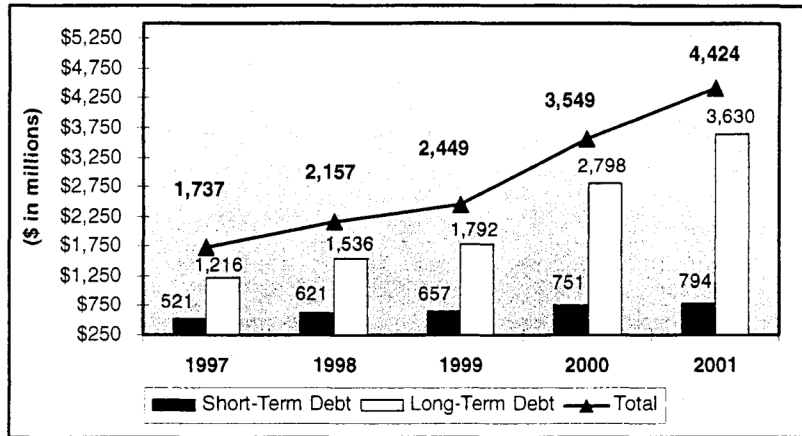
Figure 5. Growth in Operating and Cash Losses, 1990 Through 2001



AMTRAK'S OVERALL FINANCIAL HEALTH HAS DETERIORATED

Between September 2000 and September 2001, Amtrak's long-term debt and capital lease obligations grew by 30 percent, or a total of \$832 million. Since 1997, Amtrak's total debt has grown about \$2.7 billion, from \$1.7 billion to \$4.4 billion, representing an overall increase of 155 percent.³ Figure 6 illustrates the growth in Amtrak's short-term liabilities as well as long-term debt and capital lease obligations since 1997.

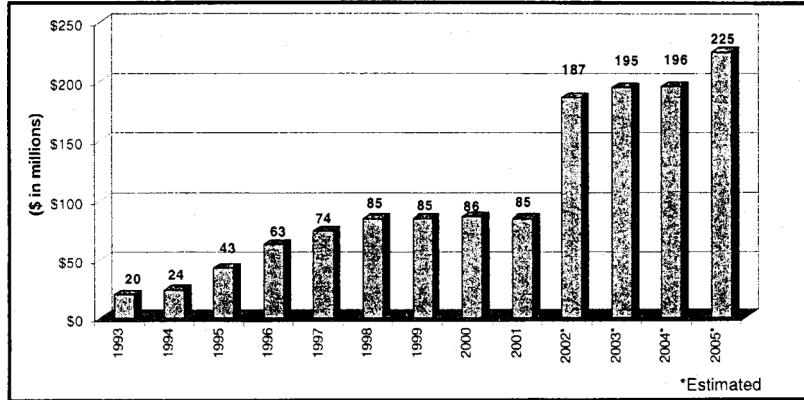
Figure 6. Growth in Amtrak's Short- and Long-Term Debt, 1997 Through 2001



³In 2000, Amtrak entered into several sale-leaseback transactions involving passenger train equipment. Amtrak set aside proceeds from the transactions that, combined with projected interest earnings on the proceeds, are expected to satisfy the associated future capital lease obligations of over \$900 million.

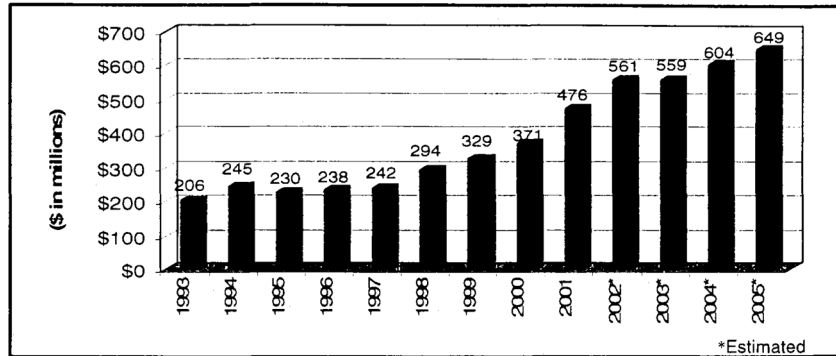
As a result of its growing debt burden, Amtrak has experienced a significant increase in interest expenses.⁴ The expenses primarily relate to externally financed purchases of new equipment, including the Acela trainsets and high-horsepower locomotives in the Northeast Corridor. Interest expense is expected to grow substantially, reaching \$225 million by 2005. Figure 7 illustrates past growth in interest expense since 1993 and projected growth through 2005.⁵

Figure 7. Growth in Interest Expense, 1993 Through 2005



In addition, depreciation expenses will increase dramatically over the next 4 years as the new capital investments financed by Taxpayer Relief Act funds, Federal appropriations, and private borrowing add to the total value of Amtrak’s capital assets. Depreciation expense is expected to reach nearly \$650 million by 2005, almost double the expense in 2000. Although depreciation is a non-cash expense, it is important to note that this reflects the cost of assets used up in generating the railroad’s revenues. In essence, this is the annual amount of capital required just to replace or restore train equipment, stations, tracks, and other facilities. Figure 8 shows actual depreciation levels from 1993 through 2001 and projected levels for 2002 through 2005.

Figure 8. Growth in Depreciation Expense, 1993 Through 2005



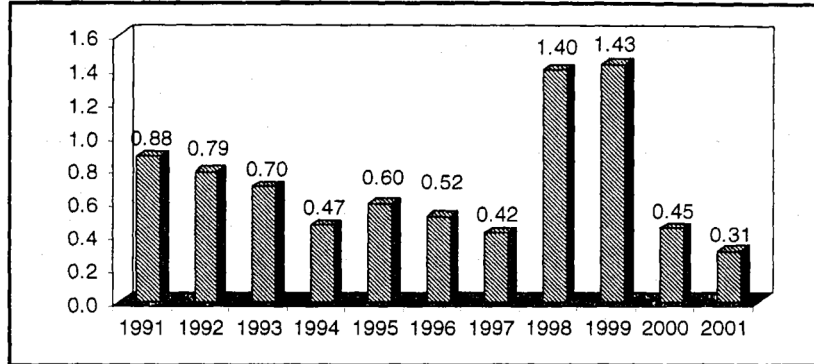
During 2001, Amtrak’s liquidity continued to deteriorate. As a result, Amtrak sought to compensate for cash shortfalls through a variety of means, including mortgaging portions of one of its most valuable assets, Penn Station-New York, for approximately \$300 million. Despite this cash infusion, Amtrak’s working capital ratio went from 0.45 in 2000 to 0.31 in 2001, its lowest level in over a decade. The work-

⁴Discussion of interest is on a cash interest basis, rather than accrual.

⁵Estimated.

ing capital ratio, which is calculated by dividing the value of current assets by current liabilities, is a measure of an entity's ability to meet short-term liabilities. The decrease in working capital means that Amtrak may have to increase its short-term borrowing or slash current expenses to enable it to meet its current obligations. Figure 9 shows the changes in Amtrak's working capital ratio since 1991.

Figure 9. Changes in Working Capital Ratio, 1991 Through 2001



AMTRAK HAS NOT MET ITS OPERATING PERFORMANCE GOALS

While Amtrak's ridership grew from 22.5 million in 2000 to 23.5 million in 2001, it fell short of Amtrak's 2001 ridership goal of 24.7 million. The shortfall was primarily attributed to delays in the Acela Express trainset deliveries, a slowing economy, and poor on-time performance. Other key performance measures for Amtrak are on-time performance and the Customer Satisfaction Index (Index). Amtrak reported systemwide on-time performance in 2001 of 75 percent, which was significantly below performance levels in 1999 and 2000, and far short of 2001 goals. Amtrak cited scheduled and unscheduled track work, freight rail traffic interference, mechanical failures, and weather as the largest contributors to the poor performance. As illustrated in Table 1, all three business units fell short of 2001 on-time performance goals.

Table 1: On Time Performance
[percentage]

Business Unit	1999 Actual	2000 Actual	2001 Actual	2001 Goal	+ / (-) 2000	+ / (-) Goal
Systemwide	78	78	75	85	(3)	(10)
Intercity	67	68	62	75	(6)	(13)
Northeast Corridor	88	87	83	92	(4)	(9)
West	75	75	75	79	0	(4)

Amtrak's Customer Satisfaction Index, which indicates the level of customer satisfaction with Amtrak's overall service delivery, remained the same in 2001 as the score in 2000, 82 (out of 100). However, as Table 2 indicates, all three business units fell short of their goals for 2001.

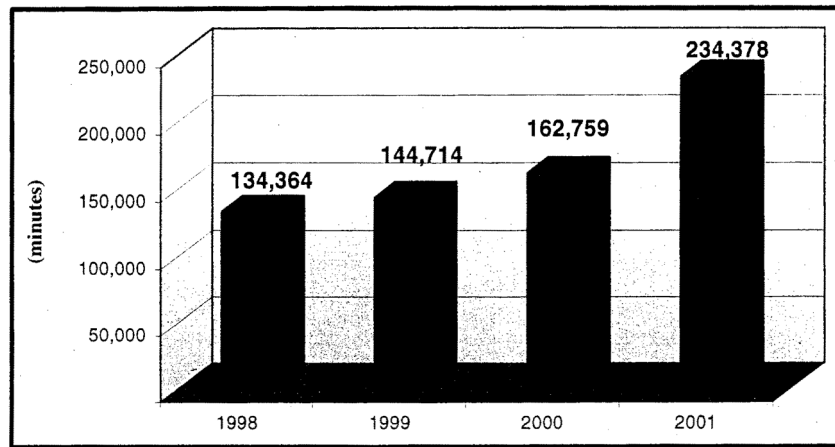
Table 2: Customer Satisfaction Index Results
[Scale: 1-100]

Business Unit	1999 Actual	2000 Actual	2001 Actual	2001 Goal	+ / (-) 2000	+ / (-) Goal
Systemwide	83	82	82	86	0	(4)
Intercity	78	79	79	83	0	(4)
Northeast Corridor	85	82	81	86	(1)	(5)
West	86	84	87	89	3	(2)

INFRASTRUCTURE HAS DETERIORATED DUE TO UNDERINVESTMENT

While Amtrak's capital funding since 1998 has been substantial, it has not been sufficient to invest in both high rate-of-return projects and reinvest sufficiently in existing infrastructure. The projects that support self-sufficiency, while not frivolous, have come at the expense of other, less visible reinvestment and operational reliability projects. The most notable of these needs is an estimated \$5.0 billion backlog of "state of good repair" needs in the Northeast Corridor. Amtrak has not been able to invest sufficiently in operational reliability or other kinds of projects that would begin to address these needs. The results of this deferred spending are becoming apparent. Total minutes of delay for Amtrak trains in the Northeast Corridor rose nearly 75 percent between 1998 and 2001.⁶ Figure 10 compares minutes of delay in the Northeast Corridor from 1998 to 2001.

Figure 10. Comparison of NEC Minutes of Delay, 1998 Through 2001

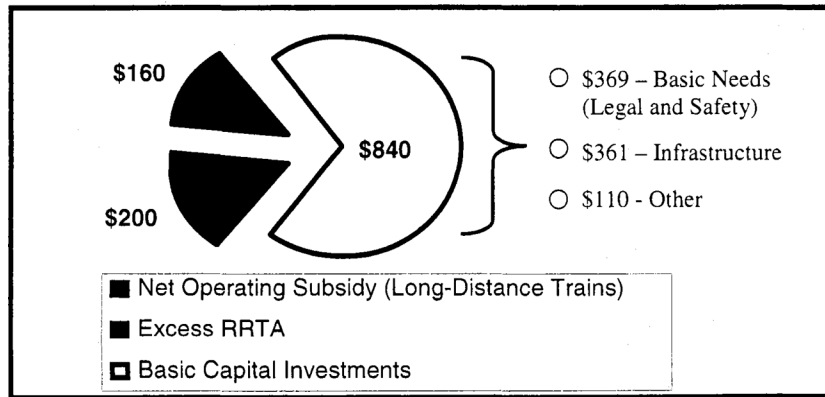


AMTRAK'S FY 2003 GRANT REQUEST EXCEEDS THE ADMINISTRATION'S BUDGET SUBMISSION BY NEARLY \$700 MILLION

The Department of Transportation's FY 2003 budget submission to the President requested funding in the amount of \$521 million for Amtrak. On February 15, 2002, Amtrak submitted its own grant request to the President, requesting \$1.2 billion, which it stated would be, "essential for keeping a national rail service network intact" in 2003. Included in this \$1.2 billion is \$160 million for payments to the railroad retirement fund in excess of the amount paid to Amtrak retirees, commonly referred to as "excess RRTA," \$200 million to cover net losses generated by 18 long-distance trains, and \$840 million to pursue a "minimum" capital program. Figure 11 illustrates Amtrak's FY 2003 grant request.

⁶Total includes delays caused by equipment, infrastructure, train operations, and outside interference (weather, police, and trespassers). The total includes delays incurred by Amtrak operating along its own right-of-way as well as trains operating over territory in which Amtrak neither owns nor is responsible for maintaining the infrastructure.

Figure 11. Amtrak's \$1.2 Billion Grant Request (\$ in millions)



We have not had an opportunity to review the detailed support, but Amtrak's request for \$200 million to subsidize the operation of 18 long-distance trains as well as \$160 million for excess RRTA appears reasonable. However, the \$840 million Amtrak is requesting for "minimum" capital investment needs close scrutiny. Table 3 outlines the general categories of capital projects Amtrak is proposing to fund with its FY 2003 capital grant request.

Table 3: Amtrak's \$840 Million Capital Grant Request (\$ in millions)

Environmental	\$29
Americans With Disabilities Act	19
Minimum Fleet Overhauls/Preventive Maintenance	190
Life Safety	26
Debt	105
Federal Infrastructure/Operational Reliability	286
Non-Federal Infrastructure/Operational Reliability	75
Fleet Repair and Additional Limited Overhaul	59
Facilities	12
Technology	40
Total Capital	840

Amtrak's grant request for capital alone is significantly higher than the funds requested by the Administration for Amtrak's total needs in 2003. We note that the Administration recognized that the \$521 million essentially serves as a funding placeholder until a new paradigm for intercity passenger rail service is identified.

However, Amtrak's mandatory requirements including payment on debt service, excess RRTA, and net losses on the 18 long-distance trains identified by Amtrak amount to about \$500 million before the first dollar is spent on real capital projects.

Amtrak forecasts that over the next 25 years, it will need to invest about \$30 billion in capital projects just to sustain the system as currently structured. Approximately one-half will be needed in the Northeast Corridor, including about \$5 billion to address the backlog of state-of-good-repair needs. The magnitude of need makes it clear that neither the Administration's request nor Amtrak's request would allow Amtrak to begin to meaningfully address these needs in 2003. However, it is not clear at this point how passenger rail will be structured beyond that date, which could affect the required level and location of investment. Congress needs to understand how and where Amtrak intends to use its 2003 capital dollars before it can determine the appropriate amount of funding.

In our view, the most significant area where more information is needed is in the category of investment related to "infrastructure/operational reliability." Amtrak's budget request includes \$286 million for Federally-owned infrastructure and \$75 million for agreements with partner railroads for improvements on non-Federally-owned infrastructure. In our prior assessments, we have maintained that Amtrak's annual minimum capital need for Federally-owned infrastructure was about \$135 million, \$151 million less than Amtrak's grant request.

It may be that Amtrak needs more than our annual estimate for FY 2003, but its budget request only includes a laundry list of projects that could be undertaken, which Amtrak indicates is "subject to condition assessments." To enable Congress and the Administration to make informed decisions, Amtrak should provide specific and detailed information on exactly what projects need to be done in FY 2003, where they are, how much each is estimated to cost, how the projects will improve service, and what would be the implications if the projects were not done in FY 2003.

The same type of information is needed for the \$75 million Amtrak requested for operational reliability on non-Federally-owned infrastructure. While we fully endorse Amtrak partnerships that leverage funding from other sources and improve service, Amtrak has not shown in detail how the \$75 million will be spent and the implications if it did fund its share of these agreements in FY 2003.

The lack of clarity and specificity in its budget request may be symptomatic of Amtrak's unwillingness or inability to provide detailed financial information for effective decision making. Despite recommendations by the Amtrak Reform Council to break out financial results from train operations and owned infrastructure, and our repeated requests for detailed financial information on its mail and express business, Amtrak resisted implementing a financial reporting system that provided the information.

The absence of this important data makes it difficult to arrive at good business decisions and to pinpoint responsibility and accountability for achieving measured results. As an example, even though Amtrak was leaning heavily on generating substantial bottom-line contributions from its mail and express business to achieve self-sufficiency, Amtrak was not closely tracking the costs associated with this business line and could not account for how much, if any, it was netting from this activity. Even as it entered the 5th year of its 5-year glidepath, Amtrak was still trying to refine how to assign costs to its mail and express activity.

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

The CHAIRMAN. Thank you very much, General Mead.

Mr. Rutter, we are glad to have you, sir.

Mr. RUTTER. Thank you, Senator. I appreciate the indulgence of the Committee in allowing me to be here accompanying the Deputy Secretary. I simply ask that be entered into the record some testimony that we provided to the Committee that we offered to Senator Murray's Subcommittee last week.

The CHAIRMAN. That will be included.

[The information referred to follows:]

SUMMARY STATEMENT OF HON. MICHAEL JACKSON, DEPUTY SECRETARY,
DEPARTMENT OF TRANSPORTATION

Mr. JACKSON. Thank you, Senator. I appreciate the opportunity to testify today before your committee. Madam Chairman, Amtrak's financial condition is grave, as you have outlined, and the administration understands and agrees with you about the gravity of the circumstances that Amtrak faces.

As George Warrington has testified and spoken about recently, there is a structural problem in the way that Amtrak has to operate its mission to make profit and its public service commitment that has reached a point where those goals cannot be effectively reconciled. Its financial problems are significant.

BOARD OF DIRECTORS FOCUS

Since the Secretary was appointed to the Amtrak board in May of last year, his focus on these issues has been three-fold: First, to understand the financial facts; second, to support getting these facts out to the Congress and to the public to stimulate the type of understanding, and debate, and discussion about Amtrak's financial difficulties that we are having here today, and to help the public understand, and

the Congress to understand that Amtrak is, indeed, at a crossroads, not just another reauthorization period.

Finally, that is why he encouraged early in the summer of last year that we undertake a reauthorization early this year to look at the core issues and to figure out how to proceed with intercity passenger rail going forward.

It took us 30 years to get here. It will take us a little bit of time, I think, to build the consensus on the State level, at the Federal level, with all the parties that are necessary to take what is a very complex series of issues, and to bring them to some closure so that we know how to provide for intercity passenger rail in the future.

DEPARTMENTAL FINANCIAL ANALYSIS

If I could, in May of last year, late April of last year, we were presented at the Department of Transportation with the transaction that you referred to regarding Penn Station, and at that time began to understand the degree of difficulty that Amtrak faced in meeting its financial obligations and the various methods and mechanisms that it had sought to use to try to reach the glide path objectives that were set out for it.

We expressed concern about that particular financing deal at the time, but agreed with Amtrak that their mandate for the glide path and their requirements to live within their budget left no alternative, and the Secretary agreed to provide the guarantee necessary by the Department to allow that transaction to move forward, but that started for us the beginning of a very intensive look at the Amtrak issues.

Internally, we began a financial analysis, and it was shortly after that that the management of Amtrak and the board voted to seek some outside support in looking at these same set of core issues. So I think that the realization about Amtrak's financial difficulty has appropriately and helpfully reached the stage which we are at today, which is to say that they are struggling to live within their financial means this year, and have taken significant steps at Amtrak on the board—these issues have been discussed in great detail to try to get us to the end of the fiscal year within the means that we have at the disposal of the corporation, and to provoke this reassessment of how to proceed going forward.

I would like to talk just briefly, and then would be happy to answer any questions about the issues that I think need to be addressed.

I do not come here today with a legislative package, with a specific opinion about each of the details that have to be incorporated into the solution of the problems that we have, but I want to just outline the questions that I think we have to face before us and fold into any solution that we should carry forward.

AMTRAK SELF-SUFFICIENCY

First, do we need to continue to support with Federal funds intercity passenger rail? Secretary Mineta's view of this has been clear from the outset, and is clear from his whole congressional career. Yes, indeed, we do need to support with Federal funds, inter-city passenger rail, and that the intercity passenger rail is a vital part of our national transportation needs.

Second, have we understood adequately the major financial and policy drivers that make Amtrak incapable of financial self-sufficiency? I think we have a much clearer picture of that. George will be speaking about that; so will the Inspector General. We have cooperated carefully with both, and I think we have a clearer view of what the drivers are.

Third—and this is the beginning of the key questions. What kind of passenger rail system can we sustain, should the American people support? No system? I have said that we think that is not a viable option. But then we have to look—a limited system, with certain corridors only, a national system characterized mainly by routes, or a true national system comparable in scope to the type of system we have today?

That does not even address the question of improving service with high-speed rail, or the significant investments that would be necessary to make high-speed rail possible. So then layered on top of the three option I just mentioned, do we support corridors or a national system of higher-speed rail capability?

Finally, what is the role of MAGLEV in this area? These three strands supporting what we have today, growing for the future with high-speed rail, and the MAGLEV issue out on the side, have to be brought together in a single authorization.

AMTRAK FUNDING OPTIONS

What is the total cost? Each of these have broadly different costs. Just to keep what we have, I believe, personally, that the cost order magnitude is \$2.5 billion to \$3 billion a year. That is not to grow to high-speed rail. It does provide money

for some of the deferred capital investments that need to be made in their existing network.

What portion of these costs should be borne and by whom? The Federal Government? State government? Fare box revenues and increased operating efficiencies at Amtrak? I believe all of these are part of the solution and have to be part of the solution. Just as you have said, some States are putting significant investments in. And we have to manage this problem of how to fund intercity passenger rail by looking at Federal, State, and the Amtrak assets that come here, fare box, and operating efficiencies.

I would like to raise the question of whether there is outside capital investment, private sector investment that should have a role somehow in providing the necessary funds.

The next question we have to raise is: How is the government going to pay for its share? As you have said already, Madam Chairwoman, the amount of money needed to bring this together is very, very large, indeed. Should the Federal funds cover operating expenses as well as capital expenses?

The next question I think we have to face is whether Amtrak's current organizational structure provides the appropriate means for providing intercity rail passenger service. The ARC report suggests some fundamental restructuring.

I would suggest that the more difficult questions are what we want and how we are going to pay for what we want, and that the structural questions really follow behind that, and would drive solutions once we can address those core questions.

How do we deal with access issues on trackage and safety issues? There is increasing congestion in the freight rail tracks which Amtrak uses. Amtrak has a special right of access under the law. We have increased demand on the Northeast Corridor. There are grade crossing issues associated with high-speed rail improvements, and noise issues. There is a cluster of those issues which have to be understood, addressed, and evaluated as part of a solution that we need for reauthorization.

Next, we have to know what we want, and how to pay for it, and how to get there. What type of transition is necessary? I do not think it will be easy, or possible, or desirable simply to say that the Amtrak that exists today is going to be changed dramatically in a structural way, or in an operating way, in terms of how we fund and manage this going forward.

So I think we have to look at some transitional approaches to move from where we are today to where we want to go. It may not be possible to throw a switch and get the system that we want, or the organization and operation that we want overnight at the beginning of a new fiscal year.

AMTRAK STRUCTURE

Finally, what is the will of the Congress, the States, and others who are part of this process? There was on the table with the previous authorization, a very strong mandate that we must meet operational self-sufficiency at Amtrak, and that operational subsidies were not to be expected.

So we have this question on the table: What are we going to be able to sustain, and what is the political realm of possibility that we have to choose from among these options, these questions, these issues?

So without trying to lay specific answers on the table, I am very pleased with my colleague, Administrator Rutter, to be engaged in a dialogue with the Congress, with the States, and with interested parties here, with Amtrak's employees, to look at its future, and to build a better future for intercity passenger rail.

I look forward to participating in this dialogue in the coming weeks with you.

Mr. RUTTER. And I am here to answer any questions that the Senators may have.

The CHAIRMAN. Very good. Secretary Jackson, you must have had that Dick Morris write your statement. You acted as if we were having a hearing for the Administration. You asked more questions than we could possibly answer, and it is probably a darn good idea.

We have given you the answers. What do you think of them? At least that is why we got you here. We know how to ask the questions. At least we got onto General Mead and that is valuable, but we both believe in capital funding, Senator McCain's bill and mine, otherwise strong oversight and not to get rid of Amtrak, and that means get rid of Amtrak which we both agreed and then let us get

something operating with respect to security and everything else of that kind.

But why had not you all set up something that we can act on? After all, you all have made decisions in the country of Georgia. You all can make up your mind about what can be done in the Philippines. Cannot you make up your mind what ought to be done with this bankruptcy that is at your doorstep? I mean, you mortgaged Penn Central Station in order to pay the light bill. You know that I know that. So come on, what do you all want to do?

Mr. JACKSON. Senator, we appreciate the difficulty of this problem, and I am going to give you a couple of answers, and I am just going to say this. The Administration is continuing the assessment portion of the rest of it, and we want to engage in a dialog. Where we started at the end of last year, we were operating under a Congressional mandate that said Amtrak had to meet a glidepath and be operating self-sufficiently by the end of the year.

The CHAIRMAN. I do not mean to be rude, but this is not foreign policy. We do not want to get in a dialog. We want to make decisions and provide. I mean, that is what we have been into is a dialog since 1971, an unfunded dialog.

Mr. JACKSON. Well, we are ready to work very closely with you, sir, to make that dialog into legislation. Let me give a couple of particulars.

The Administration last December 5th supported the measures that this Committee put forward on the safety improvements for the tunnels. That is a part of your bill. That is something we have supported. We also supported about a \$500 million investment on improving Amtrak security. That is something that the Committee has supported in a bipartisan way, and we support that as well.

In your legislation and in Senator McCain's legislation, as General Mead said, there are some important provisions that relate to making sure that we audit carefully and watch the way that money is allocated, and we support that fiscal responsibility and the impulse to structure this in a different way than we have now.

There are two different measures on the table here in the two bills that Committee Members have laid on the table and are looking at that issue of how best to structure it. I think both bills look at a transition period. Senator McCain's bill has a control board mechanism and a period of years. We are concerned that we cannot just simply change the appropriation and throw more money at Amtrak as currently structured without understanding that we want to change the behaviors that have produced these problems. So we will be recommending a transitional structuring through what we have today and make it operate more effectively.

So there are series of things that I think we will be in very much agreement on, but the President is going to have to review with his advisers the significant financial cost associated with this transportation need, and we are not prepared as an Administration, and I would be rash to get out in front of my President on this issue, to commit to a specific dollar amount and an enumeration of exactly what we can support in that regard. I think the questions have to do above all with what we can afford and what we are trying to produce.

The CHAIRMAN. Is the Administration ready for a national system? Mr. Warrington has already testified to the fact that the basic model is flawed, it has not worked and has not worked anywhere in the world, and right to the point, we need a national system according to the bill before us. Do you agree or disagree?

Mr. JACKSON. The Administration is not prepared to see what we have as a national system continued because it is broken and does not work, and I think, Senator, you have acknowledged the same. So we recharacterize it, restructure it. We do need intercity passenger rail in this country.

The CHAIRMAN. You keep saying intercity. Is that as far as the Administration will go, just intercity?

Mr. JACKSON. Well, a national system is a system that links cities, and the question is how extensive a network do we need, and so we are not able to commit to a specific network in the exact way that we have it today because I think we have to work through the funding mechanisms of what we can afford and how to pay for it and also the structural reforms of the sort that the Amtrak Reform Council has on the table are, we believe, important questions to take up as well.

The CHAIRMAN. Is there anything any one of the panel finds radically wrong or a mistake or any one of you four gentlemen have got some criticism? Let us have it. If you see some mistake being made or something's wrong in the bill before us, Mr. Warrington, how about you?

Mr. WARRINGTON. First of all, as I said earlier, Mr. Chairman, I think it is important for the Congress and the Administration to define what the expectations are, the service expectations for a system, define it and invest in building it and acknowledge which of those services are clearly essential public services that will require some form of subsidy no matter how efficiently they are managed.

I would also suggest that whatever the outcome I do believe that there does need to be an appropriate measuring stick. The concept of operating self-sufficiency applied to the entire service model and types of services that Amtrak runs does not work.

I think the underlying economics of each part of the business are different kinds of services and aligning a set of measurements, both financial measures and operating measurements and standards against different parts of the business is an important consideration as any kind of quid pro quo for public investment. I think that is very important. I think the concept of self-sufficiency was not the right measuring stick, but I think measuring sticks are important around efficiency, around discipline and around clear expectations of what we are getting for publicly invested dollars.

The CHAIRMAN. Mr. Mead, do you have a suggestion?

Mr. MEAD. I guess I would have a couple. One is I think you need to have some incentives for Amtrak to be efficient and even with a substantial capital infusion, and I think the operating self-sufficiency test is a good test in some corridors that encourages it be efficient, and I would encourage your bill to include provisions along those lines.

The second area is in cost-sharing. I think that we are going down the road where we are going to have to look to some cost-

sharing with the States because different States will want, for example, high-speed rail, and I will pay some attention there.

In Senator McCain's bill, it is not clear what will happen at the end of the authorization period. For example, the Department of Transportation becomes apparently the caretaker or the custodian of the Northeast Corridor, but it is not clear after putting that capital money into the Northeast Corridor to fix it up what is going to happen at the end of the authorization period because it is very unlikely that you could charge at the fare box enough money to cover all the costs in the Northeast Corridor.

So those would be two or three suggestions I would make, sir.

The CHAIRMAN. Secretary Jackson, do you have a suggestion rather than a question?

Mr. JACKSON. Yes, sir. I have two points to make.

On the cost-share, I agree that as I have said earlier that this is going to be an indispensable part of a solution that is going to work.

Second, I think on the capital investment issue, one of the drivers of the whole conversation about structuring and restructuring is really a manifestation of our efforts to grapple with how are we going to pay for the capital investment and then how do we operate off of that investment.

So I do think that one of the structural questions proposed by the Amtrak Reform Council is are we going to fund the capital investments sufficiently and how do we face up to that issue. That goes back to the question I asked of what sort of system are we going to have. Sorry to have another question here, and when we decide that, how expensive it is and how we are going to fund it, we really have to structure that capital investment in such a way as to make that happen. Then I think there is an opportunity to inject competition into the operational component of the railroad and to look at those issues independent of the capital, but the capital is the big driver.

The CHAIRMAN. Mr. Rutter.

Mr. RUTTER. As long as it would be inappropriate for me to make critical judgments if we are not prepared to make positive ones, but I would make a couple of observations about where we are trying to go that illustrate where some of the positions of the two bills are.

First, we are trying to find out ways of increasing the ability of the private sector to participate in the delivery of these systems. Whether it is a matter of franchising whole lines, as Senator McCain's bill does, or finding ways of having certain elements of what the passenger transportation system is provided by non-Amtrak employees, there are possibilities of having private sector involvement that would reduce what now is a very high cost of providing those services.

Second is a way of enhancing and giving incentives for States to participate in delivering these systems. Many of the States are already putting in quite a bit of money into the system that exists and want to be willing to invest in enhanced speeds, enhanced service, how we structure a system that encourages those States to make those investments because the Federal Government cannot do all of it on its own.

Then third would be a way of, in terms of where we are going with high-speed rail systems, how do we meet those State expectations and desires for increased services when most of the States are looking at services that would provide top speeds of under 125 miles an hour for reasons that that is a way of them getting increased service to their populations at a cost that is nonprohibitive. Those are some of the things we are looking at in these two bills and all the other ones that are up on the table.

The CHAIRMAN. Senator McCain.

Senator McCAIN. Thank you, Mr. Chairman.

Mr. Jackson, I have the highest regard for you and the Secretary and many of the people that work for you, but look, it is time that you come forward with a proposal from the Administration so we have something to work on. We had a very unhappy experience with the airport security bill because frankly of the failure of the Administration to come forward with a specific proposal, and we ended up delaying by weeks a bill that should have been passed in a very short time. So, Mr. Jackson, carry the message back, get a proposal.

Mr. Chairman, I suggest you have another hearing when the Administration is ready with their proposal because this is an important issue that must be addressed.

So, please, seriously do that. Worst of all is for us to go through the whole legislative process and have a bill that the President threatens to veto and, therefore, does veto.

This issue of a short- and long-term debt is really perhaps the most disturbing aspect of your presentation today and obviously we have had some very interesting things go on, buying equipment that we pay for and then it being sold back and try re-leasing it and we pay for it. So taxpayers have paid for this equipment sometimes three or four times.

I do not like to revisit history, but there is an old line about those that ignore history are doomed to repeat it. I have in front of me an Amtrak news release November 7, 1997, that talks about the leadership of Senator Kay Bailey Hutchison, Senator Lott, Senator John McCain and Senator John Kerry enacting this legislation which Amtrak, in a news release, states the bill contains important reforms that will help Amtrak wean itself from Federal operating support which Congress and the Clinton Administration says it will cease in 2002.

Enactment of the reauthorization bill will put Amtrak on the road to financial recovery and begin to ensure its place in America's future transportation system, and if you look through the colloquies and statements on the floor of the Senate at the time we passed that, everything was going to be fine with Amtrak, and I will bet you if we went back through the previous iterations all the way back to 1971, we would have the same rhetoric, the same statements, only we just extended it for several more years, and now we have compiled an investment of some \$25 billion over this period of time, and we obviously have a railroad that is in very, very serious difficulties.

Are they in serious financial difficulties, Mr. Mead?

Mr. MEAD. Yes, they are. I do not know what the right adjective or characterization is. Mr. Jackson said grave. I am saying extremely grave.

Senator MCCAIN. In 1997, everything was going to be fine because of the legislation that we passed. I want say another word about this.

For years, a line in the State of Wisconsin which we subsidized \$1,200 per passenger finally was shut down. So I am not averse to supporting the Northeast Corridor, because I plan on trying to get from Washington to New York and to Boston and other places just as well. So for us to say, well, we are not going to support the Northeast because we do not have a rail system that goes to Portland, prove the viability of a rail service and I will support it. I think we prove unequivocally that if we have rapid transit in the Northeast Corridor on a good and safe railway system that will be viable and over time, it will be financially viable. I do not have that assurance about Texas, Arizona or Oregon.

So talk about the "need" for a national rail system. The case has to be made. I think the case has been made in the Northeast. I think the case will be made in the far West. I hope the case will be made in Oregon, Texas, Arizona, but so far it has not, and my constituents have voted with their feet, and that is to go to the airport in order to get to Los Angeles rather than go down to the train station in order to get to Los Angeles or Portland.

So, no, I am not averse at all to using Federal dollars to make all American citizens have a better opportunity, and I am sorry I have used up all my time.

I just want to ask Mr. Mead again, Mr. Mead, do you believe that the present system, what is your estimate of the amount of money that would be necessary to inject into Amtrak today, exactly as it is today, in order to let them start off with zero debt again?

Mr. MEAD. Probably speaking, just to get rid of the debt alone, would be \$4 or \$5 billion, but then assuming you want the railroad to continue to operate, you are going to have to fix up the Northeast Corridor, and you are going to have to fix up the rest of the country. I would guess you are in the neighborhood of \$10 billion immediately.

Senator MCCAIN. Immediate injection?

Mr. MEAD. If you want to liquidate all the debt and keep the railroad going and make the necessary repairs to the corridor and keep the rolling stock in good shape and keep the overall national system running, but I do not think that that is what the hour calls for.

I think what the hour probably calls for, I think Amtrak could maintain its current system, not fall into further disrepair, with an annual funding of between \$1.3, \$1.5 billion. That would not go and contemplate the building and structuring of additional high-speed rail corridors.

Senator MCCAIN. Well, I think it would help this Committee in its deliberations significantly if you could provide us an estimate of how much money it would require in order to give Amtrak, after reorganization, whatever legislation is passed, an opportunity to become financially viable, and I understand there are other variables, whether we have to subsidize a line in Wisconsin, as they

did for several years in Wisconsin, as they did for several years for \$1,200 a passenger or whether we do it in a most efficient fashion, but I would appreciate very much if you would, for the benefit of the Committee, give us a sum of the moneys that would have to be made available in the short-term and the long-term in order to give this organization an opportunity, at least if well-managed, an opportunity to have financial viability.

I thank you, Mr. Chairman. I have no second line of questioning.

The CHAIRMAN. Senator Hutchison.

Senator HUTCHISON. Thank you, Mr. Chairman.

Mr. Chairman, I would like to respond somewhat regarding the national system to say that it would be very hard for someone in Phoenix to get on an Amtrak train and not be 6 to 12 hours late going to Los Angeles or to Dallas-Fort Worth. So starving the system is going to continue to make it less and less viable. That is why I think you do have to make a commitment, and yes, it will cost money to corridors that we know will be there, that can allow a high-speed component and will run on time with good rolling stock. I think the continued starvation of capital improvement in the long-haul routes has caused a difficulty in making it viable.

My concept has always been to take the United States rough drawing and do a Northeast-to-Florida Corridor, and a Western Corridor connecting those at the bottom part of the country to the top part of the country where the top part of the country is Chicago and would go right down through the middle of the country with Chicago, St. Louis and Dallas-Fort Worth and then San Antonio or Houston as that final stop where you could have a high-speed line. This would be very viable, particularly in Texas. One of the highest priorities for our Governor and the Department of Transportation is to have a high-speed corridor from Dallas to Houston and San Antonio and back to Dallas-Fort Worth in a triangle.

I think that could be viable because it would allow them, if you had an Amtrak intercity connection, to have the State and the local government step up to the plate and create feeder lines that would make Amtrak more viable and increase your ridership.

Oklahoma has done that to a minor extent by putting in a line from Oklahoma City down to Dallas-Fort Worth, and they did it at State expense working with Amtrak.

I do think it is fair to ask every State that receives Amtrak service to step up to the plate. I think the Northeastern States should. I think Southern States, the Midwestern States, and the Western States should step up. That is fair. I think some of the lines that were eliminated in the past were because the States refused to step up to the plate. Texas did step up to the plate, but other States did not, and that was part of the factor.

Right now, except for the Northeast Corridor and maybe the Western Corridor to an extent, probably the only real use of the national system is for pleasure because the on-time performance is so abysmal, that a person that has to make a meeting could never take Amtrak outside the Northeast Corridor or perhaps the West.

I think we have got to say, when we talk about a national system, it has to be viable, and it has to perform, and that is going to take a capital investment, and clearly I think you are probably going to have to have a debt component for capital investment, but

not for operating subsidies, and that is something that should be looked at and determined if it is going to be part of a plan.

I would like to ask this question. The labor costs in running a railroad are out of line with other industries in our country. There is no question about that. I was looking at the chart that you gave us, and it looks to me like the labor costs of Amtrak are about 50 percent.

Mr. MEAD. That looks about right, 53, 55 percent.

Senator HUTCHISON. They stayed relatively constant compared to some of the other costs, but the question is, and I would ask this of Mr. Warrington and Mr. Mead, is there a real possibility that we could bring the labor costs in line and bring them in line with other industries as opposed to some of the archaic labor provisions that were put in place probably long before we had an industrial revolution probably? Could you comment on whether we could get those in line and if that would be helpful in looking at a national system?

Mr. WARRINGTON. As a consequence of the last round of collective bargaining, Senator, you may recall that about 20 percent of the costs of increased wages which settled at 2.9 or 3 percent were offset by significant productivity improvements which to date have a value of about \$85 million a year, and we have always incorporated those savings in the plan. We are in our next round of collective bargaining right now.

Senator HUTCHISON. Are you saying the labor costs turned out as you had predicted it would?

Mr. WARRINGTON. Yes. Actually, we ended up saving \$85 million a year through productivity improvements. The context also is that Amtrak's basic wages on an hourly basis are below the rest of the industry and substantially below both commuter and freight weight on average.

Senator HUTCHISON. If you compared that to not just the rail industry, but to the efficiency of the aviation transportation system, how would that compare?

Mr. WARRINGTON. I have not looked at that recently. We can certainly get you those comparisons. I would say that probably on average we are competitive or perhaps even below. I will tell you that the long distance train network itself generally tends to be a labor intensive set of services just by nature of the length and distance and time associated with the operation.

Senator HUTCHISON. My staff has just handed me a chart that is in Mr. Rutter's testimony that shows rail is out of line as compared to aviation and other modes of transportation.

Mr. WARRINGTON. Yes. Let me respond this way, Senator. If you look at that chart, which I am generally familiar with, Amtrak's actual costs fall below that industry standard, and I can get you that on average annual wage basis. In other words, Amtrak's costs associated with labor are below that industry average represented in that chart, and I can share those details with you.

Senator HUTCHISON. Well, yes, since it appears to be the exact opposite, that would be helpful.

Mr. WARRINGTON. That is not Amtrak's. That is the industry as a whole, and where Amtrak falls within the industry is actually very competitive.

Senator HUTCHISON. Competitive with other modes?

Mr. WARRINGTON. Within the railway industry.

Senator HUTCHISON. I was trying to determine if they were as efficient as they could be if you compared them with other transportation industries which this chart indicates they would not.

Mr. MEAD. A quick observation, I think there is something to say about labor applied to and its relationship to capital, and I am not a student of good comparisons between labor and airline industry and labor and rail, but one thing is very clear, when you compare airlines to Amtrak, I doubt if the aviation employees on the maintenance side are running around plugging as many holes in the dike on a daily basis as Mr. Warrington's staff probably is, and infusions of capital tend to put things in a better state of repair, and that should correlate with some productivity gains in labor.

I would like to thank Mr. Warrington for his great service.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Wyden.

Senator WYDEN. Thank you, Mr. Chairman.

My first question for the panel goes to the point Senator McCain was addressing in his question of who gets routes and under what circumstances and I want it understood. I want these calls based on the merits. I want them based on, in effect, good, timely information.

I have got a draft report that I am going to share with my colleagues from the General Accounting Office and Amtrak got saying that Amtrak has got lousy information on the key questions with respect to revenues generated in areas that go right to the heart of the system. I want to share it with my colleagues.

It is not helping us make these calls on the basis of the merits, and it meted out political judgments, and as this panel knows, the General Accounting Office evaluated training based on their cost-effectiveness and areas of service were eliminated that were more cost-effective in trains that were allowed to go forward.

So I want it understood that I want to work with my colleagues in fashioning this bill so we do have these decisions based on the merits, and I will begin by asking you, Mr. Jackson, what is the Administration doing specifically to help the Congress and the various reforms that are being discussed that would allow us to have these decisions based on the kind of criteria I am outlining.

By the way, if we wanted to set out a set of criteria, for example, and then hand it over to an independent third party, and shoot, Mr. Mead has done good work for us for years, if we wanted to set out a set of criterion, we could persuade old Mead to do it; it would be fine with me if he would make the decisions.

But the question for you, Mr. Jackson, what is the Administration doing as we go forward with this reform effort to have these calls made on the merits? They are not being made on the merits today. That is what the GAO said and that is what they said repeatedly in their reports.

Mr. JACKSON. Senator Wyden, I share the same frustration you have. I walked into my first board meeting and did not have available to me the data from Amtrak about the cross-subsidies that were taking place within the network.

I want to compliment George Warrington, because they have been trying to pull that out and tease that out of the financial system that was I believe disincentivized to give you the straight dope about what is going on in that regard. So they have been trying to pull the cross-subsidy information out of an accounting system that was not structured to deliver that type of data.

I think anything going forward has to have rigorous clarity about how much it costs to provide service to each community and to each segment of the operation. You are absolutely right about this.

Senator WYDEN. What is the Administration's proposal on that? Do you think we are making progress? The General Accounting Office got a draft report to me that say we are not making progress.

Mr. JACKSON. I have not seen the draft.

Senator WYDEN. Is it your proposal to take a system that now is served with lousy information and change it?

Mr. JACKSON. It is to require that we make all decisions of this sort transparent and visible about the viability of a given route structure. I think that is an indispensable principle that has to be baked into the authorization.

Senator WYDEN. Mr. Warrington, it seems to me you changed the goal posts once again this morning. You pledged to the Congress a year ago that Amtrak was going to achieve operational self-sufficiency this year. Obviously that has not happened. I have seen how it has been blamed on September 11, but obviously Amtrak ridership is up in a number of areas since September 11, and I think it is worth noting you changed the goal post again today.

You said operational self-sufficiency should not be the measure, but in your word, the question was whether Amtrak was on a glidepath. What does that mean?

Mr. WARRINGTON. The measure has always been the glidepath and the extent to which Amtrak would provide Federal operating support to its operations, and what we have worked very hard to do is remain on that glidepath and reduce the annual amount of each annual appropriation that would be devoted to operations, and we have actually done that through this year.

Senator WYDEN. But you said that you were going to be operationally self-sufficient.

Mr. WARRINGTON. What that means is we would have achieved that glidepath result by FY 2003, which means that the amount of Federal appropriation we would get would not be applied to operating support for any of the trains in the company. My point here has been that I believe a year ago that continuing to work hard could allow us to get to that goal which was the goal established in the law, but frankly, moons have to align perfectly.

We were, as I often said, fixated and focused on trying hard to get there, and a number of events did occur that made it increasingly difficult, in my view, to get there.

Senator WYDEN. What were those events, because ridership was up post-September 11 in a number of areas?

Mr. WARRINGTON. Frankly, the slippage in delivery and the introduction of the Acela high-speed train sets on the Northeast Corridor had a cumulative value of about \$300 million in revenue over the course of this measure period for self-sufficiency, number one.

Number two, the economy clearly began to show impacts on cash-flow beginning late last winter and early in the spring. They reached their height of negative trend in August and September and October of last year. September 11 did help us on the Northeast Corridor in particular, on other corridors and on many of our sleeper services across the system.

On top of that, we had some security costs associated with 9/11 that had a cash impact. Another one of the difficulties we had this past year resulted from the Amtrak Reform Council issuing their formal finding, which had some unintended consequences that flowed from that. One consequence was to put in play the provision in the law that requires the U.S. Senate to consider the liquidation of Amtrak, and with that concept being out there, and uncertainty about how this body would deal with that statutory issue, as Ken has said earlier, has hurt us with the private markets. We depend substantially upon private markets, short-term and long-term, and one of the consequences of the cumulative effect of Acela high-speed trains is delivery delays with the cumulative impact of the economy which was fairly substantial by last spring and last summer and into the fall and the ARC trigger being pulled, which overnight cost us about \$54 million in financing relating to equipment overhaul that had been in place, created a serious issue that we had to deal with this year. As a consequence of all this, I had to take a set of actions, given the uncertainty in financial markets this year, a set of actions a month or so ago that would make sure we would manage this business through the balance of the year, Senator.

The CHAIRMAN. Senator Cleland.

Senator CLELAND. Thank you very much. When Senator Carper indicated that that intercity passenger rail service nationwide is in our naked self-interest, I was reminded of a line by southern humorist Lewis Grizzard that "naked" is when you do not have any clothes on and "nekkid" is when you do not have any clothes on, but you are up to something.

I think we ought to be up to something, and what we ought to be up to is putting together a nationwide passenger service. I will say that there is a national security component to this now. I have always believed in the national rail system, but after 9/11, it was Amtrak that I took, not Delta, and I took it back to Georgia.

I will say, interestingly enough, that the effort to privatize was done by the United Kingdom, and they recently announced that rail privatization, which is similar to the plan Amtrak Reform Council has suggested, had failed after only 5 years. I now understand that the UK's transportation secretary has announced the plan to extend a \$100 billion over the next 10 years to totally revamp Britain's railway passenger system.

Matter of fact, the history of Atlanta is quite interesting. Atlanta was once called terminus for the very reason that rail tracks intersected there. I will say that my State is one of the leaders. It is now looking at attracting some 8 to 12 million passengers a year through passenger rail in Georgia and has invested, through the General Assembly, \$2.6 million in bonds to acquire property in downtown Atlanta for a multimodal passenger terminal for buses and trains.

I would hate for the Federal Government to fall behind here. Mr. Warrington, you have done a superb job. We will miss you. Your departure is a loss not only of Amtrak, but of this country, and I would hate to lose a passenger rail in this country. I think it is valuable. I think it is what we ought to be up to. I think it helps build out the economy, create jobs, particularly in a recessionary period.

Mr. Warrington, what is your take on what the Congress ought to do immediately to help Amtrak get back on a good footing other than just committing conceptually to the 10-year, 20-year plan that you were talking about?

Mr. WARRINGTON. Well, as I said to Senator Wyden earlier, there have been a whole series of events which have served to and conspired to make sure this year was very difficult and we have had to take a series of actions internally to stabilize that. Clearly, over the short haul, an appropriation next year is absolutely critical at the right level to make sure we can stabilize and basically maintain this system, today's system.

I will tell you that ultimately the system needs to evolve. I think that today's system needs to evolve into a very different kind of system over time, and I think that ultimate vision of what that system needs to be is what the Congress and the Administration need to define as part of this reauthorization process.

It is very clear that there are a whole set of services that could be built and developed and operated very successfully. If you look at models around the world, and we can inform this discussion, as Michael Jackson said, because we have done a lot of very good work internally on the underlying economics associated with different kinds of corridor and long distance services. Each of them have fundamentally different underlying economics, and I think that the real, as I said earlier, the real issue here is Amtrak does need to be stabilized over the short term.

I think Senator McCain's question about debt service is an important one. It has largely been a consequence of not having sufficient capital. So for years we have had to borrow primarily in connection with the acquisition of equipment. In fact, the entire Acela high-speed train set program is entirely privately financed, and it is one of the reasons why interest costs have risen last year from \$50 million to about \$150 million this year as we pay off those train sets.

So I think short-term the focus for us needs to be on the FY 2003 appropriations. Longer term, I think that what is critical is defining a system, defining how today's system should evolve into a system which would conceivably have better economics attached to it.

Senator CLELAND. I would just say I am proud to be on the bill. That is the reason why I am co-sponsoring with the Chairman, Senator Hollings, and I hope we can move this legislation right along.

Thank you, Mr. Warrington.

The CHAIRMAN. Thank you.

Chairman Breaux.

Senator BREAUX. I will very brief. I thank the panel for their testimony.

Mr. Warrington, thank you for your service and sorry to see you departing.

I guess just a general question. I mean, we had testimony out here this morning that since 1996, overall ridership has grown by 19 percent to an all-time record of 23.5 million passengers. Since 1996 the ticket revenues have grown by 40 percent to \$1.1 billion. Overall revenues have risen by 38 percent from \$2.1 billion. I guess that is the good news, because the bad news is that our operating loss in 2001, \$1.1 billion, was \$129 million higher than the 2000 year loss and the largest in Amtrak's history.

It seems that revenues are up, ridership is up and losses are up. I used to always wonder when I looked at an airplane that was flying as full as it possibly could be with a wait list outside that did not get on the plane and you see the planes are losing \$400, \$300 million a year. I said, you know, if I was filling up the plane as much as I possibly could and was still losing money, I would say maybe I should be in a different business.

I mean, this is a problem. Good things are up and the bad things are up. I do not know how we can continue to break this cycle. Do you think Amtrak is as efficient today or is it more efficient today than we were in 1997?

Mr. WARRINGTON. I think in many, many ways Amtrak runs a much tighter and more efficient operation on a day-to-day operating basis. As I mentioned earlier, even from a collective bargaining point of view, we have negotiated work rules that have secured significant benefits. We run a much leaner operation.

As a matter of fact, if you look at our forecasts for next year, the powerhouse in this operation really is the Northeast Corridor. Now, potentially there are other powerhouses out there, but the powerhouse is the Northeast Corridor.

Senator BREAU. Let me interrupt that. I think we had a statement saying that if that is all you had operating, you would still be in a bad situation.

Mr. WARRINGTON. That requires capital, absolutely. It requires capital to even run the Northeast Corridor operation and it is substantial capital. In fact, Ken's point I think was that the subsidy issue around the long distance train network, which I would call basic essential public services, is a very relatively small financial issue and requirement, contrasted with what really are substantial capital investment needs, not only on the Northeast Corridor, but also the viability on the long distance network and the build out of other corridors across the country.

Senator BREAU. I asked you are you more efficient and I wanted to give you a chance to respond, because Mr. Carmichael, when he testifies, will say regardless of whether one subscribes to the notion of self-sufficiency for rail passenger service, Amtrak is less efficient today than they were back in 1997.

Mr. WARRINGTON. I entirely disagree with that assertion, and we can share with you all of those places where we have tightened up, managed better, in particular around the back office, and squeezing better business processes and saving money that support the basic operation of this company. I can share all of that with you.

Those actions have been included in our business plans historically. We have got many of those actions in play and in place today, and they will continue through next year. I am very confident about that.

Senator BREAUX. Can anybody give me a comment on, I guess in Senator McCain's bill, requiring States to participate to cover for the services and the Northeast Corridor States would contribute 20 percent? This is as I understand it, but I am concerned what happens if one city that is being serviced along the route just refuses to make a contribution. Maybe three of them will say, "Fine, we are going to contribute," and the fourth one says "Not me." What do we do?

Mr. MEAD. I think cost-sharing is probably inevitably the way we are going to have to go on both the operating subsidies and capital.

Senator BREAUX. Is that a mandated cost-sharing from Congress?

Mr. MEAD. Well, as you say, what you do if one State says not me, but you have to drive the train through the State, and it is different when you drive parallels to the interstate. It is a little ditch. I remember when I used to go down to law school in South Carolina, I would have to stop at this place called South of the Border. They did not have the interstate complete. They did not have the interstate complete.

Senator BREAUX. You had to stop there?

Mr. MEAD. But I did. No. The State chose not to complete the interstate there at that particular time. So you had to get off the interstate, but at least there was a road, and in rail, that parallel fails, and so I do not have a good answer for your question, but I do think cost-sharing is the guy, sir.

Senator BREAUX. I am supportive. I really think this is an essential service. It is necessary. It is a question of how much we are going to recognize, and we have to support it and continue to make it more efficient, and that is the real question, how efficient can we get it, and then how much is it going to cost us.

Thank you.

The CHAIRMAN. Thank you.

Senator MCCAIN. Mr. Chairman, I just want to make one additional comment. When we are talking about the amounts of money, of taxpayers' dollars we need to spend here in making Amtrak viable, until 9/11 the airlines were growing their ridership each year by more than Amtrak's total ridership.

Less than 1 percent of Americans today ride on Amtrak, and I would argue that most of those probably are in the Northeast Corridor. So we are talking about a very small number of Americans that make use of Amtrak.

So when we contemplate spending \$10-, \$15-, \$20-, \$50-billion, I think we ought to make sure we understand what the return on that dollar is and whether it will be a viable enterprise or will we revisit this issue every 3, 4, 5, 6 years, as we have since 1971, and find ourselves in the same position of pumping more billions of dollars of taxpayer dollars into this enterprise. I thank you, Mr. Chairman.

The CHAIRMAN. I thank the panel on behalf of the Committee very much for your appearance. The record will stay open for questions.

We will bring forward panel number two: Honorable Marc Morial, Mayor of New Orleans and President of the Conference of Mayors; David King, Deputy Secretary, Department of Transportation, North Carolina; Edward Hamberger, the President and

CEO of Association of American Railroads; William J. Rennie, Vice President of Mercer Management Consulting; Gilbert Carmichael, Chairman of Amtrak Reform Council; and Charles Money Penny of the Transport Workers Union of America, and their statements I want to include in the record.

Senator BREAUX. Mr. Chairman, I will just note that I had talked to Mayor Marc Morial. He is on his way. He is at another event testifying, and he is on his way and will join the panel as soon as he gets here.

The CHAIRMAN. Very good. I know the gentlemen want to make lunchtime.

Mr. King, we will start with you, sir. All your statements will be included in the record, and you can summarize or give them in full as you wish. Try to limit it though.

STATEMENT OF DAVID D. KING, DEPUTY SECRETARY, NORTH CAROLINA DEPARTMENT OF TRANSPORTATION

Mr. KING. Thank you, Mr. Chairman. We are very appreciative of the opportunity to come before you and very appreciative of your leadership in putting forward a bill that allows discussions to take place.

I represent, as you noted, the State of North Carolina and also a 22-State coalition that is interested in moving forward intercity passenger rail. Those States span the continent from the Northwest to Florida and Maine and a number of States in between.

We are DOTs who have come to the realization that intercity rail is important because we are in the highway business and the aviation business and cannot solve the problem with those tools alone. It is clear to those of us in this coalition, and in several States such as California and Michigan that are not in the coalition, that intercity rail is an important component of a State-offered transportation system.

What is particularly appealing about your legislation, Senator, is that it states categorically that we do need a system, a national system, and it offers to end the conundrum that Amtrak has found itself in for these many years of being expected to be operationally self-sufficient while maintaining a national system.

I would turn your attention to a color map that is in the back of my testimony. I am not sure that it is at your place. I hope that it is. It was published by National Geographic in 2001. It is basically a light map of the United States. Particularly important to us in the Southeast is how the lights, and therefore, the population density, really lines up along Interstate 85 from Atlanta through Spartanburg, to Charlotte, to Raleigh, Richmond to Washington and, of course, up the Northeast Corridor. But as you look across the country, you can see how the lights line up, and many of our high-speed rail corridors that have already been designated by U.S. DOT follow where the people are. So there is a certain common sense there, and our challenge, I think, with the national system is to knit those corridors together.

Let me give you the gospel according to the States in terms of what we believe should happen.

Number one, we do believe that there should be a national system; that it should connect the dozen or so high-speed rail cor-

ridors; that it should connect to other modes such as airports; that it should connect to city centers and bus systems and commuter rail in convenient intermodal transportation centers that are in the heart of cities and allow you to walk to a number of destinations when you get off the train. Obviously, this is quite a contrast from airports, which are by definition in the suburbs or exurbs of communities and require you to drive as you leave the airport.

I think States by and large are incrementalists. The efforts to leap forward and build a French-style high-speed rail system from scratch have not succeeded. They are inordinately expensive, and they seem beyond our grasp. We have been moving forward on an incremental basis.

A second principle that I think is shared by the States is that we need a Federal-State partnership. We have had a Federal-State partnership for decades in the highway business, in the aviation business, in the transit business. That partnership is based on Federal funding usually on the capital side at 80 percent, 90 percent with the interstate highway system. We are used to that. That works well, and we believe that the same model would work very nicely in the intercity rail business.

Number three, the States recognize the value of freight railroads. If you want to get a highway engineer excited about rail, and sometimes that is hard, you point out to them the degree to which the rail system takes heavy trucks off our highways. Heavy trucks disproportionately damage our highways and cause them to have to be designed to a much higher standard and cause them to wear out a good deal quicker.

So the first place you win the heart and mind of a highway engineer is by pointing out the degree to which heavy freight comes off the road system when you have got a viable rail network.

As we move forward with rail passenger service, there should be no mistake about the States' commitment to do that in a way that does not damage the ability of our freight railroads to be successful freight operators. Indeed, over the last decade or so there is a growing list of situations in which States have partnered with Class I railroads to put infrastructure in place to help the passenger business, but also help the freight business. Those two are not mutually exclusive goals.

I think it is a false argument that passenger rail is at the expense of freight. In fact, the two can work very well together if they are well-planned and coordinated.

I would note a very positive development in our experience over the last several years with our two major railroads, Norfolk Southern and CSX. The attitude has I think made a sea change. The ability and the willingness of those two corporations that serve Eastern America to work with States on intercity rail has improved dramatically over the last several years, and we appreciate that.

We currently have a \$25 million project underway between Raleigh and Charlotte with Norfolk Southern, and their cooperation is exemplary.

Several comments on Amtrak. They have been good partners to us. There are a lot of excellent people who work for Amtrak, to include George Warrington for whom I have a great deal of respect,

but there are several fairly fundamental reforms that I think would add a lot of value.

One is in your bill, Senator. Section 310 calls for a thorough review of Amtrak's accounting system. States have been chronically disappointed with Amtrak's inability to provide good cost data on the services States support financially. There is simply not the capacity there within the company to control costs based on good accounting and good information nor to control revenues and to account for revenues, nor to figure out how we can grow revenue and control cost. Section 310 is an excellent feature.

Second, I think the competition factor is huge, and we would love to inject some competition into a provision of Amtrak services.

Third, the essential authority that Amtrak has to access the tracks of private railroads needs to be preserved no matter what happens to Amtrak. If Amtrak were to go away in its present form, then certainly States or multi-State compacts need to have that authority or else we would have no ability to operate in rail freight corridors.

There are some comments in my written statement about the speed issues. Most of our State projects are designed for 110 mph, and not 125 miles an hour. We think that is a better standard, although those States that feel they can go higher certainly should be encouraged to do so.

I wish Senator Cleland were here. We have tremendous business support in Southeast, as you may know, Senator, including Greenville, Spartanburg and Columbia chambers and the Atlanta chamber and a dozen or so other chambers that have gotten together to support this effort, have been up here to Congress to make that clear and continue to do so because it is good for regional economic development and competitiveness.

Finally, the States I think feel a sense of urgency. We need to do something this year, this legislative session if at all possible. Every year that we waste drives costs up and squanders opportunities and makes us vulnerable as we saw on 9/11. The States that I represent, and some that I do not, I think are eager to work with you in this Committee to get this done this year, and I hope you will feel free to call on us for any information or input that you think would be valuable.

Thank you very much.

[The prepared statement of Mr. King follows:]

PREPARED STATEMENT OF DAVID D. KING, DEPUTY SECRETARY,
NORTH CAROLINA DEPARTMENT OF TRANSPORTATION

Mr. Chairman, my name is David King. I serve as the Deputy Secretary for Transportation of the North Carolina Department of Transportation. My responsibilities include ferries, aviation, bicycles and pedestrians, public transportation and rail.

I testify today on behalf of the State of North Carolina and the States for Passenger Rail Coalition.

NORTH CAROLINA ACTIVITIES

In recent years North Carolina has established a comprehensive rail transportation program. Major program components include:

- Passenger Contract operation of intercity passenger trains beginning with the *Carolinian* in 1990. We have acquired passenger locomotives and rehabilitated passenger and food service equipment for the *Piedmont* service, which was inaugurated

in 1995. We also have invested in mechanical and maintenance facilities to support the operation.

- We have embarked upon a station improvement program that will rehabilitate or construct new stations at every active stop. Our commitment of state and discretionary federal funds for 20 projects to date is in excess of \$109,000,000. These projects serve as a focal point for downtown development and re-development activities, and they provide modern and safe facilities for intercity rail, intercity bus, local transit and other activities.

- In 1998, we invested \$72,000,000 to complete acquisition of the 317 mile North Carolina Railroad (NCR) from Charlotte, Greensboro, Raleigh, Selma and Morehead City.

- In 2001, we signed a master agreement with Norfolk Southern Railway (NSR) and the NCR to initiate a program of speed, capacity and safety improvements between our major city pairs. Our initial investment of \$24,000,000 will reduce travel time between Raleigh and Greensboro by about 20 minutes. Construction will be completed in 2 years or less. A program of additional investments is now being developed.

- We operate a marketing program in support of passenger services. This program includes toll-free 1.800.ByTrain information center and the North Carolina Volunteer Train Host Program.

Engineering and Safety

- NC develops engineering plans and specifications and cost estimates for our rail freight and passenger improvement projects.

- We have partnered with the Federal Railroad Administration (FRA) and NSR to develop the Sealed Corridor approaches to improving crossing safety. The FRA has documented benefit to cost ratio for Sealed Corridor projects of up to 40 to 1. Once FRA formally reports their findings to the Congress, these cost-effective innovations can be applied nationally throughout the traditional "Section 130" grade crossing safety program.

- Since 1992 NC has closed 40 at grade crossings on the designated high-speed line between Raleigh and Charlotte, NC.

- Partnering with the FRA we have initiated a demonstration program designed to address "gaps" in safety resulting from private crossings. Under this program we will inventory private crossings on the designated high-speed line, develop a program of recommended safety improvements, and implement two public-private grade crossing safety demonstration projects.

- NC also houses its grade crossing safety and federally certified rail safety inspection programs within the Rail Division.

Planning

- We have developed a comprehensive long-range plan for the development of high-speed, intercity and commuter passenger rail for our state.

- We have partnered with the Commonwealth of Virginia to complete a programmatic Tier I Environmental Impact Statement between Charlotte and Raleigh, NC, Richmond, Virginia and Washington, DC. We now have a basis for making a high-speed rail routing decision. This decision includes environmental, engineering and cost-benefit documentation and has been thoroughly coordinated with all the interested local, state and federal resource agencies.

- A Virginia-North Carolina High Speed Rail Commission has been created to evaluate the feasibility of developing high-speed rail, and to develop a program of legislative and financing recommendations. The new Commission seats legislators from both states.

STATES FOR PASSENGER RAIL COALITION

The States for Passenger Rail Coalition is a grass roots organization of state departments of transportation. North Carolina is one of 22 states in the coalition. I serve as Chairman and Ken Uznanski, Manager of Washington State's Rail Program, is our Vice-Chairman and Randall Wade, Passenger Rail Implementation Manager of the Wisconsin Department of Transportation serves as our Secretary-Treasurer. Our growing membership is drawn from around the country and includes states with existing passenger rail service as well as those in the planning and development stage. Large states and small states, we span the continuum of partisanship, varied interests and geography. A map of the Coalition members is attached. We are quite a diverse group and we are a national group. Our strength is that it is a bottoms-up initiative, created and supported by the states because we share a common goal.

Following the tragic events of September 11, 2001, many citizens had their first travel experience with our national rail passenger system and they were glad it was available. They also have first-hand knowledge that our national rail passenger system is in need of major capital investment in order to assure reliability and to have travel times that are auto and air-competitive. Rail passenger service is now a national security issue as well as a mobility and economic development issue.

FIVE BASIC PRINCIPLES PROVIDE THE FOUNDATION OF THE STATES FOR PASSENGER
RAIL COALITION:

- First, high-speed passenger rail complements existing intercity passenger and freight systems. Those systems, mainly road and air, are increasingly saturated to the point that safety and reliability are compromised. The states and the private sector are meeting the challenge by investing record amounts of money in those systems. Increasingly states have made the business decision that we receive a greater return on investment by increasing the capacity of freight and passenger rail than by making alternative investment decisions. An example would be when the cost of adding a lane of interstate is much more expensive than improving a segment of rail where the rail improvement results in the same or more capacity than the additional lane of highway.

- Second, because intercity passenger rail trips tend to be 100 to 300 miles in length, many of the corridor development planning, analysis, and construction management tools routinely used at the state level apply. States plan, build and maintain interstate transportation corridor systems. We meet a myriad of environmental, planning, and safety standards. These are multi-million dollar projects we deliver daily.

- Third, improved intercity passenger rail is attractive to states since it can be implemented incrementally. Because our programs are publicly funded to deliver public services, states must make prudent investments. We recognize that major new transportation infrastructure cannot be built overnight, but we need to start where we are today and work to improve those systems. Our stockholders, the citizens of our various states, have very high expectations.

- Fourth, states recognize the importance of partners in this process. Because railroading is both a capital and labor-intensive business, we must have the full participation of the freight railroads and labor organizations. The freight railroads own most of the assets outside the Northeast Corridor. Publicly and privately held railroad assets are currently shared in part with commuter agencies. Our emphasis is to assure safety and reliability and capacity for our freight carriers and our customers. The burden is on the states to understand the needs of and work with our partners effectively.

- Fifth, the federal government has a role to play in intercity passenger rail because this financial investment is in the national interest. Beyond the direct interest of the thirty-four states that comprise the eleven corridors designated by the federal government for high-speed rail development, it also is in the interest of the Nation to have a network of vibrant, well built, well-operated conventional intercity rail corridors. These corridors contribute to a national commitment to improve mobility and the social and economic quality of life for all our citizens. States, however, cannot accomplish this laudable call alone or even collectively; a national transportation system dictates a role for a federal partner.

CAPITAL FORMATION IS AN ESSENTIAL ROLE FOR THE NATIONAL GOVERNMENT IN
TRANSPORTATION FEDERALISM

The federal government fulfills a vital role in highway, public transportation, aviation and inland water transportation by creating a series of excise taxes and fees, placing them in trust funds and allocating those resources. As capital markets have become increasingly restricted, states and the freight railroads are working together to develop public-private partnerships that can build increased capacity for rail passenger and freight operations

We need a federal partner who will help us provide a stable, dedicated, long-term financial commitment for all modes of transportation. Development of a high frequency, high-speed passenger rail network requires a level playing field.

More specifically:

- The complex, long-term nature of corridor development dictates a multi-year programming tool.

- The federal government, through direct outlays and through the tax code, can provide a useful means of attracting and organizing larger amounts of private investment capital.

- States are making significant investments in intercity passenger rail. These funds can be used to match federal investments. In fact, the issue of matching funds deserves a more thorough and complete examination. States are creatively using a broad array of public and private resources to provide improved rail service. Both of these public and private matching efforts should be counted on the corridor level. Expansion of tools to recognize the value of matching efforts is to the common good and should be encouraged.
- The combination of federal, state and other funds can help achieve both economies of scale and funding levels attractive to investors.
- States are responsible for delivering a broad array of transportation services. This requires program stability and a reliable and predictable source of revenue. In large measure this stability is derived from the latest multi-year surface transportation bill "The Transportation Equity Act for the 21st Century" or "TEA-21."

SENATE 1991, THE NATIONAL RAIL DEFENSE ACT, COMBINES LEADERSHIP AND PARTNERSHIP FOR NEW INVESTMENT IN THE RAIL PASSENGER AND FREIGHT NETWORK

S. 1991 presents a funding program to lead investment in high-speed intercity passenger, and for the freight railroads.

- The National Rail Defense Act requires the Secretary of Transportation to establish a national high-speed ground transportation policy.
- The National Rail Defense Act promotes intermodalism and transportation efficiency by encouraging cooperative arrangements between the States and the host railroads and by giving preference to projects that link passenger rail services with other modes of transportation.
- The National Rail Defense Act recognizes the value of federal leadership in planning and developing a network of high-speed rail corridors. It is important that we encourage the development of these corridors so that we can expand the benefits of high-speed rail throughout the country, and bring new systems on-line in a rational, coordinated manner.
- The National Rail Defense Act authorizes needed rail freight infrastructure funding and streamlines the Railroad Revitalization and Regulatory Reform Act to make it a more effective instrument.
- The National Rail Defense Act provides for timely implementation by establishing time limits for rulemaking.

We believe one area of the National Rail Defense Act merits further discussion and perfecting language:

The provision "giving a priority to systems which will achieve sustained speeds of 125 miles per hour or greater and projects involving dedicated rail passenger rights-of-way" will favor development of a limited number of projects at the expense of many other worthy projects.

- Most, but not all of the high-speed development outside of the Northeast Corridor is designed for maximum operating speeds of between 90 and 110 miles per hour. Preliminary engineering and advanced environmental studies have been performed using these standards to develop auto and air-competitive travel times on many of the corridors. Of the thirty-four states with federally designated high-speed rail corridors it is believed that only three (California, Florida and New York) are being planned for operations in excess of 110 miles per hour.

- Re-engineering high-speed rail corridors for 125 miles per hour operation will require additional time, and the additional environmental and community impacts will add significantly to the costs to implement service. If the 125 miles per hour priority criterion is observed, the funding authorized in the National Rail Defense Act may impede rather than facilitate implementation of a network of travel-time competitive rail passenger services.

- Sustained cruising speeds of 125 mile per hour and above will require electrification. While research and development is being completed on high-speed non-electric locomotives, they are not broadly available and there are limitations on their use in tunnels. Electrification of thousands of miles of corridors will add orders of magnitude to the cost of implementation.

- Most high-speed rail corridors are proposed to make extensive use of existing freight rail rights-of-way. Few freight rail rights-of-way will permit sustained speeds approaching 125 miles per hour, thus acquisition of significant new rights-of-way will be necessary, resulting in community disruption and new environmental impacts.

The States for Passenger Rail Coalition recommends:

- Deletion of priority consideration for 125 miles per hour segments and proceed with the requirement for the Secretary of Transportation to establish the national high-speed ground transportation policy required by part 309(e)(1) of Section 26100

no later than December 31, 2002. This will help ensure an equitable program of investments in high-speed rail while not magnifying the costs unnecessarily.

- A federal-state funding partnership for high-speed and intercity passenger rail development that mirrors the capital investment programs for other surface transportation programs.

We believe that these issues can be readily resolved. Individually and collectively we are eager to work with the committee, the committee staff and others to remove these challenges to broad and successful implementation.

STATES ARE READY TO MOVE FORWARD, NOW

In closing, I want to assure the Committee that many states are ready to begin implementing a high frequency, high-speed rail network now. States have developed innovations in highway-railroad crossing safety, passenger equipment design and manufacturing, and in railroad signaling systems. States renovate and construct new multi-modal stations and help attract new development to our inner cities. States are making investments in commuter, intercity and high-speed rail systems that serve state, multi-state and national interests. States make these investments in concert with local communities and commuter agencies, with Amtrak and the freight railroads, and with adjoining states. The federal government should not expect the states alone to build a national high-speed rail system. States need federal leadership and a federal funding partner to undertake this task.

States also are working with business leaders to develop solutions to our congested highway and airport networks. For example, the Southeastern Economic Alliance (SEA), comprised of fourteen Chambers of Commerce from six states has been formed with the goal of achieving high-speed rail in the southeast. The leadership of the SEA already is having an impact on transportation decisions in our state capitals, and I believe business leaders around the country will mirror their example. Recently, a similar regional chamber effort has gotten underway in the Midwest led by the Chicagoland Chamber of Commerce and other chambers in the nine states that are a part of the Midwest Regional Rail Initiative. Our business leadership is not motivated because they are a fan of rail transportation, nor do they simply advocate for more government. Rather, their impetus comes from a business analysis that our current transportation system has a serious weakness, and that weakness hampers our ability to compete in world markets.

Development of a high quality, high-speed intercity passenger rail network can help mitigate congestion. Development of high-speed rail transportation will help stimulate economic growth by creating new jobs and by increasing mobility. Development of a national system of high-speed rail is predicated on having a program of public-private investment that includes the active participation of states and the federal government. Many of our member states have completed preliminary engineering and environmental work and are ready to begin projects now. Many States have available "shelf plans" for incremental high-speed rail development, and are investing significant state and private funds now; we need a viable federal funding partner.

As you have heard from the nation's governors, and as you are aware from the condition of our economy, states are not in a position to finance a network of high-speed rail infrastructure. We must have a federal partner. While states generally advocate for flexibility in the use of federal funds, the needs of our highway, transit and aviation modes far exceed available resources. We can and are eager to partner with the federal government to plan, design and construct the network of rail infrastructure improvements envisioned by the National Rail Defense Act.

This Congress has as important an opportunity to impact the transportation system in the United States through support for development of a high frequency, high-speed rail network, as did the Eisenhower administration when it presided over creation of the Interstate and Defense Highway System. We look forward to working with you to develop this critical program. Thank you for the opportunity to testify before you today.

The CHAIRMAN. Thank you very much.

Mr. Money Penny. Would you pass that microphone to him, please?

**STATEMENT OF CHARLES F. MONEYPENNY, DIRECTOR,
RAILROAD DIVISION, TRANSPORT WORKERS UNION OF
AMERICA**

Mr. MONEYPENNY. Let me begin by saying that rail labor applauds you, Mr. Chairman, for the boldness and vision of your bill. I have been involved with Amtrak both as a worker and union representative since the railroad opened its doors for business in Boston more than a quarter century ago.

In that time yours is the first piece of legislation I have seen which addresses the real problem facing national passenger rail service in this country. Amtrak's problem today is the same problem that has always plagued Amtrak, lack of funding.

Rail labor looks forward to working with you and other responsible parties to give this country the quality of passenger rail service it needs and deserves.

We hope that this Committee is not distracted by the efforts of some to blame either labor or management for the current Amtrak crisis. Five years ago in the midst of another Amtrak crisis Congress decided that Amtrak's problems could be solved by attacking Amtrak workers. Accordingly, labor protections which Amtrak workers had enjoyed throughout the railroad's history and which were standard in the industry, were removed from the law and our contracts and made the subject of a collective bargaining process which would have necessarily ended in binding arbitration. Restrictions against contracting out were taken out of the law and made the subject of negotiations. This, some assured us, would fix Amtrak's problems.

Five years later Amtrak's problems are worse than ever. This time not even an outfit as rabidly anti-Amtrak as the so-called Amtrak Reform Council can find fault with Amtrak's workers. The council, in fact, recommends that should another carrier take over Amtrak service the current work force should follow the work with seniority order and collective bargaining agreements intact. It is the only thing I agree with the council on, and I applaud the Chairman for his wisdom in that regard.

This time we are told the problem is Amtrak management. No manager in particular seems to be the problem. Amtrak's departing president is, in fact, praised by most Members of Congress and indeed by members of Amtrak Reform Council. A vague allegation of a bad corporate culture is now introduced as evidence that the problem of passenger rail can be fixed by a new management team or teams.

Having been the victim of this sort of witch-hunt 5 years ago, rail labor declines the opportunity to point the finger at Amtrak management as the source of the problem. Again, the Chairman's bill correctly identifies and more importantly offers solutions to the real problem, lack of funding.

We also hope that this Committee will ignore the siren song of privatization. As some have noted earlier, passenger rail service was privatized in this country. That is how Amtrak came to exist. Not one of the freight railroads which was lucky enough to get out of the business 30 years ago has been knocking on the door trying to get back in. In its 4 years of existence, the Amtrak Reform Council was unable to identify even one company that runs a pas-

senger train anywhere in this country willing to step in as Amtrak's successor.

We know there are some folks out there who said they would like to have a crack at running a passenger rail service. They may not have any employees, they may not have any experience, they may not even exist as companies yet, but if we are sure to give them enough money and they will try the job. That is not very comforting to us, and it probably would not be too comforting to our customers either.

I can testify from personal experience, Mr. Chairman, about the dark side of privatization. Several years ago, the Massachusetts Bay Transportation Authority, the MBTA, in my home State decided to contract out maintenance work which had been done by Amtrak employees. The MBTA awarded the contract to a company which was literally created for the purpose of bidding on this contract. This company had no mechanics, no office, no telephone, no address, no fax machine.

In fact, when testifying before a Senate Committee 2 years ago, this shadow company's representative responded in classic fashion to a question from Massachusetts Senator Kerry. Senator Kerry asked the witness if it was true when they were awarded the contract they had two employees. The witness responded yes, roughly.

This shadow company had a simple plan to get a work force. They planned to break the unions. Threatening letters were sent to workers' homes telling them they had no choice but to accept the wages and working conditions which the new company intended to impose. Wages would be cut, work rules eliminated, seniority discarded and pensions stolen. Memoranda passed between the two employees of the shadow company warned against hiring those with union sympathies.

Unfortunately for this two man gang, there were way too many workers with union sympathies. Not one worker applied for a job with a company that wanted to break their unions, and unable to produce a qualified work force, the would-be union busters lost the contract. It was a stunning example of union solidarity and we hope a strong message to those who would seek to gain profits by siphoning them from our members' pockets.

Finally, let me say a word about Amtrak's employees, that in simple fact Amtrak would not exist today without the sacrifices made by the men and women who make the trains run. Amtrak's unionized employees are working every day under contracts which expired more than 2 years ago.

Years of wage deferrals, wage freezes, job cuts, et cetera, have made Amtrak workers the lowest paid unionized work force in the industry. We hope, Mr. Chairman, that your bill marks the end of the sorry practice of funding national passenger rail service on the backs of the employees. Our members intend to be a vital part of the future of the national passenger rail system that they have kept alive all these years. We look forward to working with you toward that goal.

[The prepared statement of Mr. Money Penny follows:]

PREPARED STATEMENT OF CHARLES F. MONEYPENNY, DIRECTOR, RAILROAD DIVISION,
TRANSPORT WORKERS UNION OF AMERICA

Good morning, Mr. Chairman and members of the Committee. Thank you for the opportunity to appear before the Committee and present testimony concerning S.1991, the National Defense Rail Act, and the future of national passenger rail service.

My name is Charlie Moneypenny. I am the Director of the Railroad Division for the Transport Workers Union of America, and I have most recently served as the labor member of the Amtrak Reform Council. This is my 30th year in the railroad industry, and more than 25 of them have been with Amtrak as either an employee or union representative.

Let me begin by saying that Rail Labor applauds you, Mr. Chairman, for the boldness and vision of your bill, S.1991. I have been, as I said, involved with Amtrak, both as a worker and a union representative, since the railroad opened its doors for business in Boston more than a quarter-century ago. In that time, yours is the first piece of legislation I have seen which addresses the real problem facing national passenger rail service in this country. Amtrak's problem today is the same problem that has always plagued Amtrak: lack of funding. Rail labor looks forward to working with you and other responsible parties to give this country the quality of passenger rail service it needs and deserves.

We hope that this Committee is not distracted by the efforts of some to blame either labor or management for the current Amtrak crisis. Five years ago, in the midst of another Amtrak crisis, Congress decided that Amtrak's problems could be solved by attacking Amtrak workers. Accordingly, labor protections which Amtrak workers had enjoyed throughout the railroad's history, and which are standard in the industry, were removed from the law and our contracts made the subject of a collective bargaining process which would, if necessary, end in binding arbitration. Restrictions against contracting out were also taken out of the law and made the subject of negotiations. This, some assured us, would fix Amtrak's problems.

Five years later, Amtrak's problems are worse than ever. This time, not even an outfit as rabidly anti-Amtrak as the so-called Amtrak Reform Council can find fault with Amtrak's workers. The Council, in fact, recommends that, should another carrier take over Amtrak service, the current workforce should follow their work, in seniority order, with their collective bargaining agreements intact. This time, we're told, the problem is Amtrak management.

No manager in particular seems to be the problem. Amtrak's departing President, George Warrington is, in fact, praised by most members of Congress and indeed even by many members of the Reform Council. Vague allegations of a bad "corporate culture" are now introduced as evidence that the problem of passenger rail can be fixed by a new management team or teams. Having been the victim of this sort of witch hunt five years ago, Rail Labor declines the opportunity to point the finger at Amtrak management as the source of the problem. Again, the Chairman's bill correctly identifies, and more importantly, offers solutions to the real problem, lack of funding.

We also hope that this Committee will ignore the siren song of privatization. Passenger rail service *was* privatized in this country. That's how Amtrak came to exist. The freight railroads providing the service begged President Nixon to relieve them of what the ARC called, "the burden" of providing passenger rail service. Not one of those freight railroads, which the ARC called "the best in the world" have stepped forward to say they'd like to get back into the business of passenger service. And in its four years of existence, the Amtrak Reform Council was unable to identify even one company that runs a passenger train anywhere in this country willing to step in as Amtrak's successor.

We know there are some folks out there who say they'd like to take a crack at running passenger rail service. They may not have any employees, they may not have any experience, they may not even exist as companies yet, but, we're assured, give them enough money and they'll try to do the job. That's not very comforting to us, and it probably wouldn't be too comforting to our customers either.

I can testify from personal experience, Mr. Chairman, about the dark side of privatization. Several years ago, the Massachusetts Bay Transportation Authority (MBTA), in my home state, decided to contract out maintenance work which had been done by Amtrak employees. The MBTA awarded the contract to a company which was literally created for the purpose of bidding on this contract. This company had no mechanics, no office, no telephone or fax machine. In fact, when testifying before a Senate Committee two years ago, this shadow company's representative responded in classic fashion to a question from Senator Kerry. Senator Kerry

asked the witness if it was true that when they were awarded the contract, they had two employees. The witness responded, "Yes, roughly."

This shadow company had a simple plan to get a workforce. They planned to break the unions. Threatening letters were sent to workers' homes telling them they had no choice but to accept the wages and working conditions which the new company intended to impose. Wages would be cut, work rules eliminated, seniority discarded, and pensions stolen. Memoranda passed between the two employees of the shadow company warned against hiring those with "union sympathies." Unfortunately for this two man gang, there were way too many workers with "union sympathies." Not one worker applied for a job with the company that wanted to break their unions, and, unable to produce a qualified workforce, the would-be union busters lost the contract. It was a stunning example of union solidarity and, we hope, a strong message to those who would seek to gain profits by siphoning them from our members' pockets.

Finally, let me say a word about Amtrak's employees. It is a simple fact that Amtrak would not exist today without the sacrifices made by the men and women who make the trains run. Amtrak's employees are working every day under contracts which expired more than two years ago. Years of wage deferrals, wage freezes, job cuts, etc., have made Amtrak workers the lowest paid workforce in the industry. We hope, Mr. Chairman, that your bill marks the end of the sorry practice of funding a national passenger rail service on the backs of the employees. Our members intend to be a vital part of the future of the national passenger rail system that they have kept alive all these years. We look forward to working with you toward that goal, and I would be happy to answer any questions you might have.

The CHAIRMAN. Very good.
Mr. Carmichael.

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

Mr. CARMICHAEL. Thank you, Mr. Chairman and Members of the Committee. I have two of my council members here with me today. You just heard from Mr. Money Penny who has been a very active and aggressive member of the council, and I have enjoyed working with him.

We learned early on that labor was not the problem. Then we looked at Amtrak and started investigating, we learned that management was the problem. I listened a minute ago to Mr. Warrington when he answered the question about deficiencies that are in the bill. It is interesting to note that of the 24,000 employees, that over 3,000 of them are managers, and in the last few years the management has grown.

The other member of the council that is here today is Jim Coston who is sitting here and a very active member from Chicago.

Quickly, on our Amtrak Reform Council, the Congress created this council, and we got in the business in 1998, had a hard time getting started, but in the last 4 years the ten members of this council, working with about a six person staff, have done a very good job of producing a citizen's report on Amtrak. We took our role seriously.

Those ten members, plus the Secretary of Transportation, who was not able to participate, those ten members did thousands of hours of hard work for no fee. They were not paid. The small staff under Tom Till produced a very good citizen's document. It is not a real polished literary tome, but it is good, thoughtful research into the Amtrak problem and some of the suggestions and solutions.

What has made me happy this morning was as I was listening to the witnesses earlier in the meeting they are getting where we

were about a year ago. They are putting the facts together and they are in the learning curve, and we do have, as Inspector General Mead said a moment ago, we do have a serious crisis. As David King added a minute ago, we are at the position where we need to come up with a new plan for a new national rail passenger system. And the council has been very pro-rail.

We gave Amtrak every bit of the benefit of the doubt during these last 4 years as they were on the glidepath they were talking about. The council let me be the Chairman, and I asked for that privilege, to give Amtrak as much leeway as possible to help them reach the self-sufficiency that they were trying to reach. It was not till last November that we got to the point that it was necessary, the council members got concerned enough, and while I wanted to postpone the vote till January, the council came together and we made the vote in November.

Looking back, it was probably a very wise idea to go ahead with the vote because one of the things that happened, is that it did provide the trigger. It did start the national debate, and we are having a good, strong debate and your bill and Senator McCain's bill are excellent examples of where the debate ought to be going and how it ought to be solved.

I have submitted a report here, Mr. Chairman. I had some more little comments that I wanted to make in here, but I have got one report. I will probably clean it up and submit a mini version of it, but I think we have come a long way. We are very close to a new national rail passenger plan. The freight railroad people throughout need our help in this debate. They will be major beneficiaries, like your bill or Senator McCain's bill. They need to increase their speed and their capacity for their freight side, and if they do that and if there is funding available for that, we will have a beautiful railroad right-of-way out here for intercity high-speed trains, also.

So I just encourage you to please proceed, and I stand by for questions.

[The prepared statement of Mr. Carmichael follows:]

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

Good morning, Mr. Chairman, and members of the Committee.

I am Gil Carmichael, Chairman of the Amtrak Reform Council. Thank you for the invitation to present the Council's views on S. 1991, The National Defense Rail Act, in the context of the Council's *Action Plan for the Restructuring and Rationalization of the National Intercity Rail Passenger System*, which was submitted to the Congress on February 7, 2002. With your permission, Mr. Chairman, I will summarize my statement and submit the full statement for the record.

The Council has submitted its recommendations to the Congress for reform. Other reasonable reforms will be proposed. The Council believes that reform is no longer an option, Mr. Chairman. Reform is an imperative.

Over its lifetime, the increase in Amtrak's ridership has barely kept pace with the growth rate of the U.S. population. Contrary to popular belief, in the period between September 11, 2001, and the end of last year, Amtrak carried fewer passengers than it did in the comparable period of 2000. Amtrak is burdened with debt and debt services, and its assets are in poor condition. All its routes lose money when depreciation is taken into account.

Regardless of whether one subscribes to the notion of self-sufficiency for rail passenger service, Amtrak is less efficient today than it was in 1997. And this is after the appropriation to Amtrak of more than \$5 billion during the past five years, including \$2.2 billion in capital funding under the Taxpayer Relief Act.

The continuing deterioration of Amtrak's performance since the Council was established led the Council to its finding that Amtrak would not achieve operational

self-sufficiency by December 2, 2002, as required by the Amtrak Reform and Accountability Act of 1997.

Without reform, FY 2003 will be business as usual for Amtrak—lower revenues and higher costs and greater losses than Amtrak promised.

Why does Amtrak have this record of poor performance?

Amtrak has too much to do, and does little of it well. In this environment, Amtrak has proven that it cannot concentrate on its core mission of running trains. As it is chartered and organized today, no agency has effective oversight of Amtrak's business plans, its funding requests, or its financial and operational performance. Our analyses and those of the DOT/IG and the GAO are all done in hindsight. No program can be successful without good, timely oversight.

THE COUNCIL'S PROPOSALS FOR REFORM

The Action Plan the Council sent to Congress on February 7, 2002, thus recommends a fundamental restructuring of the way we organize, fund, and operate the national rail passenger service program. If we are to have a modern rail passenger program that works, we have to separately organize and fund the passenger trains from the 20,000-plus miles of nationwide rail infrastructure that supports them.

The Council proposes that the two new companies be administered by a small federal agency, the National Railroad Passenger Corporation (NRPC). The NRPC should be restructured on the model of the United States Railway Association (USRA), created by Congress in 1973 to restructure Penn Central and 6 other railroads. USRA planned Conrail, enforced strict accountability on Conrail, and shielded Conrail from political interference. The Council believes a new National Passenger Rail Program needs a similar oversight organization.

In this framework, a new national train operating company could concentrate strictly on running trains, with the resources to do so, under contract, with no unfunded mandates, and without political pressure on its management decisions.

The Council's proposal for a National Passenger Train Operating Company also recommends introducing the possibility of competition into the provision of passenger train services. In many countries around the world, reforms in the provision of both passenger and freight rail service have involved competitive bidding for contracts to provide public services.

Our recommendations also deal directly and strongly with the parts of the Northeast Corridor and other infrastructure that Amtrak owns. Today's Amtrak is a minority user of the Northeast Corridor—running only about 150 of the Corridor's 1200 trains—and its finances and management cannot bear the burden of maintaining and improving what is largely a commuter facility.

As an aside, Mr. Chairman, you have some very interesting figures in your own bill. Those figures make it clear that the annual cost of operating, maintaining, and improving the NEC infrastructure, which S. 1991 sets at \$1.3 billion, is equal to the cost of operating, maintaining, and improving the entire national passenger operating company.

The Council's final major recommendation is that the Congress enact measures to provide stable and adequate sources of funding—separate sources for train operations and for infrastructure—for a restructured National Rail Passenger Program. There are those who say that putting more money into the existing Amtrak—as S. 1991 provides—is all we need to do. The Council strongly rejects that notion. What we have today is an institution that, through more than 30 years of existence, has never had the full confidence of the Congress or the Executive regarding Amtrak's ability to spend money properly, regardless of which party controlled either of those branches. Effective reforms will correct that lack of confidence.

FUNDING A PASSENGER RAIL PROGRAM

Even then, the reality of government funding today poses important challenges to effective funding of passenger and freight rail infrastructure needs. As you know, guaranteed spending programs, which today predetermine the appropriation of 75 percent of all federal transportation funds, have been very beneficial for highways, transit and aviation. But the rail mode of transportation is having a tougher time getting funds appropriated because there is no room in the transportation appropriations bill to fund major facilities such as the Northeast Corridor infrastructure, which needs at least \$1 billion per year.

Funding Passenger Rail Infrastructure

Most important for the infrastructure needs of an improved passenger rail program are several bond bills that have been introduced. One is the High Speed Rail

Investment Act, co-sponsored by Senators Daschle and Lott. A bill sponsored by House Transportation and Infrastructure Committee Chairman Don Young, RIDE-21, provides \$36 billion in tax-exempt bonding authority (and \$35 billion in loan guarantees) for railroad investments.

Under appropriate safeguards, the Council also recommends that states have flexibility to use highway and aviation funds for investments to improve the intermodal connectivity of the passenger network or to fund rail investments that would relieve highway or aviation congestion in short-haul corridors.

When such a program is enacted, these funds should be the engine for an effective federal-state rail infrastructure program, in cooperation with the freight railroads, to support improved passenger rail (and intermodal freight) service. The systematic and continuing improvement of railroad rights-of-way and tracks that this program will support is an essential element of the sound national rail passenger (and freight) program that America needs.

Funding Operations and Equipment

The issue of funding for operating subsidies and other needs for Amtrak's long-haul trains, as well as for the capital requirements of corridor trains, and also for operating assistance during a transition period, is more difficult. The Council's Action Plan recommends that the government provide funding on the basis of a formula that will promote its efficient use, not simply fund cash shortfalls resulting from inefficient, deficit-ridden operations. Funding under such a structure might be provided through appropriations or through some dedicated source of funding (some have suggested that a new penny might be added to the federal motor fuel tax that could go to rail uses if matched by a new state penny). Under the program structure that the Council recommends, in which train operations would be provided under contracts, much of the funding for the passenger equipment investment needs of the operating company should or could come from private capital markets.

Funding the Northeast Corridor Rail Infrastructure

Let me go back and address the Northeast Corridor infrastructure. Separating the Northeast Corridor infrastructure—both organizationally and financially—from Amtrak's nationwide train operations is another way of narrowing the gap between the subsidy needs of Amtrak's national train operations and the uncommitted funds available in the budget. There is little or no chance that Amtrak will be able to get the capital it needs to maintain and improve the NEC out of appropriated funds. Clearly, the NEC infrastructure needs to be shifted to a federal agency or authority that has better access to federal, state, and local guaranteed funding than Amtrak has.

Why? Because Amtrak has demonstrated that it has to use whatever cash is available to offset the operating losses of its trains. To fund operations, Amtrak raised \$300 million for operating expenses last year by mortgaging future income from two concourses in Penn Station New York. Amtrak regularly charges portions of its oversized management overhead costs to capital projects, and it has deferred maintenance on the NEC infrastructure below levels needed for minimum operational reliability. Despite the \$3.8 billion backlog of critical fire and life safety and other urgent capital projects on the Northeast Corridor, Amtrak did not request the full amount of appropriations authorized by the Congress under the Amtrak Reform Act.

Amtrak—as it is presently structured—cannot be an effective public steward for this vital toll road known as the Northeast Corridor.

A variety of funding sources, not all directly available to Amtrak, are accessible to NEC state governments (and the other states with emerging corridors) to assist in providing the investments to support their large NEC commuter operations, as well as Amtrak's high-speed operations.

Indeed, there is no single source that could provide all the necessary capital for the NEC. Thus, the Congress should look at a variety of sources, which may include:

- Bond bills that are pending before Congress (RIDE-21 and HSRIA) would help, and may be the principal way to fund all of the corridors.
- The private market will likely provide bond funding to a separated NEC infrastructure;
- For vital fire and life safety projects on the NEC, federal appropriations might be used to reauthorize the Northeast Corridor Improvement Program or provide part of the funding needed to establish a trust fund to pay off bonds issued by a new Northeast Corridor Authority.
- Loans or guarantees under TIFIA and/or RRIF can also help. A restructured National Railroad Passenger Corporation and the states might work with Regional

Transmission Organizations, to undertake one of the major infrastructure projects south of New York—the replacement of the electric traction system.

- Expanding the flexibility provisions in current transportation trust funds to include the NEC projects that would reduce highway and air traffic congestion.
- Civil works projects under the Army Corps of Engineers to undertake bridge projects that are over navigable waters can be implemented with federal transportation funds.
- Special purpose mechanisms for ownership and control of such NEC assets as the Penn Station Complex, which has total needs of more than \$4 billion, might be effectively handled under some kind of appropriate regional umbrella.
- Federal and/or state tax incentives, such as tax credits, might be developed to encourage the private sector to make investments in the corridor.

COMMENTS ON THE NATIONAL DEFENSE RAIL ACT (S. 1991)

Mr. Chairman, let me take the opportunity to contrast the thrust of the proposals that you put forward in S. 1991 with the comparable proposals from the Council's Action Plan.

Oversight. Mr. Chairman, S. 1991 does not provide badly needed oversight of Amtrak. The Council suggests you give due consideration to strengthening oversight.

Corporate and Board Structure. Following on from improved oversight, S. 1991 does not propose any substantive changes in corporate or board structure for Amtrak. A major reason for the structural changes the Council proposes is to provide effective corporate governance for the three major functions that today's Amtrak carries out. These are: National Rail Passenger Program direction, direction and management of national rail passenger operations, and direction and management of the Northeast Corridor rail infrastructure. Each of these functions is very different from the others. They each require different skills and different representation. The Council would suggest that you give due consideration to appropriate changes in the rail passenger program's corporate governance.

High-Speed Rail Corridors. The Council strongly supports the development of the emerging high-speed rail corridors. Our proposal, however, would be to base such a program on federal-state cost-sharing rather than on 100 percent federal funding. First, we doubt that sufficient federal funds exist to carry the entire burden. Second, where freight railroads get major benefits from the investment, they should make an appropriate contribution. The Council would also support having the funding priority of the Corridors determined by the Secretary of Transportation, rather than by federal law. And while transitional federal operating assistance might be warranted, basing the corridors on permanent federal operating support is likely to be fiscally and economically untenable.

Non-Transportation-Related Profits. Without organizational separation, the Council believes there is reason to doubt that Amtrak's current accounting systems and practices can effectively determine whether Amtrak's activities are indeed profitable. Assuming such profits could be accurately determined, another problem arises. If profits have to be given away, then it is likely that not much in the way of profits will materialize. This is what happened under the Transportation Act of 1920, which required that the profitable railroads subsidize the unprofitable railroads. All profits magically went away. This provision also has the aura of a kickback to states that hire Amtrak for various non-transportation-related contracts, which could be unfaithful to private firms bidding to supply such services.

Efficiency. S. 1991 does not contain any incentives to improve the efficiency or customer satisfaction of Amtrak's corporate overhead functions, train operations, or supporting services. Amtrak needs strong incentives to get its costs under control, increase its revenues, and improve its service quality.

CONCLUSION

With all due respect to your proposals, Mr. Chairman, the Council believes its recommendations are strong and sound. The chronic difficulties that Amtrak experiences—year in and year out—are not due principally to lack of funding. They spring primarily from an organization that does not inspire confidence and thus desperately needs to be redesigned. Effective reform will beget funding. Funding alone will not beget reform.

For these reasons, the Council strongly recommends that the Congress first adopt badly needed institutional reforms before providing major new funding for passenger rail service.

I will be pleased to answer any questions. On behalf of the Council, I thank you, Mr. Chairman, for the opportunity to address the Committee.

The CHAIRMAN. Very good, and get that plan to us as soon as you can.

Mr. Rennicke.

**STATEMENT OF WILLIAM J. RENNICKE, VICE PRESIDENT,
MERCER MANAGEMENT CONSULTING, INC.**

Mr. RENNICKE. Thank you, sir.

My name is Bill Rennicke, and I am Vice President of Mercer Management Consulting. One of the things we found in the late 1980s was that a very exportable product around the world was our understanding of the commercial and private railroad structures in the U.S. As such we wound up being involved in virtually every railway privatization in the world or application of private secondary activity to the rail passenger and freight business.

I think one of the important lessons we have learned, and something to bring up right up front, is that when we speak about privatization, we are not talking about returning to the model that the U.S. railroads had with private operations up until 1970. That is one of probably 25 models that have worked in some other countries, but it is not the only model. We are talking about places where private sector involvement has worked, not necessarily with companies with two employees, but companies with thousands and thousands of employees.

The kinds of things that typically have gone on in countries, governments and regulators have revised the privatization structure, the structures of companies. They have changed regulatory governance, funding, and recruited bidders.

The whole process started about 10 years ago almost concurrently with the change in political situations in Eastern Europe. Most major countries of the world, whether they were industrialized or developing, ran out of money to support the railroads. Argentina, the first country where we were hired, had spent almost \$1.6 billion U.S. in that year funding railroad operations and capital programs. It was a very, very small country and that was a very considerable amount of money.

So in most cases those countries were facing many of the same issues and debates that you are having today, and basically, they said, "What do we need to do to change?" They were experiencing poor performance of the railroads themselves. Services were poor, massive amounts of capital were required, and the government felt tremendous financial pressures. Particularly it was felt among people like the World Bank, and in the U.S. Government, and European governments, that if the Eastern European governments were going to survive, and one of the biggest cash drains on their economies was the railroad, then they had to commercialize, if not privatize. There was frustration on the parts of governments over the lack of any kind of a firm action or protocol on the part of the railroads.

The process that typically was used and one that I would suggest be considered in the U.S. is something we call unbundling. If you try to digest the railroad as a whole, the complex integrated business structure of a private company, you often will come up with either a very simplistic yes or no kind of answer—do we return to 1970 or do we not?

In almost every country in the world that has embraced what is called private involvement in railways, whether they be passenger or freight, they have not necessarily applied it to 100 percent of the activities. They have looked for selected places in the railroad where these could be done with the concurrence and support of the regulators, of the passengers, and of employees. I would say in none of the countries that can I think of in which we were involved with private sector participation was there a situation where at the end of the cycle we did not have the full support of the employees. The fact is in Argentina, the unions formed a company and became one of the franchise bidders themselves.

Again, the kind of private structures that we are talking about are several. One is the full or partial privatization of the railroad.

The MTRC was the largest subway system in Hong Kong, whose functions were basically outsourced by privatization. You had sales to foreign operators. The New Zealand rail system, and the Argentine freight systems were sold as concessions, with significant involvement of private financing and the provision of assets by maintenance companies and equipment companies.

One of the most important things is to realize that while there has been a characterization in the U.S. that nobody will step forward to become a private operator, it is really wrong. Most of the private companies that you want to have as operators in the United States are operating elsewhere in the world, and in fact, operate things like bus companies in the United States. They are well-seasoned railroad companies. They understand how to run a railroad and how to run a private company. Some of them actually involve, from our past experience, interest on the part of the U.S. airlines in some parts of the rail system.

Those companies will probably never step forward until there is a process that would allow them to bid on something.

So until there is some kind of request for proposal or resolution or establishment of a structure, they will not get involved in spending their resources in trying to go through the years of debate and discussion about what to do with the railroad.

When there is a transparent program they will decide to bid or not to bid, and in the supplemental material I gave you there is a list of about I think 70 companies that we think might be interested. We have not contacted them. Some of them are U.S. railroads that run commuter operations, and they may or may not be interested, but I think if you had a transparent process like those we found even in much less desirable situations in developing countries, you could probably count on 25 to 50 world class companies showing up.

The kind of things that I think are of interest to these folks, and I listed this out in my comments, is primarily clarity on the framework. They are going to want to understand the politics. They are going to want a structured business offering. They are going to want enforceable commitments and some ideas of the funding because we are not talking about total private funding. That does not exist anywhere.

You cannot run most passenger railroads totally out of the farebox. They are going to want to know where the funding comes from, and in the material I provided we have show you that you

can reduce the subsidies tremendously. Mexico went from a \$700 million subsidy to zero. Argentina is down to about \$50 million from the total of \$1.6 billion.

I have given some examples of what is happening in other countries, and I have also provided on page 46 of the supplemental material something that I was not necessarily asked to do and that is at least a hypothetical version of how you might want to consider as part of this debate incorporating some other issues that face the transportation sector in the U.S.—not that Amtrak is not enough to bite off, but there are things like airport congestion that, as you think about the restructuring of the system, if you incorporate those planning concepts you could actually come up with a much more attractive opportunity for private operators to get into the system. This is described in some of the supplemental material.

Thank you.

[The prepared statement of Mr. Rennie follows:]

PREPARED STATEMENT OF WILLIAM J. RENNICKE, VICE PRESIDENT,
MERCER MANAGEMENT CONSULTING, INC.

My name is William J. Rennie, and I am a Vice President with Mercer Management Consulting, Inc. (Mercer). I have 30 years of experience consulting to the transportation industry on a wide range of regulatory, economic, litigation, and asset management issues. I specialize in transportation strategic planning, management, marketing, economics, and operations, and have particular expertise in restructuring, organizational redesign, and transactions to improve financial and operating performance of transport operators around the world. I have previously provided expert testimony on the state of the North American rail industry on several occasions before the U.S. and Canadian legislatures. I have also directed the analysis of the competitive effects of transactions before the FTC and DOJ.

My purpose in preparing this statement is to provide the Committee with Mercer's perspective on the worldwide trend towards private sector involvement in passenger railroad restructuring and privatization. My testimony is based on experience working with many of the national railways worldwide that have been restructured, privatized, or are otherwise seeking ways to attract private sector investment and improve both their finances and their services.

In the last ten years, there has been a radical change in the way passenger railroads around the world are structured and operated. A particular feature has been growing private sector involvement in all areas, from operating trains, through maintenance of rolling stock and infrastructure, to financing of large-scale projects. In general, the result has been very positive, with improvements in service and ridership, increases in investment and big reductions in subsidies.

Many of the lessons can be applied to the U.S. passenger rail situation, although obviously each country is different, and we should be careful in applying wholesale a model used elsewhere, however successful.

TEN YEARS AGO

Ten years ago, around 1990, virtually all countries had large, integrated, state-owned railroads. The integrated railroads did everything—specifying, procuring and owning equipment and infrastructure, maintaining it, running passenger and freight services, operating stations and freight terminals, providing add-on services to customers, and managing all the associated administrative activities.

Many of the railroads were actually government departments, others some form of public corporation. In both cases, funding came from the government, usually through coverage of the annual operating deficit, and funding of the capital budget. Since governments are perennially short of money, capital spending was inadequate to replace assets, and the condition of the equipment and infrastructure was steadily deteriorating.

The only major private sector involvement was U.S. freight railroads. Outside of U.S. freight, private sector involvement was very limited.

CHANGES IN THE LAST TEN YEARS

Since 1990, the railroad sector worldwide has undergone a radical change that is still continuing. The change has been driven by three related factors:

- Poor and declining performance by the railroads, including declining (or barely increasing) ridership, poor service (especially frequency and on-time performance), and increasing costs and financial support required.
- Financial pressures on governments that made the subsidy paid to railroads look a poor value use of public funds compared to alternative uses such as health and education.
- Frustration by governments at the lack of firm action by railroad management to address these problems, and at the intransigence of labor to adapt in ways that would assist performance.

The changes differed by country, depending in particular on how bad the situation was, the government's objectives and the level of skills available in the existing railroad staff to sort out the problems.

UNBUNDLING

A common theme in all countries has been "unbundling". The integrated state-owned railroad comprised a series of activities—for example, financing the equipment, owning it, maintaining it, operating it, marketing the service to passengers—that together provide the service to customers.

Unbundling separates out these activities and gives them to the most efficient type of provider. So, financing and ownership of equipment may be done more efficiently by an operating lessor or a bank. Equipment maintenance may be done more efficiently by a specialist maintenance company, or by the manufacturer who understands the technology and can give a long-term commitment to equipment availability. Train operation may be done better by large bus operators who are skilled at providing high-frequency customer-oriented services.

Importantly, unbundling allows the private sector to become involved. No private sector companies have the experience to manage the full range of rail activities, but they can be very effective at managing pieces of it. Where there is a requirement to manage more than that, they can create consortium arrangements where each member does what he is good at and they all share in the overall risk and reward.

PRIVATE SECTOR INVOLVEMENT

Private sector involvement has taken a variety of forms:

- Full or partial IPO of the railroad or unbundled parts of it. Examples include Canadian National, the Japanese railroad (split into regional operators), the UK infrastructure company Railtrack, and the subway operator MTRC in Hong Kong.
- Sale to private owners. Examples here include the New Zealand railroad and the UK freight operator (both sold to Wisconsin Central), the Argentinian freight lines (sold to local and U.S. short line operators), and the UK passenger rolling stock and maintenance shops (sold to various banks and manufacturers).
- Concessions to operate services. Examples include Argentina passenger services (originally concessioned for seven years and now being extended to encourage re-investment), Swedish and German regional rail concessions (typically 3-10 years), and UK passenger franchises (7 years).
- Financing of new assets. This includes growing private sector leasing of rolling stock, and the financing of major infrastructure. Examples include the UK passenger rolling stock fleet (the ROSCOs), and FBOT (finance, build, operate, transfer) schemes such as the Dutch high-speed line, the high-speed Channel Tunnel Rail Link in the UK, and the Taiwan high-speed line.

As the examples show, it is not necessary to sell the whole system to get many of the benefits of private sector involvement. Many countries, particularly in Europe, are working toward a mixed model, where some activities, particularly management of infrastructure, will be state-run and others, particularly train services, will be run by the private sector. However, even state-run infrastructure activities will use the private sector, e.g., for maintenance or for financing major projects, as the normal part of doing business.

COUNTRY CASE EXAMPLES

South America has seen the most radical changes in its railroads, with virtually all the region's railroads moving from state-owned to private sector in the last ten years. Argentina was the first country in South America (and in the world) to move to complete private sector railroads in 1993-5. At the time service was very poor, financial support was out of control, and poor asset condition threatened even basic

operation. The government, with Mercer's help, moved quickly to bring in private operation of all passenger and freight lines, and committed them to a program of asset improvement. Similarly in Mexico, the rapid devaluation of the peso forced the government, again with Mercer's help, to split up and concession the freight railroad in three pieces in record time, yielding over \$2.5 billion in one-off cash to the government.

In continental Europe, railroads were better run, and government financial pressures less. As a result, there has been a gradual evolution, pushed along by the European Commission. The succession of changes started with restructuring of the railroads while still in state ownership to make them more commercial, efficient and financially sound (and to separate infrastructure from train operations). It has now moved to greater private sector involvement and competition, with a requirement for commuter, regional and light rail systems to be offered to competitive concession, and plans to IPO the freight and inter-city passenger services in some countries. Similar changes are happening, more slowly, in Eastern Europe, as countries prepare to join the EU.

The UK, of course, followed a different path. The government unbundled the system into 100 separate pieces and privatized everything. The resulting complexity has caused problems, and contributed to the failure of Railtrack, but other parts have performed well, particularly the train operators, and the rolling stock management and maintenance.

Elsewhere, Japan is completing the privatization of its system, mainly through IPO of existing operators; Australia is concessioning most of its passenger and freight operations; and New Zealand sold off its railroad in the early 1990s. Even China is now reviewing options for unbundling and private sector involvement in its massive system, and Russia has recently restructured its railroad in preparation for privatization.

EMERGENCE OF PRIVATE SECTOR COMPANIES

Parallel to these changes has been the emergence of private sector companies to take on the new roles. Ten years ago, governments had to search for companies with the right skills when they wanted to bring in the private sector. Now, there is a group of companies experienced in operating in the new unbundled rail industry.

There are four different types of new companies:

- Train operators. New passenger train operators are primarily French or British bus companies that started with UK rail privatization. They include Connex, National Express, Via GTI, First Group, Arriva and Stagecoach. They now hold concessions in the UK, Netherlands, Australia, Sweden, Portugal, Germany, and Denmark, including some high-speed services (over 125 mph).

- Maintenance companies. Infrastructure maintenance specialists have emerged mainly from construction companies and include Balfour Beatty and Jarvis of the UK, and Sersa of Switzerland. In rolling stock maintenance, manufacturers predominate, including Bombardier, Alstom and Siemens.

- Finance providers, including lessors (financial and operating), arrangers and commercial lenders. There is a large list of commercial lenders in Europe in particular that now have experience owning rail assets and lending to major railroad projects, and a growing understanding of how to assess and price the risks involved.

- BOT (build, operate, transfer) consortia. Consortia members include finance providers and train operators, but also other risk-taking companies such as project managers (e.g., Bechtel) and engineering consultants.

With their international experience with different rail operations, these new companies are increasingly transferring best practices from one country or operation to another.

MAXIMISING VALUE FROM PRIVATE INVOLVEMENT

As governments have developed private sector involvement, they have learned what conditions are required to maximize the value they get. Some of the conditions relate to attracting private sector bidders in an international marketplace where private companies have many other opportunities; others relate to ensuring ongoing value as the contract or concession progresses. The major conditions are:

- Clarity on the framework (political, institutional and legal) within which the private sector will operate. Without this, the private sector fears it will get squeezed by ever changing political pressures. In the UK, for example, the threat by the Labour party of re-nationalization put off bidders and considerably reduced the value the government obtained from the sale of the ROSCOs and the IPO of Railtrack.

- A structure of the business being offered that gives private operators sufficient breadth over which they can add value, and sufficient flexibility to make changes. Too narrow a set of activities and too many constraints (e.g., on service frequency, prices, or labor) reduces the private sector's ability to improve performance. Some private operators are not bidding for concessions in Europe because the concessions are too narrow and too short to make a decent return.

- Agreed, measurable and enforceable commitments on service and investment, which if met will deliver to government the benefits it needs. This effectively aligns the government's and the private operator's interests.

- Strong performance monitoring arrangements, including reporting and meaningful penalties/incentives which focus the private company's management and staff day-to-day. This needs to be coupled with a hands-off day-to-day management approach by government, which allows the company to manage in a normal commercial manner.

RESULTS

In general, the results of the changes have been very positive. For example:

- In Argentina, ridership of the commuter system increased by 125% in the first seven years of the concessions (1993-2000), service improved dramatically, and subsidies for the commuter and metro systems combined reduced from \$300 million to \$50 million.

- In Mexico, in addition to the \$2.5 billion initial cash inflow, government subsidies of \$0.7 billion a year were eliminated. Freight traffic rose by 50% between 1995 and 2000 and a \$1.3 billion investment program was completed.

- In the UK, passenger and freight traffic increased by 25-40% in the first five years, subsidies for passenger services were committed to fall by 60% over the seven years of the franchises, and a major replacement program for passenger rolling stock is still underway.

- In passenger concessioning in countries such as Sweden, Germany and Australia, private operators are committing in their bids to operate the services with cost reductions of 20% or more, with a larger reduction in subsidy.

MERCER
Management Consulting

**Testimony on S. 1991, National
Defense Rail Act**

Statement of
William J. Rennie
Vice President
Mercer Management Consulting, Inc.
March 14, 2002

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- • Operating cost improvements from privatization
- Approaches to developing public/private transaction opportunities
- Possible paths forward
- Trends in European railway liberalization
- Illustrative example of a potential public/private partnership opportunity
- Qualifications of Mercer Management Consulting, Inc.
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Introduction

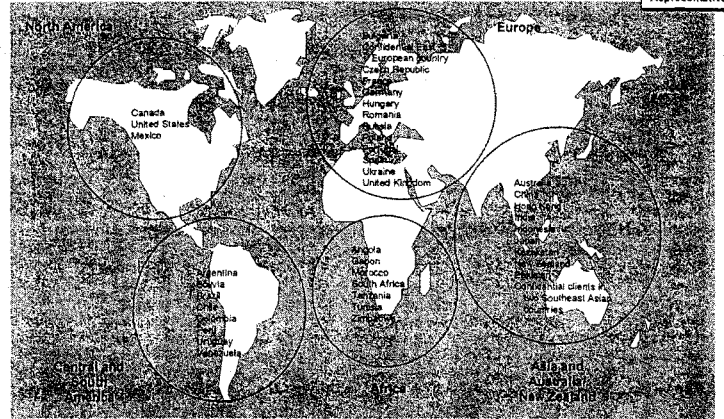
Mercer based its comments and assumptions for today's hearing on benchmarks and analysis it has conducted in examining the role and extent of private sector participation in transportation and other asset-intensive industries railways through out the world.

International Benchmarks

- Consideration of effects of privatization on international rail systems:
 - Operating cost savings
 - Traffic growth
 - Productivity increases
 - Sources and timing of privatization effects
- Overview of non-rail public asset privatizations
- Learnings from benchmarks of comparable rail systems for:
 - Operating cost per unit
 - Capital investments per unit
 - Productivity growth
 - Factors impacting growth of operating costs

Mercer's restructuring expertise

Mercer has worked with governments and operating companies around the world operating in all types of market environments, from heavily regulated and state-controlled through various stages of deregulation to unrestricted market competition.



Operating cost benchmarks: Overview

Mercer's experience with private involvement in international rail systems supports the following findings:

- International examples of privatization of rail and other low-tech assets demonstrate operating cost savings ranging from 3 percent to 50 percent in the first three years of private operation.
- US examples of outsourcing to private transportation operators show annual operating cost savings in excess of 30 percent.
- Recent Mercer analysis of a European passenger rail system revealed potential cost savings from privatization of infrastructure operations of 9-11 percent. Because this system is newer and more efficient than Amtrak, it is likely that Amtrak could achieve even greater savings from a private-sector infrastructure operator.

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Operating cost benchmarks: Calculating efficiency savings

In evaluating post-privatization operating cost savings, Mercer typically considers three major questions.

HOW MUCH?
What were operating savings in comparable cases?

↑

- Benchmarks for:
 - International rail privatizations
 - Other transport privatizations and outsourcing examples
 - Other public asset privatizations

WHEN?
When did the savings occur?

↑

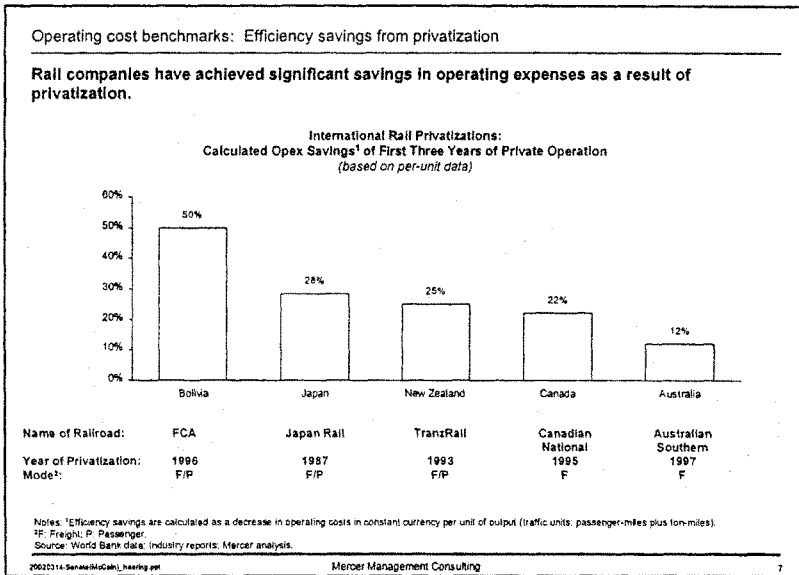
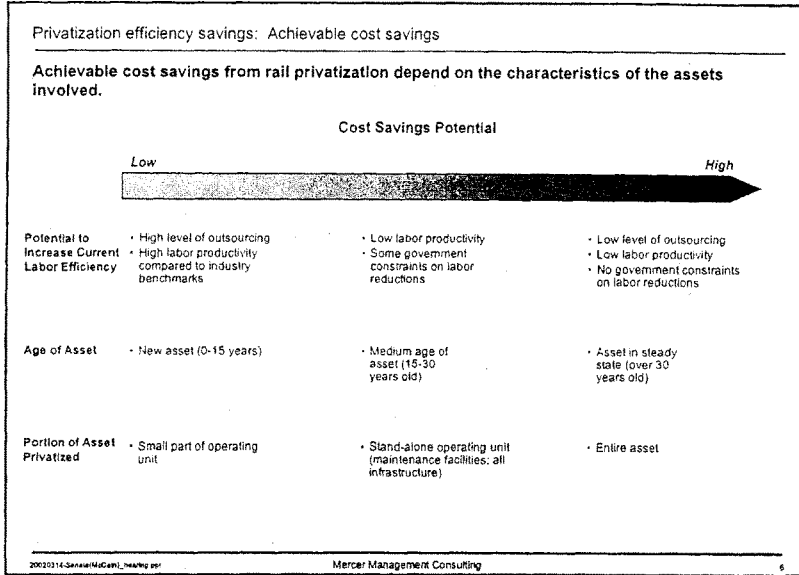
- Examples of:
 - First year cost cuts
 - Gradual turnaround programs aimed at step-by-step cost reduction

HOW?
How were operating savings achieved?

↑

- Description of:
 - Turnaround plan for the first years of operation
 - Incremental ongoing productivity impact


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Operating cost benchmarks: Efficiency savings from outsourcing

Railroads and governments across the globe have taken advantage of the efficiencies gained from outsourcing.


"Docklands Light Railways Ltd.'s public subsidy will be reduced by 24% during the franchise period (1997-2004)."




"Average operating cost per passenger km decreased by 37% from 1985 (pre-privatization) to 1995 (post privatization)."



"Public Sector Operator, Statens Jernvagnar, in three years (1988-1991) turned a \$48M loss into a \$37M profit."



"From 1992-1995, Stockholm Transit achieved 7.3% savings annually by contracting out 59% of their operations".



Source: JR West -Changing Trains "Railway Reform & the Role of Competition", 1996; Docklands PR Newswire; SJ-ATCO Rail Privatization Oct 1992; SL, 5th international conference on competition and ownership in passenger transport, Leeds May 1997.
 *Operations include both rail and bus, both of which were outsourced 59 percent respectively.

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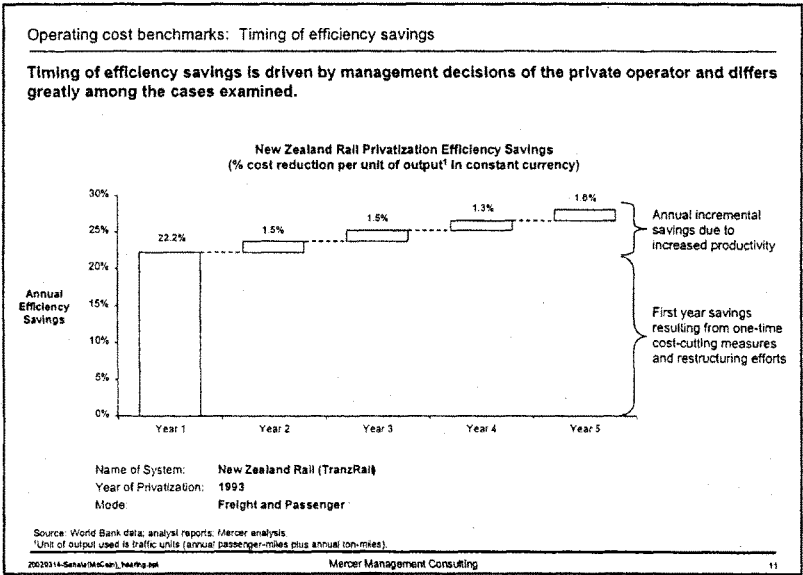
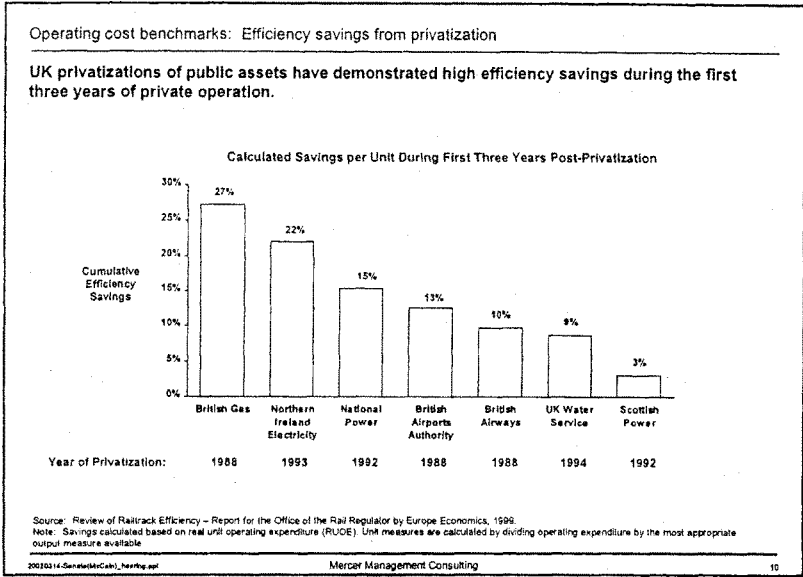
Operating cost benchmarks: Efficiency savings from outsourcing

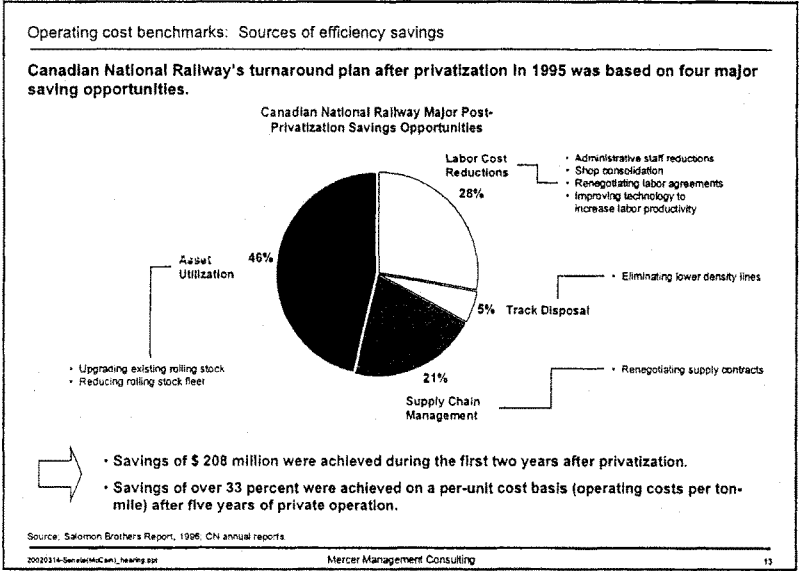
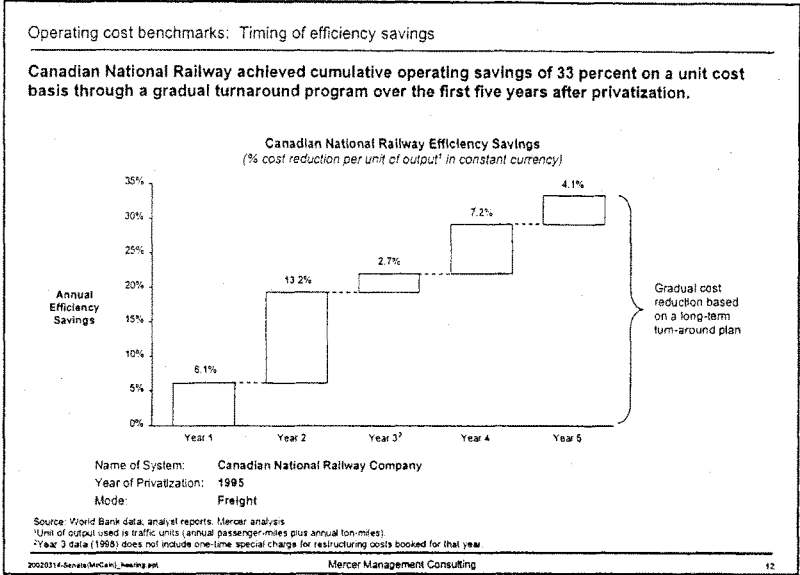
Bus companies have been able to achieve significant annual efficiency savings by outsourcing some or all of their operations and maintenance to outside contractors.

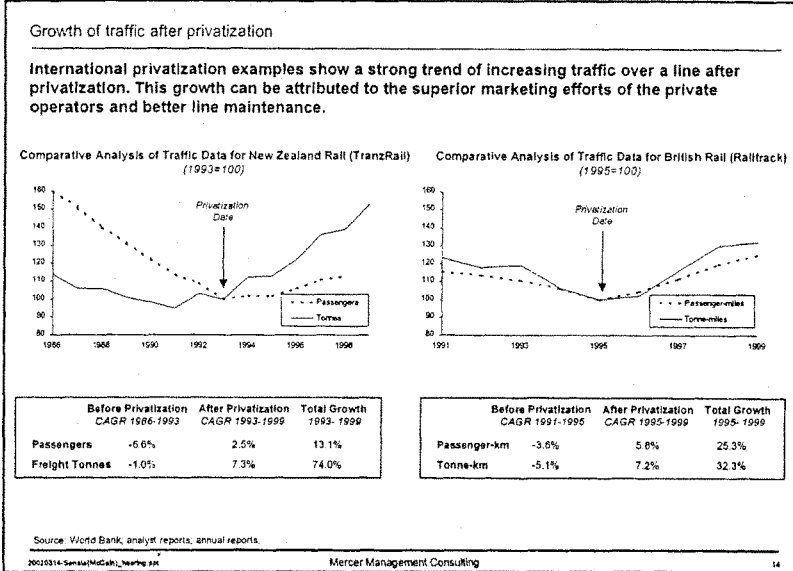
	Years of contract	Outsourced work as % of total maintenance cost	Annual efficiency savings
Las Vegas, NV	1993-1994	100%	33%
Indianapolis, IN	1994-1996	70%	14%
Auckland, New Zealand	1990-1995	100%	8%
Copenhagen, Denmark	1989-1996	56%	4%
Denver, CO	1988-1995	25%	3%

Source: International Conference on Competition and Ownership in Passenger Transport, Leeds May 1997.

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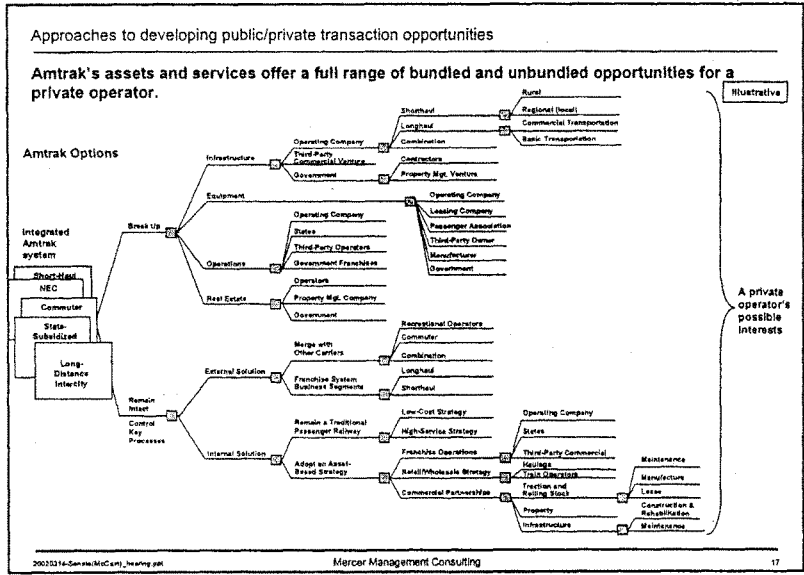


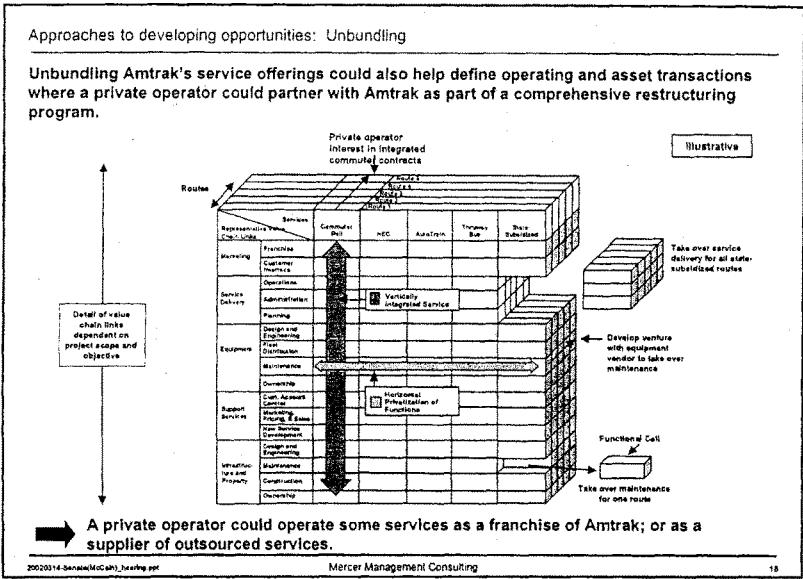
- ### Representative rail industry service providers
- In Mercer's view, a wide range of private-sector companies today possess the capability to provide outsourced maintenance, infrastructure services, and operations for intercity passenger services.**
- Representative List
- | | |
|--|---|
| <p>Afatom - Rolling stock and infrastructure design, build, maintenance and operation</p> <p>Amec - UK rail infrastructure maintenance specialist</p> <p>Amey Railways - Planned management, maintenance, renewal and repair of railway infrastructure</p> <p>Angpil - UK Rosco (rolling stock operating lessor); also operates internationally</p> <p>Arriva - UK train and bus operator; concessions in UK, Netherlands, Denmark, Portugal</p> <p>A-Train AB - Consortium formed to finance, build and operate Stockholm airport link</p> <p>Balfour Beatty Rail - Design, production, supply and maintenance of railway infrastructure</p> <p>Bechtel - Project management, engineering consultancy</p> <p>Bombardier/ADtranz - Rolling stock; manufacture, operations and maintenance; Rail infrastructure; operations, signalling, systems, engineering</p> <p>Brown & Root - Infrastructure design, construction and operations</p> <p>Connex - French train and bus operator; concessions in UK, Germany, Sweden, Australia</p> <p>Eurotunnel - Owns, operates and maintains the Channel Tunnel and its railway infrastructure</p> <p>First Engineering - Railway infrastructure maintenance and repair</p> <p>Fluor Daniel - Specializes in infrastructure construction and maintenance</p> <p>First Group - UK train and bus operator; concessions in UK, Netherlands; US school bus operator</p> <p>GT Railway Maintenance - Maintenance, repair and renewal of railway infrastructure</p> <p>Herzog - Focuses on commuter rail operations</p> <p>Hochtief - German infrastructure construction and maintenance company; also involved in airport management</p> | <p>HSBC Leasing - UK Rosco (rolling stock operating lessor)</p> <p>Jarvis Rail - Railway facility maintenance</p> <p>Kansas City Southern Industries - Multi-railroad holding company</p> <p>Max Bögl Company Group - Development, production and installation of railway infrastructure</p> <p>National Express - UK train and bus operator; concessions in UK, Australia; part-operator of Eurostar high-speed service; US school bus operator</p> <p>NILES-SIMMONS - Development and production for infrastructure maintenance</p> <p>Porterbrook - UK Rosco (rolling stock operating lessor); also involved in Australia, Denmark</p> <p>Development Corp. - Multi-railroad holding company</p> <p>Serco - Infrastructure and communications and control systems</p> <p>Serra - Swiss rail infrastructure design, upgrade and maintenance specialist</p> <p>Siemens AG - Vertically integrated projects including construction, operation</p> <p>SNCF - Transport operator and infrastructure management, maintenance, & renewal</p> <p>Stagecoach/Virgin - UK train and bus operator; concessions in UK, Sweden, Portugal, NZ, Hong Kong; owns Coach USA</p> <p>Sea Containers/GNER - train and ferry operator; operates high-speed concession in UK and tourist train services (Orient Express, Australia, Peru)</p> <p>Transdev - French bus and light rail operator; concessions in Australia, UK, Poland</p> <p>Transfield - Infrastructure construction and maintenance</p> <p>Union Pacific - US Class I Railroad</p> <p>VIA OTI - French train and bus operator; concessions in France, UK, Germany, Spain</p> <p>Washington Group - Infrastructure construction and maintenance</p> |
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Approaches to developing opportunities: Unbundling

Cell-by-cell value chain analysis would be needed to identify areas where a private operator could introduce new levels of performance improvement.

Summarized Rail Service Value Chain

Illustrative

Representative value chain links	Business	Portfolio of services to be privatized	Amtrak	Component unbundled/outsourced
Operations	Station terminal	●	○	Y
	Train crew	●	○	Y
Traction and rolling stock	Scheduling	●	○	Y
	Design and engineering	●	○	Y
	Part distribution	●	○	Y
	Maintenance	●	○	Y
Support services	Ownership	●	○	Y
	Customer account control	●	○	Y
	Marketing, pricing, and sales	●	○	Y
Infrastructure and property	New service development	●	○	Y
	Design and engineering	○	●	N
	Maintenance	●	○	Y
	Construction	○	●	N
	Ownership	○	●	N

Key:

- More Efficient
- Less Efficient
- Y Yes
- N No
- Opportunities for private operators

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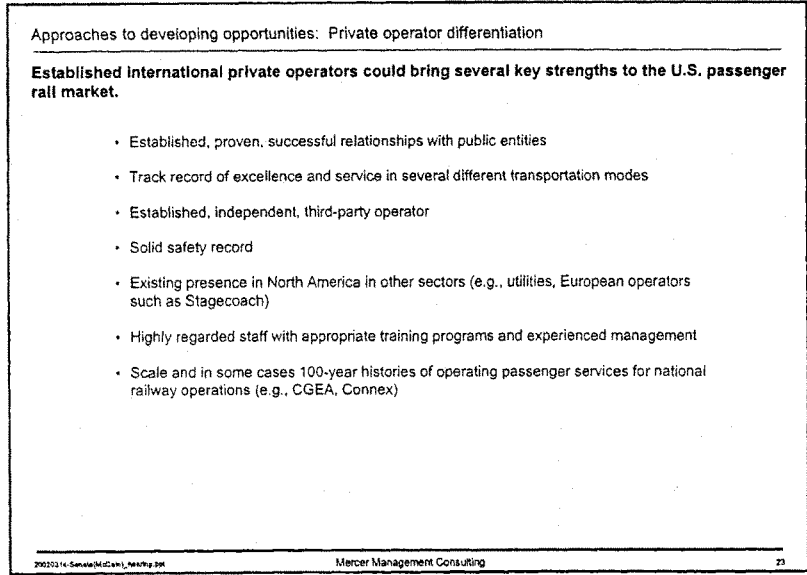
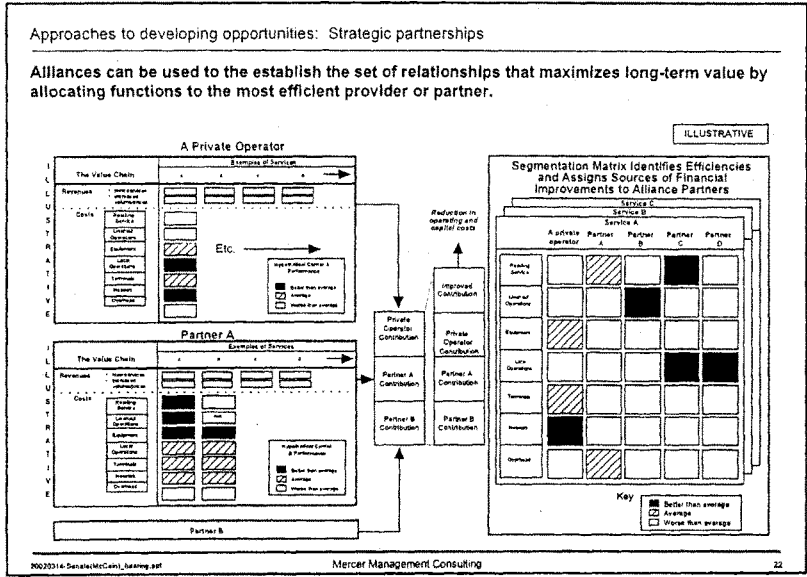
Approaches to developing opportunities: Entry strategies

A private operator could have several potential options for entering the U.S. market. For example:

Point of Entry \ Segments	Long Distance	NEC	Shorthaul	State Subsidized 403(b)	Commuter	Other
Become part of an Amtrak solution	X	X	X	X	X	X
Work with States to replace Amtrak on State-supported services			X	X		X
Work with U.S. DOT/Congress to operate the core network	X	X				
Approach private parties (freight railroads, suppliers, etc.)	X	X	X	X	X	X
Approach selected transit authorities					X	X

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- Approaches to developing opportunities: Strategic partnerships to support new private entrants
- A variety of strategic partners could be available if partnering is shown to be beneficial to the interested private operator.
- **Independent contractors** have already established market presence (e.g., Herzog for Miami Tri-Rail service and Dallas Area Rapid Transit [DART]; Bombardier for equipment).
 - Several of the largest **Class I freight railroads** have passenger subsidiaries currently operating commuter services (e.g., BNSF and UP for Chicago METRA service).
 - **Regional railroads** (e.g., Anacostia & Pacific), through their entrepreneurial and innovative approaches, have pursued commuter service contracts in competition with Amtrak.
 - Some **commuter authorities** that operate their own passenger services today could be open to expanding to other municipal areas.
 - **Airlines** have considered obtaining rail routes or have entered into partnering programs (e.g., frequent flyer miles for rail travel) as competitive strategies.
 - NEC and linked commuter lines represent a significant customer base.
 - Other companies (e.g., electric utilities) are interested in acquiring electric power distribution rights on the NEC.
- 20020314-ServSta/MCCent_Heading.ppt Mercer Management Consulting 21



Contents	
•	Operating cost improvements from privatization
•	Approaches to developing public/private transaction opportunities
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–	Argentina
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Possible paths forward

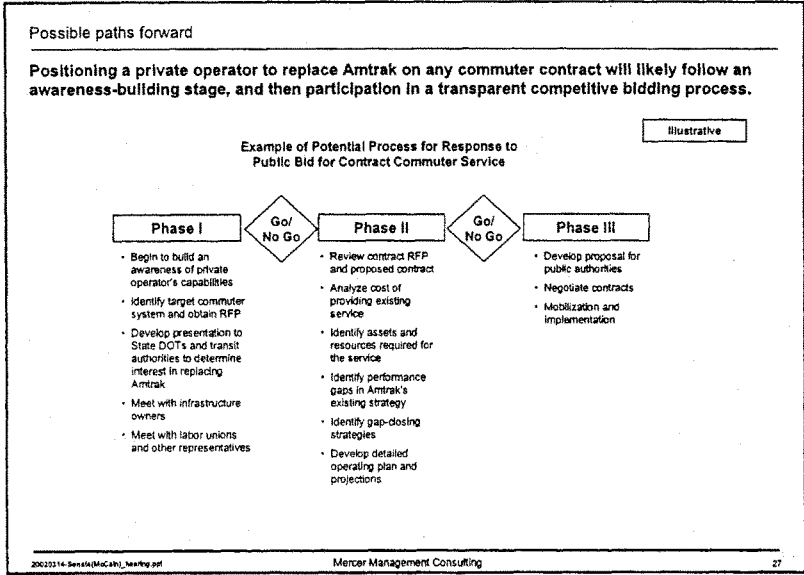
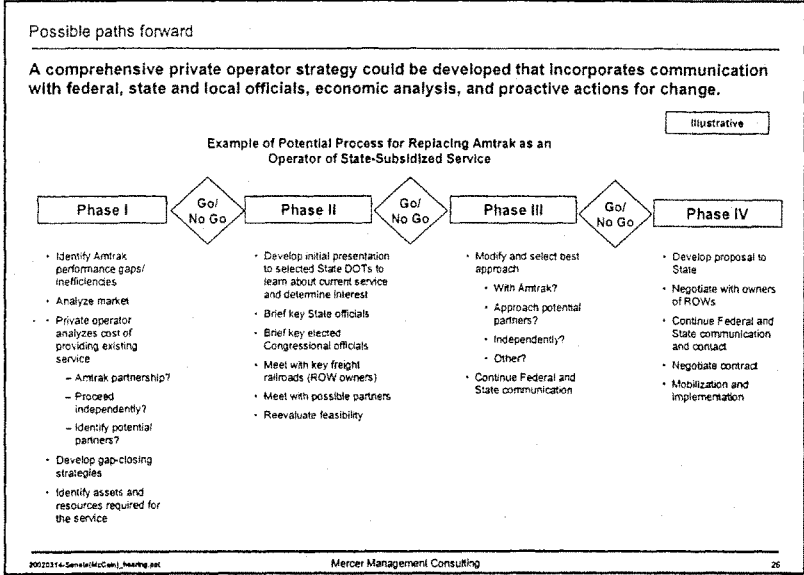
Since multiple decision makers and stakeholders would be involved in any private operator entry strategy for different services, attracting qualified world class interest will require a clear and transparent contracting and transaction process. For example:

Stakeholder	Segment	Long Distance	NEC	Shorthaul	State Subsidized	Commuter	Other
Amttrak Board		●	●	●	●	●	●
State Departments of Transportation		●	○	●	●	●	○
State elected officials		●	●	●	●	●	○
U.S. DOT		●	●	●	●	○	○
U.S. House Committee on Transportation and Infrastructure		●	●	●	●	●	●
U.S. Senate Committee on Commerce		●	●	●	●	●	●
Local transit authorities		○	○	○	○	●	○
Municipal officials		●	●	●	●	●	○
Private sector		●	●	●	●	●	●

Key:
 ● High focus
 ○ Limited or no influence

→ The relative interest of each decision maker would have to be integrated into one single point of private operator contact.

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Possible next steps to establish private operator interest

1. Determine private operator's level of interest and initial areas of focus
 - Screening criteria for transactions
 - Timeline for transactions
2. Profile opportunities supported by high-level analysis
3. Screen opportunities and prioritize most attractive options
4. Conduct detailed analysis of most attractive options
5. Develop transaction implementation plan
6. Mobilize and develop integration plan

Mercer suggests a three-phase process that could begin to attract private operator interest in a North American entry.

Possible next steps to establish private operator interest

Phase I: Evaluation of private operator interest to operate selected Amtrak Services

- Establish screening criteria and timeline for transactions.
- A private operator's options to operate Amtrak services could cover a broad spectrum of potential relationships, ranging from a fairly straightforward franchising relationship under which Amtrak would retain some control (and risk) for long-term operation, to a displacement under which the private operator would assume a much higher degree of control (and risk) for some or all of Amtrak operations.
- Also along the spectrum lie more complex contractual and alliance arrangements including unbundling of different groups of Amtrak assets and services over which a private operator could selectively assume control.
- In this phase, US policy makers would apply the market structure assessment techniques to lay out the full range of transaction options for the private operator. It would be necessary to quantify the financial impacts of the options to identify the qualitative (e.g., strategic) benefits for each party. It would be important to identify the key constituencies for any transaction (including potential competitors/partners) and make a preliminary assessment of what their major interests – pro or con – are likely to be, and apply the private operator's screening criteria.
- At the end of the first phase, interested private operators would then have a clear indication of whether any profitable commercial options exist and what the likely form for a transaction for those options would be. If a sustainable commercial structure for one or more transactions cannot be identified for private operators, or there are legal or structural impediments that seem insurmountable, then further efforts could be halted.

Possible next steps to establish private operator interest

Phase II: Development of actual preliminary private interests

- Party representing Amtrak's interests would prepare detailed transaction structures for any transactions that the Phase I work indicates would provide superior standalone or synergistic benefits.
- For example, a "wet lease" type of approach could likely be proposed and negotiated directly with Amtrak as a franchiser, whereas the acquisition of total control of the operation would likely need to be negotiated with the DOT. For this phase, the private operator team would likely be joined by legal and contracting experts.

Possible next steps to establish private operator interest

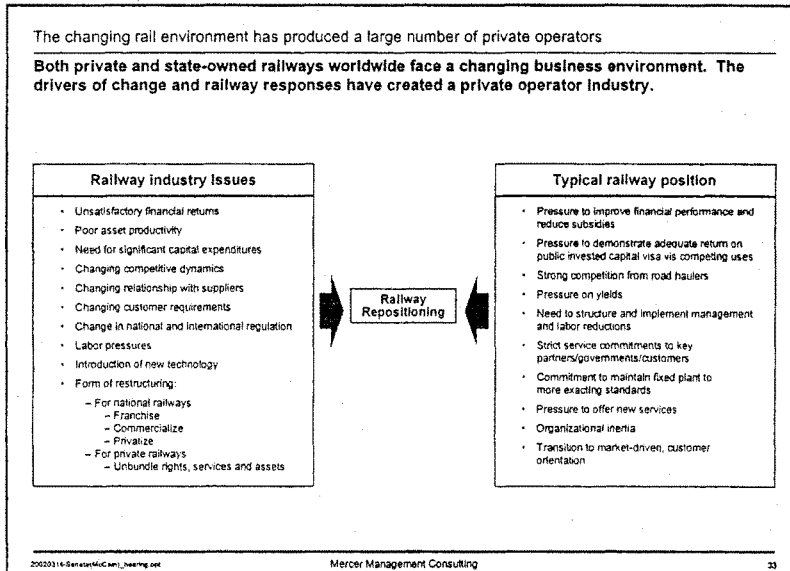
Phase III: Implementation and execution of public/private venture

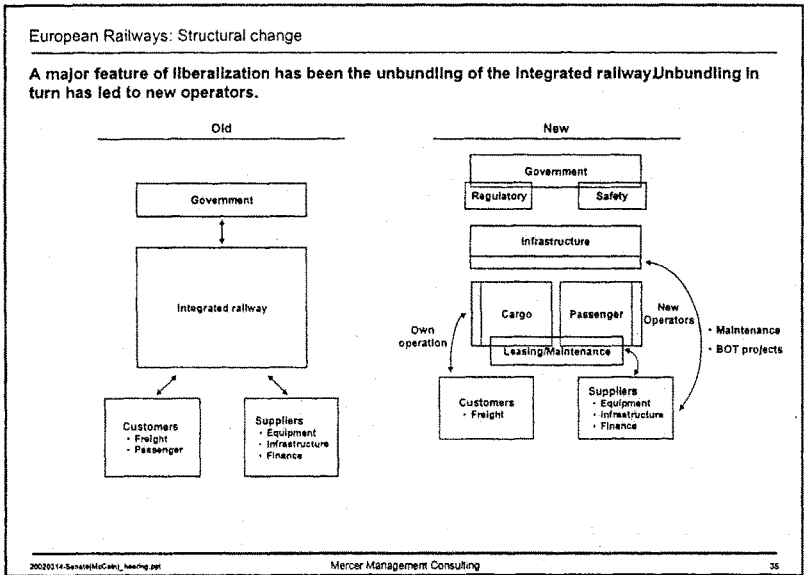
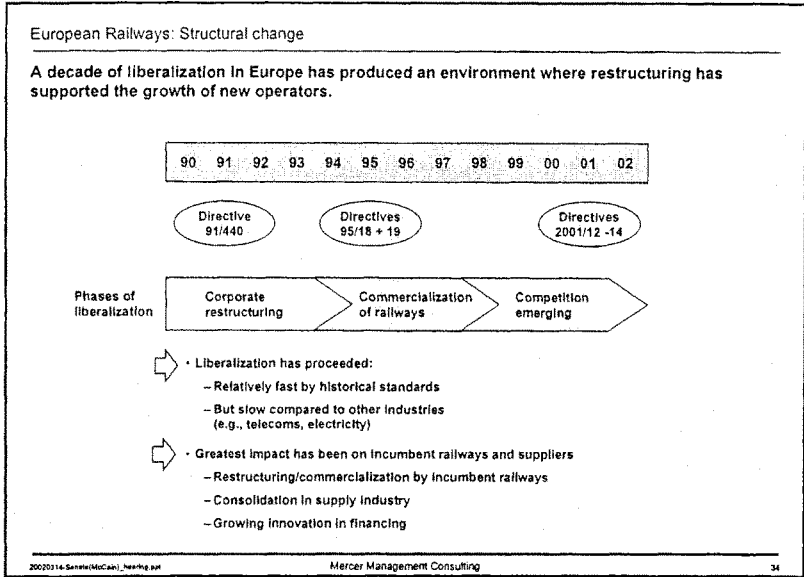
- The transition following a successful transaction is the critical period for ensuring that the anticipated value is fully captured. The private operator would employ its in-depth knowledge of passenger rail operations and services, in conjunction with its post-merger planning expertise, to assist with the transfer of Amtrak services and the start-up of operations.

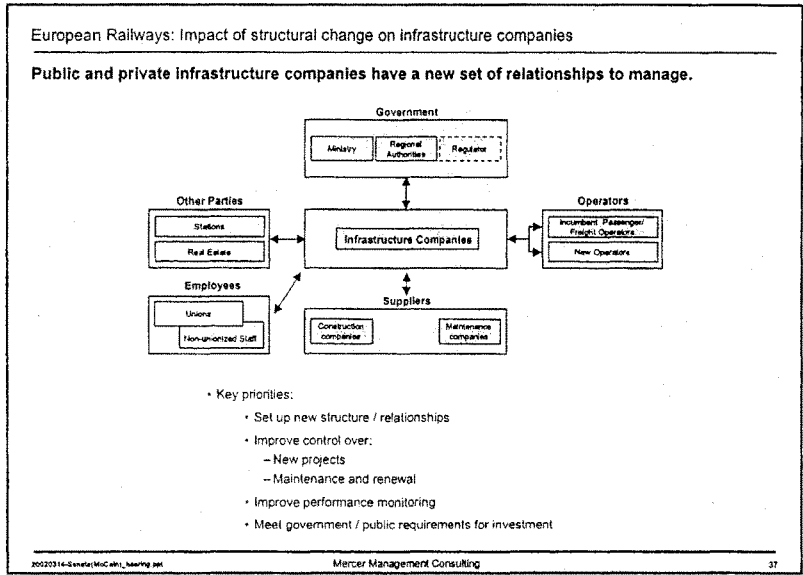
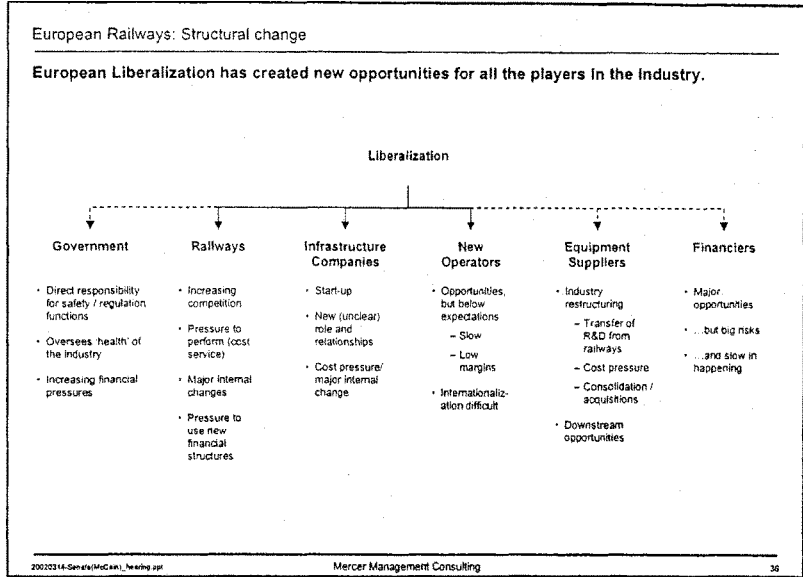
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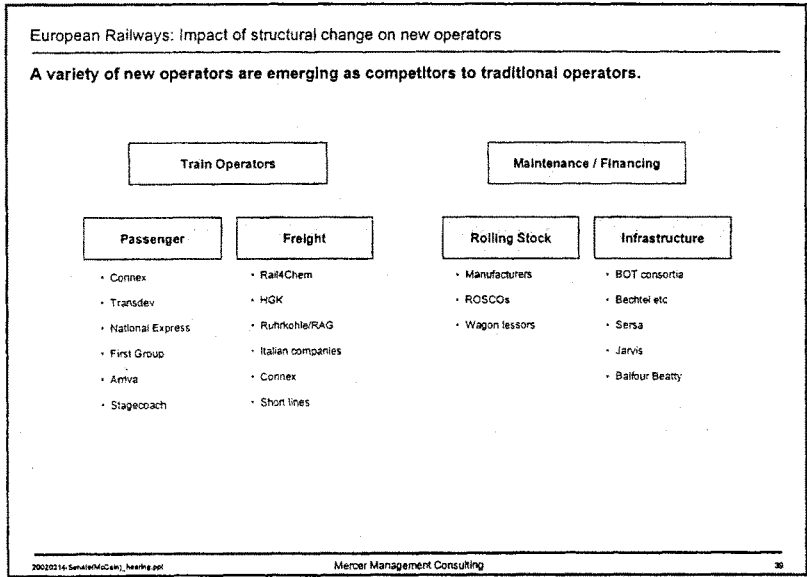
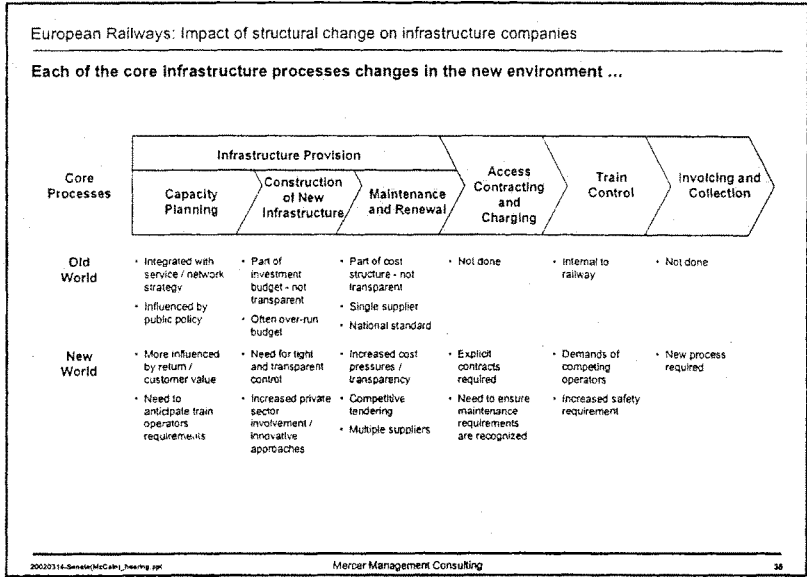
- Operating cost improvements from privatization
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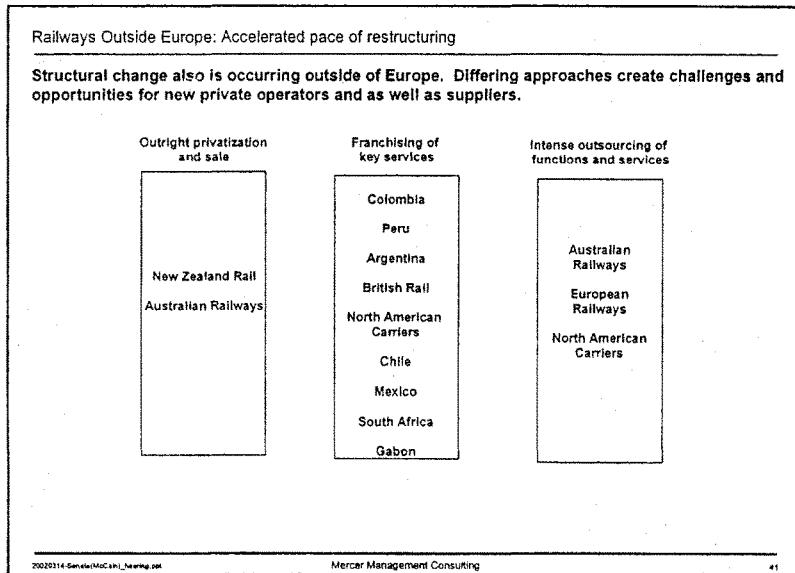
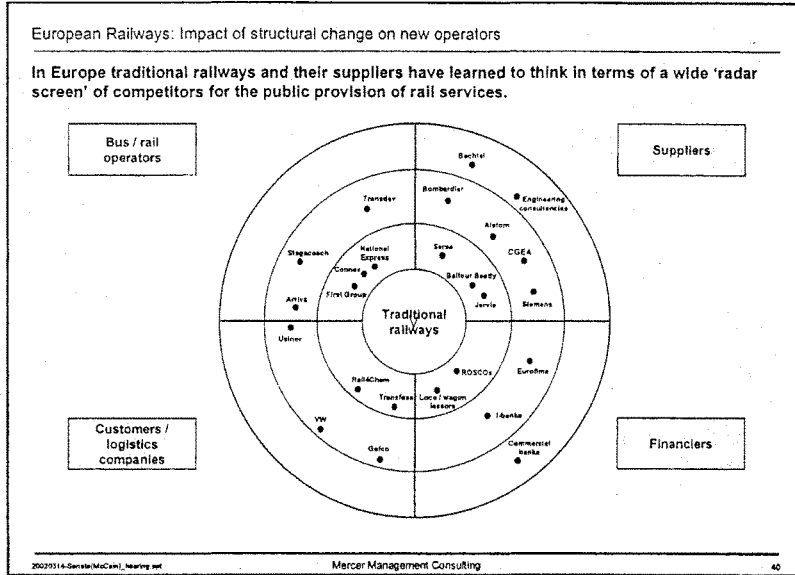
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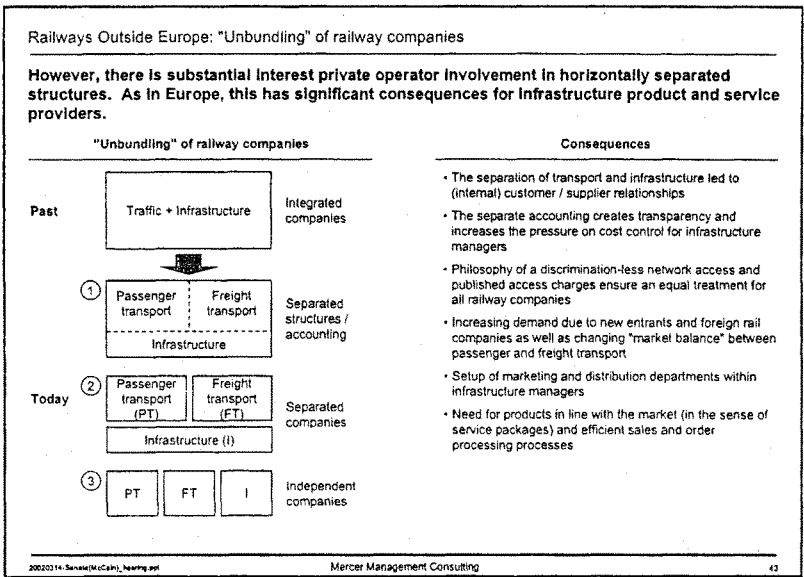
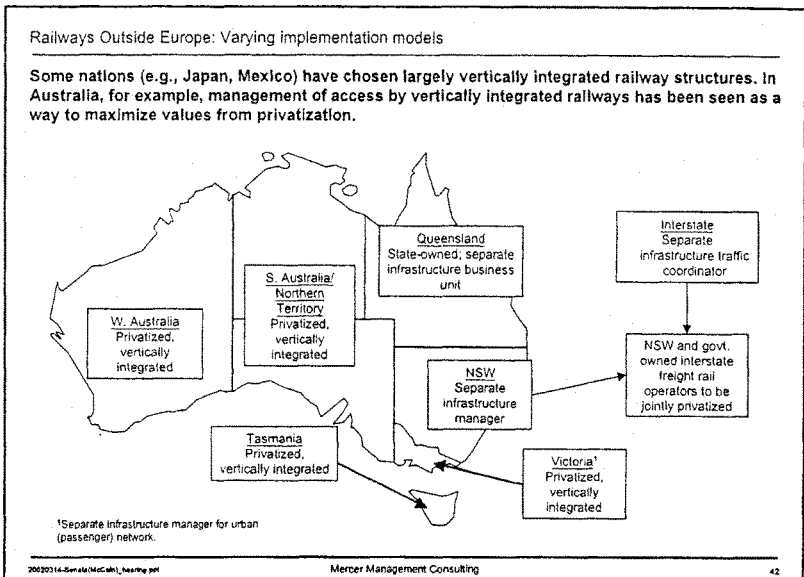












Railways Outside Europe: Changes in industry structure					Representative Transactions
<p>Major rail suppliers are growing through the acquisition of smaller players and are building sufficient scale to join existing operators as candidates for the restructuring of Amtrak activities.</p>					
	GE Harris Harmon Railway Technologies	Trinity	Progress Rail	Alstom	Bombardier
Locomotives					
Railcars		• Astra Vagoane S.A., Feb. 1999		• FIAT Ferroviaria (51% stake), Oct. 2000 • De Dietrich Ferroviaria, July 1998 • Konstal, Oct. 1998	• Waggonfabrik Talbot, 1996 • DWA, 1999
Railcar Parts and Services		• Wear Products, LLC, April 2000 • Proline Services, Feb. 2000 • NCT Holding, parent of McConway & Torte, Oct. 1998	• CAE Vanguard, Nov. 1999 • United Industries, Aug. 1998 • V/ing Engineering (division), Aug. 1998 • Blue Industrial Group, June 1998 • Amalio Railcar, May 1998	• AMF, March 1996 • Wessels Transcare (Holdings) Ltd., Feb. 1998	• Adtranz, 2001
Signals & Right-of-Way	• DJR, March 1999 • Siliati Elettronica ed Impianti S.p.A., March 1999 • CSS Inc., Jan. 1996 • Vale-Harmon, June 1997		• Kershaw Manufacturing, Sept. 1998	• SASIB (GRS), Jan. 1998	• Adtranz, 2001
Systems	• SES Co., Oct. 1998 • Angelo Siliati S.p.A., March 1999 • Syseca, March 1999 • Deutronics, Nov. 1997 • Railtec, Late 1997 • Vaughan Systems, July 1990			• Cegelect, May 1998	
Other Industries			• Railcar Ltd., April 1996	• ABB, March 1999	

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Contents
<ul style="list-style-type: none"> • Operating cost improvements from privatization • Approaches to developing public/private transaction opportunities • Possible paths forward • Trends in European railway liberalization → Illustrative example of a potential public/private partnership opportunity • Qualifications of Mercer Management Consulting, Inc. • Appendix: Railway privatization case studies <ul style="list-style-type: none"> - Argentina - Mexico

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What do creative private partners see as opportunities? A hypothetical example

Two of the most pressing transportation challenges facing the United States are airport congestion and the future of Amtrak. If Mercer applies the understanding of private operators from other countries, a new vision for rail transportation could help solve both problems.

- The United States faces growing congestion of many hub airports, along with opposition to the construction of additional capacity. The reduction in congestion since September 11 represents a respite, not permanent relief.
- Amtrak has consumed close to \$25 billion of federal funds, yet has failed to contribute significantly to a sustainable national transportation system. The government now faces a decision concerning whether to continue to fund intercity passenger service through Amtrak or to adopt a new model.
- A restructured rail passenger system could help to address airport congestion.

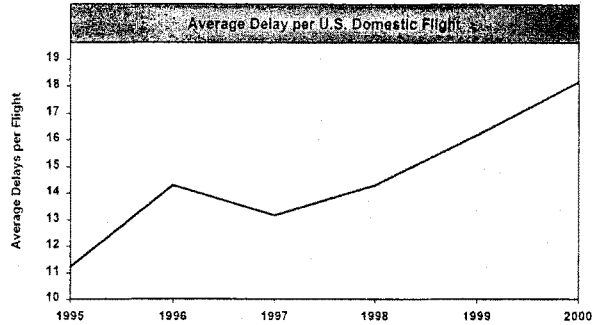
A possible private operator opportunity to help? One strawman...

The government could restructure and refocus intercity passenger rail strategy to:

- Introduce the benefits of competition (efficiency and customer service)
- Focus Federal investment where it will have the greatest benefit (i. e., regional rail systems linked to airport connections, dense corridors)
- Restructure Amtrak by:
 - Concessioneering operation of the Northeast corridor to the private sector
 - Encouraging states and private parties to develop rail corridor services, including high-speed corridors, and to hire private operators
 - Concessioneering long-haul, leisure-oriented rail passenger routes and equipment to the private sector

Airport congestion

The U.S. air transport system faces large and growing delays. Before September 11, flight volumes were growing 2-3 percent per year--much faster than capacity. Mercer expects air traffic congestion to develop again by mid-2003.

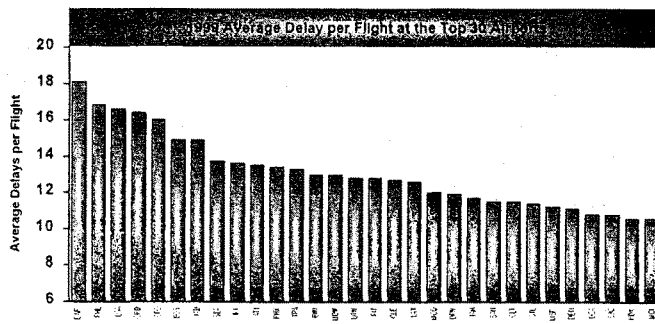


Before September 11, delays per flight were growing at 10 percent per year, and cost \$11 to \$14 billion per year.

Source: DOT Office of Inspector General, Report Number CR-2000-112 and economic analysis

Airport congestion

Airport congestion is concentrated in the top 30 airports by enplanements.



Source: FAA

The growing capacity gap

Despite growing congestion, over the last ten years only one new major airport and six new runways were built. The US is simply not adding enough capacity to accommodate growth-particularly at the most congested airports.

Congested airports aren't adding capacity		Planned/On
Newark	NA	No projects planned, proposed, or currently underway.
Philadelphia	NA	No projects planned, proposed, or currently underway.
La Guardia	NA	No projects planned, proposed, or currently underway.
Chicago O'Hare	NA	No projects planned or currently underway. Initial discussions beginning on a major improvement program.
San Francisco	NA	No projects planned, proposed, or currently underway at this airport. Initial discussions beginning on a new runway which is at least 10 years off.

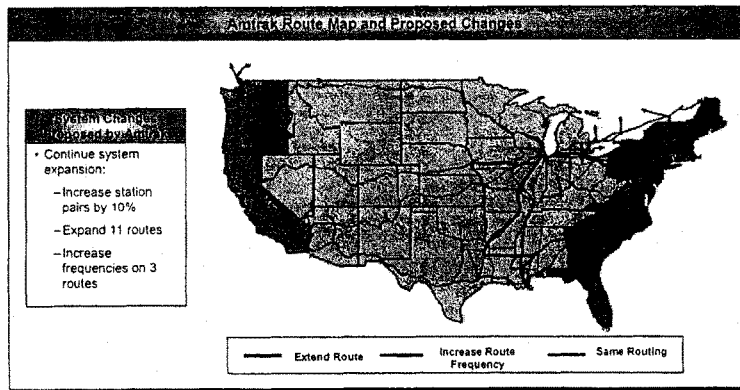
So delays will increase

- Runway projects currently take about 10-15 years to complete
- The FAA projects minimal capacity increases at the most congested airports between now and 2010
- With demand growing faster than capacity, delays at these airports will increase rapidly (roughly 10-15 percent per year)
- Linking rail to airports could attack this problem in two ways:
 - Diverting a portion of short-haul flights to rail would free up capacity
 - Federal commitment to supporting regional rail could used as leverage to get local approval for additional capacity
 - Linking rail systems into airports would also increase ridership and financial sustainability

Source: FAA 2000 Airport Capacity Enhancement Plan

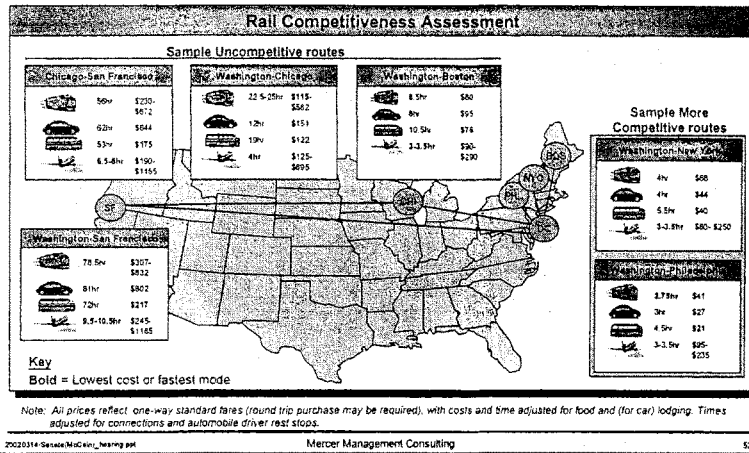
Rail policy

The current U.S. passenger rail policy is structured around Amtrak - a government owned and administered monopoly operating a long-haul, light-density, national passenger rail network with minimal linkage to air transportation or other modes.



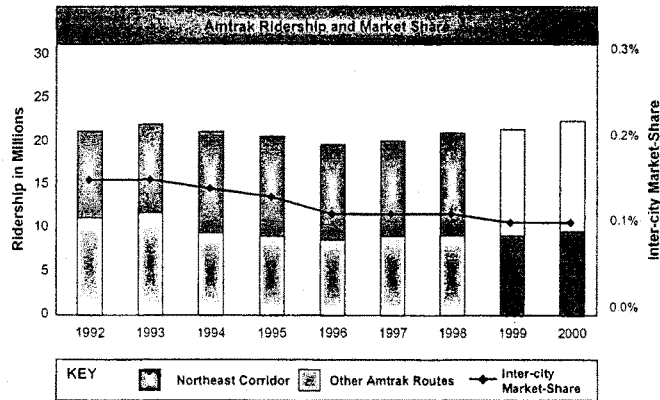
The cause of decline

Current U. S. rail policy does not address the fact that rail is not competitive with airplanes over longer distances, or with cars and buses on thinly traveled shorter routes.



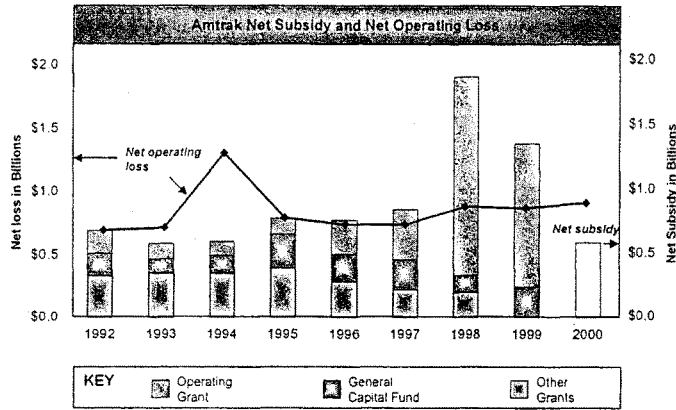
The strategic impact of a failed policy

The net effect of this failure is that Amtrak now accounts for less than one Inter-city trip per 1,000, and its ridership has fallen sharply outside the Northeast corridor.



The financial impact of a failed strategy

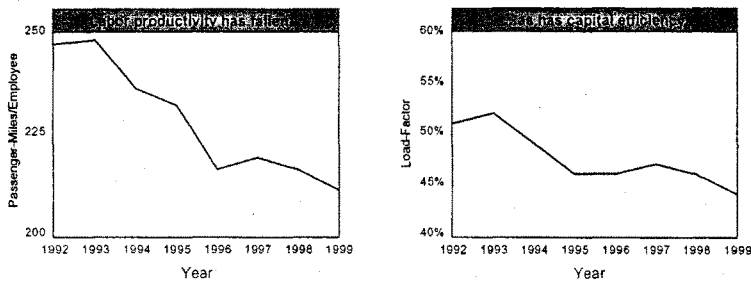
The financial costs have also been material. Amtrak has received \$24 billion in Federal subsidies since inception, with an average subsidy of \$1.3 billion per year from 1998-2000.



Source: Analysis of Amtrak data
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Amtrak historical operating and capital efficiency

Amtrak's operating efficiency has continued to decline, despite the 1997 Amtrak Reform and Accountability Act (ARAA) which granted it the flexibility needed to improve performance.



➡ Amtrak's inability to improve labor and capital productivity suggests any attempt to reform the existing Amtrak structure will fail

Source: Analysis of Amtrak data
 20020314-Senate(MRC) Hearing ppt Mercer Management Consulting 45

The reauthorization dilemma

Prior administrations tried different strategies to reform Amtrak, all of which failed.

Failed Strategies			Essential Alternatives	
	Kill Amtrak	Reform Amtrak		Revitalize & Reauthorize
	<ul style="list-style-type: none"> Amtrak is inefficient and should be eliminated If services are worthwhile, someone else will provide them 	<ul style="list-style-type: none"> Amtrak is important, but inefficient Amtrak should be reformed to make it more efficient 	<ul style="list-style-type: none"> Amtrak would work if it just had more investment Amtrak's funding should be increased 	<ul style="list-style-type: none"> Rail is valuable, but Amtrak may not be Focus should be on maximizing "bang-for-the buck" from rail investment
Outcome	<ul style="list-style-type: none"> Political resistance is too strong, and change is too difficult Amtrak is reauthorized 	<ul style="list-style-type: none"> Little or no impact on actual efficiency Results in numbers games to be "self-sufficient" 	<ul style="list-style-type: none"> Increased investment does not improve efficiency Investment diversion Wasted money 	<ul style="list-style-type: none"> Separate the future of passenger rail from the future of Amtrak Get Amtrak to focus on operations with more accountability
Politics	<ul style="list-style-type: none"> Opposed by media, labor & liberals Failure wastes political capital The perfect is the enemy of the good 	<ul style="list-style-type: none"> Avoids hard choices Bad policy / will not produce real results 	<ul style="list-style-type: none"> Sound bite politics of bad decisions Ignores / eliminates Amtrak accountability Diverts money from higher priorities 	<ul style="list-style-type: none"> Increased role for private sector / reduced role for government More competition Pro-rail / environment

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Growing time pressure

Time is short for the government to develop a new passenger rail policy. Amtrak's current operating mandate expires in October 2002.

The Challenge

- Amtrak is seeking capital subsidies of \$10 billion *in addition* to continuing operating subsidies
- Without a bold new vision, the government faces the "lose-lose" proposition of maintaining status quo or trying (unsuccessfully) to eliminate Amtrak. However, the government is sharply focused on security issues, so probably will need other parties to be the catalyst in developing the vision.

↓

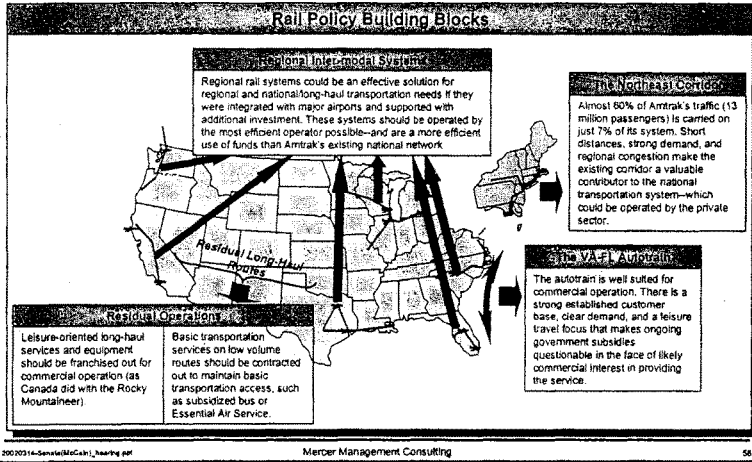
A possible response that would help attract private interest

- The government needs a clear and compelling alternative to the Amtrak options of the past (expand / reform / kill)
- There is support at the Amtrak Reform Council and elsewhere to develop a new vision for intercity rail policy, but one or more interested parties needs to take the lead in developing a coalition to develop the vision quickly and to build support for it aggressively.

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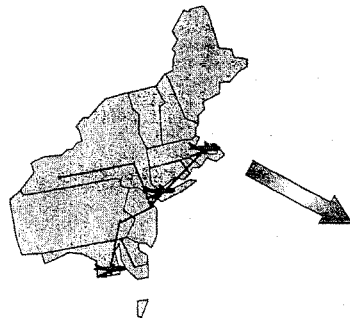
Attracting private operators and investors

By focusing funding on high-density corridors, introducing private competition and encouraging states and others to develop new services, the government can increase the use of passenger rail, reduce subsidies, and decrease congestion at key airports.



The Northeast Corridor

The Northeast corridor handles almost 60 percent of Amtrak's ridership on a small fraction of Amtrak's total track. The Northeast corridor could be concessioned to a private operator or sold to a private operator with the proceeds reinvested.



- Commercial Opportunity**
- Commercial rail operators have proven their ability to improve financial performance
 - Contracting out or auctioning off the Northeast Corridor could reduce the cost to the Federal government, and might improve service

Regional inter-modal rail systems

As an example of potential regional inter-modal systems, Integrating a Midwest system with the downtowns and airports in Detroit, Milwaukee, St. Louis, and Chicago O'Hare would reduce short-haul flights and ground congestion and improve downtown access.

Chicago Air-Rail Integration Map

Inter-modal travel opportunity

Potential Benefits

- An integrated inter-modal system would provide:
 - Rail service equivalent to over 140 local daily flights into O'Hare
 - An estimated reduction in local commuter flights of about 70 flights per day?
 - Reduced local highway access needs (mostly cars and taxis) by up to 20 percent
 - Improved service through better connectivity, faster travel times and lower costs for air passengers
- Commitment to an inter-modal HSR system might reduce local resistance to adding capacity at O'Hare if the HSR system was contingent on runway approval

¹ Rail assumed to be viable travel alternative if within 50 miles of an airport.
² Based on comparable European rail market share (estimated at 50%. E.g., Eurostar claims 62% of London-Paris and 46% of London-Brussels markets).

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Sample impact of regional inter-modal rail

In both Europe and Asia, inter-modal rail has proven that rail linked with airport connections can reduce pressure on airports and increase passenger rail ridership.

Impact of ICE rail service between Frankfurt and Stuttgart, Germany¹

Service Status	Daily Inbound Flights
Before rail offering	13
After rail offering	4

Impact of TGV rail service between Brussels and Charles de Gaulle Airport²

Service Status	Daily Inbound Flights
Before rail offering	14
After rail offering	5

Impact of Shinkansen rail service from Yamagata, Japan to Tokyo

Service Status	Daily Inbound Flights
Before rail offering	8
After rail offering	1

Impact of Shinkansen rail service from Akita, Japan to Tokyo


Service Status	Daily Inbound Flights
Before rail offering	9
After rail offering	6

¹ ICE and air combined service initiated in March 2001. ² TGV service began in January 1998.
 Source: Official Airline Guide

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Regional inter-modal passenger rail: European case studies

Europe is looking to rail as an alternative to short haul feeder flights. As European rail becomes more established and integrated with air travel, subsidies are declining with some routes approaching stand-alone profitability.



History

- Lufthansa, Deutsche Bahn, and Frankfurt Airport created AirRail as a joint venture in March 2001

Services


- Offers short-haul service between Stuttgart and Frankfurt Airport with combined rail/air tickets, seamless connections, and slightly lower travel times compared to flying

Ridership

- Current AirRail Service passenger capacity is 640 passengers per day, increased from 550 in June 2001

Impact

- Lufthansa has reduced its 12 daily flights by 50%, currently using 6 flights and 6 rail trips



- TGV Air service between Paris and Brussels was initiated in January 1998 with the completion of track between Belgium and France

Services

- Provides high-speed rail service from Charles de Gaulle Airport to Brussels
- Combined air and rail tickets are available

Ridership

- Approximately 2.8 million passengers annually on the Brussels-Paris route in 2000
- Ridership grew by 7.5% from 1999-2000


Impact

- Since 1998, air travel between Brussels and Paris has been reduced by over 50%, with Air France selling tickets on the TGV offering
- Route is approaching stand-alone profitability

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Regional passenger rail: Asian case studies

Similarly, in Japan the introduction of competitive rail operations that are integrated with airports has led to declining market share for air travel, and has helped JR East Group achieve profitability.



Yamagata Shinkansen

History

- JR East Group initiated high-speed service between Yamagata, Japan and Tokyo in July 1992
- Since privatization in 1987, the Shinkansen routes have contributed to JR East's 8% revenue growth from 1994-1999

Services


- Fast, reliable long-distance transport (224mi) between Yamagata and Tokyo in 2.5 hours
- Provides frequent connections in Tokyo to Narita airport via a rapid express train

Ridership

- Served over 3 million passengers in 2000

Impact

- Increased rail market share between Yamagata and Tokyo
- Reduced total daily flights from 11 to 3 since start of service



Akita Shinkansen

- High-speed service between Akita, Japan and Tokyo began March 1997, improving commuter access
- This new Shinkansen "bullet train" route is part of JR East's expanded commuter offering

Services

- Fast, reliable long-distance transport (411mi) between Akita and Tokyo in less than 4 hours
- Provides frequent connections in Tokyo to Narita airport via a rapid express train

Ridership

- Served approximately 2.8 million passengers in 2000

Impact

- Increased rail market share between Akita and Tokyo from under 50% to 60% since inception
- Reduced air travel by 20% in the first 6 months

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Leisure-oriented passenger rail

Leisure-oriented rail services have considerable potential for commercial operation outside of the core rail transport corridors, and on some segments such as the Virginia-to-Florida Autotrain.

<p>The Leisure-Travel Opportunity</p> <ul style="list-style-type: none"> • Amtrak's long-haul routes are primarily leisure-oriented (as Amtrak's marketing faculty acknowledges) • There is little or no reason to provide government subsidies for leisure travel • Accordingly, Amtrak should exit its money-losing long haul routes, since these routes are not essential to the national transportation system and are not financially self-sustaining • Currently, Amtrak leases access to selected scenic routes to the American Orient Express Company, also providing locomotive power and maintenance services • Rights to operate these and other long-haul leisure-oriented services should be concessioned off to the private sector (e.g., Disney, Carnival, existing passenger rail excursion operators), including the transfer of: <ul style="list-style-type: none"> • Access rights and legal authorization • Excursion-oriented rolling stock and equipment 	<p>Study: Rocky Mountaineer Rail</p> <ul style="list-style-type: none"> • In 1990, the Canadian government decided to stop subsidizing leisure-oriented passenger train service and to privatize its daylight excursion service • Through a competitive auction, the Great Canadian Railtour Company was awarded the rights to operate the daylight service • The management team decided to offer scenic tours along the Canadian Pacific coast and across the Canadian Rocky Mountains • Significant capital investment has been made in the tourist-related equipment and amenities (e.g., 6 luxury dome coaches) • An extensive network of alliances and ties have been developed with the the tourist trade industry to increase awareness and sales (airline discounts, free hotel upgrades etc.) • By offering a differentiated value proposition to the leisure traveler, Rocky Mountaineer Railtours has been able to charge a premium while maintaining high levels of customer satisfaction and employee retention
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Replacing basic transportation services

Where necessary, transportation service on unprofitable rail routes could be subsidized at a much lower cost than today through a program like Essential Air Service.

<p>Why Basic Transportation Services</p> <ul style="list-style-type: none"> • On long-haul routes that are not an efficient use of resources, or that are primarily leisure-oriented, some customers may still rely on rail access • A legitimate concern of Congress is to make sure that constituents access to basic transportation services is preserved • If the underlying goal of rural and small town passenger rail is to provide basic transportation services, then this goal should be met as efficiently as possible • Basic transportation services could be provided in multiple ways, and there is little or no reason why rail service in particular would be required • Routes that might be impacted by rail service should be assessed for their underlying transportation needs, and these needs should be targeted as efficiently as possible 	<p>Policy Alternatives</p> <ul style="list-style-type: none"> • There are a number of potential policy alternatives to ensure basic transportation needs are met. These include: <ul style="list-style-type: none"> – Create an Essential Air Service requirement to replace reduced rail services – Subsidize a bus route or other surface transportation to replace rail access – If rail is truly essential, then the routes should be put up for bid, and the subsidy should be made explicit. • It is not fair to Amtrak or potential future operator to expect them to operate at a break-even and to subsidize rural transportation. Making subsidies explicit would help avoid this issue.
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Political advantages of HSR integration

If positioned correctly, rail passenger policy reform would benefit key stakeholders and interest groups, and would provide the Administration with political advantages for key constituencies.

Unions	Congress	Airlines	States	Media	Rail suppliers
<ul style="list-style-type: none"> Construction unions would support development of new HSR systems Amtrak unions would oppose, but these concerns could be partially offset through use of buy-outs and hiring boards 	<ul style="list-style-type: none"> Congress would be largely motivated by the interests of their states Construction unions would largely offset the concerns of Amtrak unions Conservatives could endorse the policy on Federalist grounds (a shift of power to the states) and reduction of subsidies 	<ul style="list-style-type: none"> Airlines would support better inter-modal integration to address ground congestion and strengthen key hubs Based on European experience, the airlines will also be interested in developing integrated air-rail products 	<ul style="list-style-type: none"> The states are key supporters of regional high speed rail systems States that would likely be impacted by new HSR systems would probably support the policy shift Remaining states might support the proposal in exchange for inexpensive service guarantees 	<ul style="list-style-type: none"> While the media likes Amtrak, it also likes rail and particularly high speed rail Pursuing a shift to inter-modal regional HSR systems would position the administration as innovative "moderates" Passenger rail is environment friendly 	<ul style="list-style-type: none"> Growth oriented market Opportunities to participate as operators or investors Drive for new technologies New markets Move downstream and increased involvement in operations

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Timeline

With Amtrak reauthorization scheduled for the fall of 2002, the clock is already ticking. If increased private sector participation is to have a chance, the private sector will need to see an aggressive effort to develop and sell a bold new vision for intercity rail passenger service.

Key Steps

Fall 2002

Establish baseline	Develop a clear vision	Develop supporting materials	Sell policy vision to Administration	Develop sales process for Congress
<ul style="list-style-type: none"> Establish baseline Review international benchmarks Identify feasibility Identify restructuring options Assess policy benefits Identify impact on key stakeholders/ interest groups Develop PR themes/messages 	<ul style="list-style-type: none"> Develop a clear vision for: <ul style="list-style-type: none"> Northeast Corridor Regional corridors High speed corridors Leisure services Essential services 	<ul style="list-style-type: none"> Identify key messages / sales points by interest group Develop supporting materials Identify potential media sources Develop action plan for key coalition members 	<ul style="list-style-type: none"> Sell policy vision to Administration 	<ul style="list-style-type: none"> Develop sales process for Congress Identify key interests by constituency Determine potential policy trade-offs Negotiate for support / endorsement

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Sample regional rail proposal

O'Hare airport and the Midwest are a prime opportunity to start restructuring U.S. rail policy around regional intermodal systems—building regional political support while resolving one of the greatest transportation congestion problems facing our country.

The Importance of O'Hare

- O'Hare airport plays a critical role in the national transportation system and is at a critical juncture with its plans to add additional capacity
- If approved, the capacity approval plan would solve O'Hare's airport delay problems for at least the next 20 years.
- If the plan is not approved, O'Hare's delays will skyrocket, and the airport will require Federal intervention
- In addition to its role in the national transportation system, O'Hare is a key hub for the two largest airlines in the U.S., American and United

The Rail Integration Alternative

- Inter-modal passenger rail could use either of two rail corridors that pass near O'Hare to provide regional rail service—including a down-town express train (separate from existing Metra service)
- Given the amount of construction proposed at O'Hare, this is a good time to try to integrate rail service into the airport master plan
- This service would link Milwaukee, St. Louis and Detroit with Chicago (targeting four battleground states) with improved rail service
- By endorsing Federal support for a regional intermodal passenger rail system, the Administration could help broker regional consensus on the system while:
 - Showing its sensitivity to concerns about the impact of airport expansion
 - Reducing the need for feeder flights
 - Reducing ground access congestion
 - Laying the foundation to restructure Amtrak

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The airline benefit

Regional Intermodal rail would benefit major airlines in several key ways including increasing major hub's catchment areas, reducing short-haul flights, providing a basis for competitive differentiation, and building political support for airport capacity improvement.

Chicago Air-Rail Integration Map

KEY

- Competing Hub
- Potential to increase ORD share of market

Strategic Benefits of

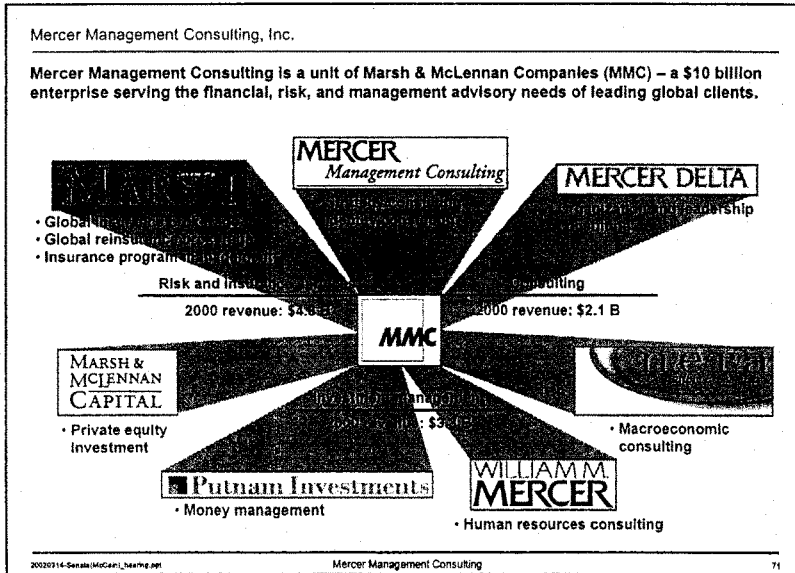
- A Chicago-centric regional intermodal system would strengthen the competitive position of the major Chicago carriers (United & American)
- The system would draw passengers from parts of Wisconsin, Michigan, Indiana and Illinois that might otherwise connect via a short-haul flight to a competing hub—improving Chicago's connectivity relative to competing regional hubs
- Further, by integrating their operations with the intermodal system more than competitors, United and American could increase their share of Chicago-area traffic by differentiating their service
- Finally, willingness to support an intermodal system could be used as a bargaining chip to win State support for increasing capacity at ORD—which is critical to maintaining O'Hare's long-term position

¹ Rail assumed to be viable travel alternative if within 50 miles of an airport.
² Based on comparable European rail market share (estimated at 50%, E.g., Eurostar claims 62% of London-Paris and 46% of London-Brussels markets).
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- Operating cost improvements from privatization
- Approaches to developing public/private transaction opportunities
- Possible paths forward
- Trends in European railway liberalization
- Illustrative example of a potential public/private partnership opportunity
- • Qualifications of Mercer Management Consulting, Inc.
- Appendix: Railway privatization case studies
 - Argentina
 - Mexico

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Mercer Management Consulting, Inc.

Mercer Management is a leading International strategy and general management consulting firm with deep industry and functional expertise.

More than 30 years of experience serving major companies

- Travel and transportation
- Chemicals and pharmaceuticals
- Communications
- Computing
- Consumer goods
- E-commerce and Internet strategy
- Financial services
- Health care
- Media and entertainment
- Manufacturing
- Oil and gas
- Private equity investing
- Retail
- Utilities

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Mercer Management Consulting
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Mercer's Travel and Transportation Group

Mercer Management combines top-tier general management consulting with the specialized expertise of the world's largest general management consultancy dedicated to the transportation industry.

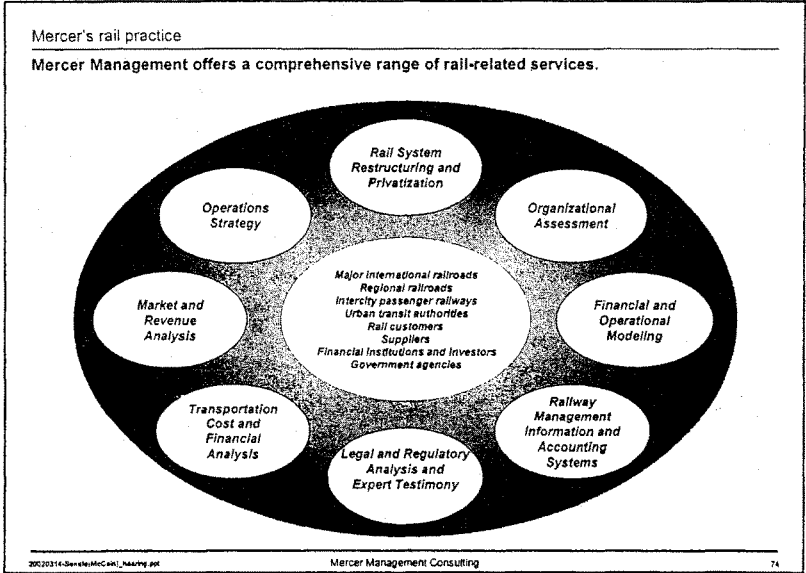
Travel and Transportation Group

Rail	Motor Carrier	Maritime	Urban Transportation	Air Transport	Freight Management	Travel & Leisure
Major International Railroads Regional Railroads Inter-city Passenger Railways Rail Customers Equipment Suppliers Financial Institutions and Investors Government Agencies	LTL and TL Carriers Bulk Carriers Dedicated Contract Carriers Private Fleets Equipment Lessors Equipment Suppliers Financial Institutions and Investors	Container Lines Bulk Carriers Freight Forwarders Barge Lines Shipyards Port Authorities Customs Brokers Government Agencies	Commuter Authorities Transit Authorities Equipment Suppliers Government Agencies Bus and Motorcoach Service Providers	Airplanes - Passenger/Cargo Air Parcel Carriers Airports Service Providers Aeroplane Manufacturers Financial Institutions Governments and Agencies	Freight Forwarders Customs Brokers Contract Logistics	Hotels Cruise Lines Travel Agencies Car Rentals Destination Services

Supply Chain • Internet Strategy • Manufacturing • Oil & Gas • Energy • Private Equity

Complementary Mercer Practice Areas

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Mercer case experience

Selected Clients

Mercer Management has extensive experience in market analysis and new business design for both railway service providers and rail suppliers internationally.

	Europe	United States and Canada	Latin America	APAC, Asia, Pacific, Middle East
Rail System Restructuring, Commercialization, and Privatization	<ul style="list-style-type: none"> British Rail and subsidiary companies Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay 	<ul style="list-style-type: none"> Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak 	<ul style="list-style-type: none"> Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway 	<ul style="list-style-type: none"> New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways
Financial and Operational Modeling	<ul style="list-style-type: none"> British Rail Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay 	<ul style="list-style-type: none"> Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak 	<ul style="list-style-type: none"> Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway 	<ul style="list-style-type: none"> New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways
Transportation Cost and Financial Analysis	<ul style="list-style-type: none"> Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay 	<ul style="list-style-type: none"> Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak 	<ul style="list-style-type: none"> Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway 	<ul style="list-style-type: none"> New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways
Market and Revenue Analysis	<ul style="list-style-type: none"> Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay 	<ul style="list-style-type: none"> Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak 	<ul style="list-style-type: none"> Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway 	<ul style="list-style-type: none"> New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways
Operations Strategy	<ul style="list-style-type: none"> Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay 	<ul style="list-style-type: none"> Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak 	<ul style="list-style-type: none"> Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway 	<ul style="list-style-type: none"> New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways
Organizational Assessment	<ul style="list-style-type: none"> Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay 	<ul style="list-style-type: none"> Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak 	<ul style="list-style-type: none"> Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway 	<ul style="list-style-type: none"> New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways
Railway Management Information and Accounting Systems	<ul style="list-style-type: none"> Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay 	<ul style="list-style-type: none"> Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak 	<ul style="list-style-type: none"> Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway 	<ul style="list-style-type: none"> New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways
Legal and Regulatory Analysis and Expert Testimony	<ul style="list-style-type: none"> Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay Osaka Bay 	<ul style="list-style-type: none"> Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak Amtrak 	<ul style="list-style-type: none"> Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway Colombian National Railway 	<ul style="list-style-type: none"> New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways New Zealand Railways


Key: ● More than 10 engagements by Mercer staff over last five years ○ 8 to 10 engagements by Mercer staff over last five years ○ 1 to 8 engagements by Mercer staff over last five years

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Mercer case experience

Mercer has wide experience working in the UK rail industry...

Passenger	Trainload	Intermodal	Privatization	Other
<ul style="list-style-type: none"> Regional railways strategy review Virgin defence InterCity service modifications Franchising case studies Design of competitive regime 	<ul style="list-style-type: none"> Portfolio rationalization strategy Identification of efficiency reserves and process re-engineering 	<ul style="list-style-type: none"> Confirmation of Speedlink closure Freightliner restructuring plan Channel Tunnel strategy 	<ul style="list-style-type: none"> Detailed viability reassessment Cost of extraction Number and structure of further initiatives Ability to reconcile sale and competition Support of Freightliner privatization process Access charging issues 	<ul style="list-style-type: none"> Potential for Irish combined transport via Channel Tunnel

 **Approaching 300 man-months of cumulative experience**

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Mercer case experience

... and elsewhere in the world.

Poland/Czech/Hungary	<ul style="list-style-type: none"> Restructuring/commercialization, including analysis of network profitability, competitive scenarios, etc
Mexico/Argentina/ South Africa	<ul style="list-style-type: none"> Restructuring, concessioning, privatization, public policy and competitive issues Performance Improvement (S. Africa and Argentina Commuter rail)
MTRC (Hong Kong)	<ul style="list-style-type: none"> Ridership improvement on airport service Strategy development prior to IPO
New Rail Operators/ Rolling Stock Companies	<ul style="list-style-type: none"> Market mapping/entry strategy in rail, bus International leasing strategy

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Mercer case experience	
...and an in-depth experience of rail markets, economics, competition and restructuring in Europe and the United States ...	
Amtrak	<ul style="list-style-type: none"> • Turnaround strategy (commercial, financial) • Product re-design for North-East corridor
US Class 1 Railroads	<ul style="list-style-type: none"> • Network strategy, commercial strategy pricing and customer relationship management • Strategy for alliances and mergers
Deutsche Bahn	<ul style="list-style-type: none"> • Strategy to compete in concessioning of regional rail • Business re-design for wagonload network
SNCF	<ul style="list-style-type: none"> • Strategy review for TGV Grandes Lignes • Customer segmentation strategy
Eurostar	<ul style="list-style-type: none"> • Product/service improvement strategy • Evaluation of feasibility of a Eurostar service to Heathrow
SBB / ÖBB	<ul style="list-style-type: none"> • Production strategy for international hub/intermodal • Restructuring of maintenance; growth strategy for infrastructure maintenance

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Contents	
	<ul style="list-style-type: none"> • Operating cost improvements from privatization • Approaches to developing public/private transaction opportunities • Possible paths forward • Trends in European railway liberalization • Illustrative example of a potential public/private partnership opportunity • Qualifications of Mercer Management Consulting, Inc. • Appendix: Railway privatization case studies <ul style="list-style-type: none"> → - Argentina - Mexico

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Argentina

Situation Leading to Privatization

- All freight, passenger, and commuter services provided by Government-owned Ferrocarriles Argentinos (FA)
- Severe under-investment in the rail system
- Inefficiency and poor management
- Falling demand
- Poor safety and reliability
- Subsidies reaching \$1.3B versus revenues of \$500M
- Distressed economy: Hyperinflation and high fiscal debt

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Argentina

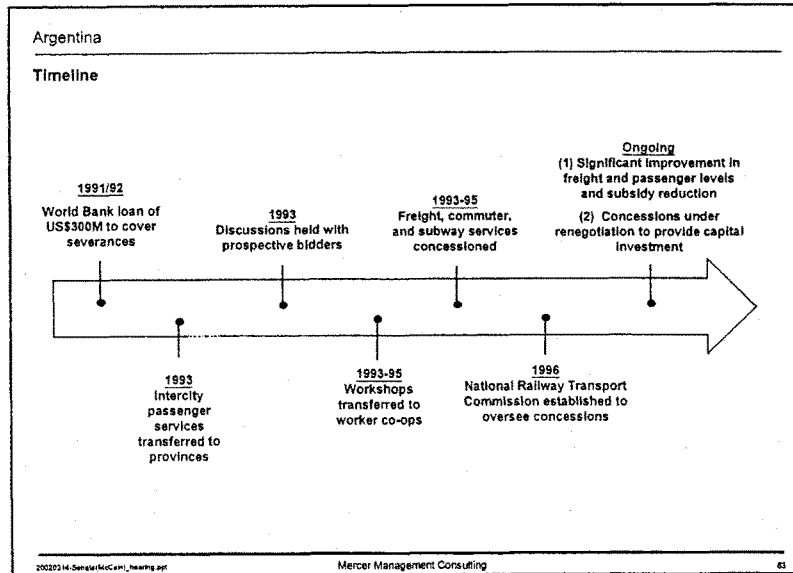
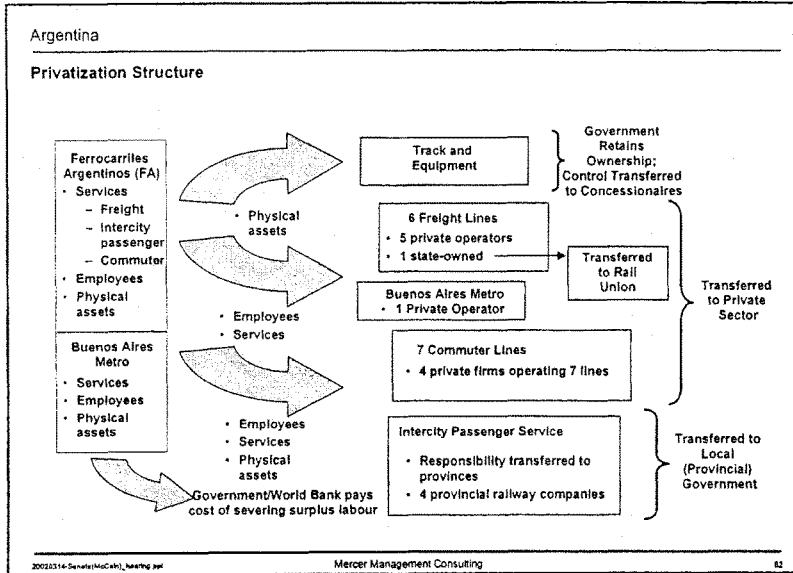
Objectives:

- Reduce subsidies
- Improve service and operational performance
- Attract international expertise
- Retain Government control of physical assets

Approach:

- Geographically distinct, vertically integrated operating concessions
 - 6 freight, 8 passenger
- Government retains ultimate ownership of infrastructure and equipment
 - Concessionaires control assets
 - Specified re-investment programme
- Government/World Bank funded labor severance programme

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Argentina

Terms: Freight

- 30-year concessions plus 10-year renewal option
- Maximum freight rates
- Access fees for intercity passenger operations
- No mandated access for competing freight operations
- All investments funded by concessionaires
- Government retained 16% share; employees given 4% share

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Argentina

Terms: Commuter/Metro

- 10-year concessions for commuter; 20-year for metro
- Unlimited renewals if Government and concessionaires agree
- Concessionaires not required to accept employees from FA
- Fare cap tied to inflation; Government has authority to change
- Minimum service and performance levels contractually defined
- Government funds pre-specified infrastructure and rolling stock investment
- Any additional investments funded by concessionaires

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Argentina	
Results	
Successes	Challenges
<ul style="list-style-type: none"> • Subsidies eliminated for freight and intercity passenger • Operating subsidies for commuter/metro services reduced from \$300M to \$50M • Freight growth (1990-2000): <ul style="list-style-type: none"> - Volume +59% - Tons/employee +830% • Passenger growth (1993-2000): <ul style="list-style-type: none"> - Commuter passengers +125% - Passengers/employee +253% • Attractive severance reduced employment by 82% with minimal disruption • Responsibility for track investment and operations kept together, eliminating conflicts 	<ul style="list-style-type: none"> • Planning did not fully appreciate competitive response by truckers <ul style="list-style-type: none"> - Good news - Freight rates are well below maximum allowed - Bad news - Some freight franchises struggling financially • Unrealistic investment requirements: <ul style="list-style-type: none"> - Some freight investment requirements set too high to be commercially sustainable - Metro concession renegotiated to allow higher tariffs in return for increased investment and longer concession period - Commuter concessions renegotiating to provide more investment in return for longer concession period

Argentina																																																					
Results: Labor																																																					
	<table border="1"> <thead> <tr> <th></th> <th>State-owned 1990</th> <th>Concessionaires 2000</th> <th>Percent Change</th> </tr> </thead> <tbody> <tr> <td>Freight</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Employees (000)</td> <td>31.4</td> <td>5.3</td> <td>-83%</td> </tr> <tr> <td>Tonnage (millions)</td> <td>11.1</td> <td>17.6</td> <td>+59%</td> </tr> <tr> <td>Tons per employee</td> <td>353</td> <td>3,292</td> <td>+830%</td> </tr> <tr> <td>Employee per km of network</td> <td>1.15</td> <td>0.24</td> <td>-79%</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>State-owned 1993</td> <td>Concessionaires 2000</td> <td>Percent Change</td> </tr> <tr> <td>Commuter Passengers</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Employees (000)</td> <td>12.0</td> <td>7.6</td> <td>-37%</td> </tr> <tr> <td>Paying passengers (millions)</td> <td>212</td> <td>476</td> <td>+125%</td> </tr> <tr> <td>Passengers per employee</td> <td>17,670</td> <td>62,300</td> <td>+253%</td> </tr> <tr> <td>Employee per km of network</td> <td>15.8</td> <td>10.1</td> <td>-36%</td> </tr> </tbody> </table>		State-owned 1990	Concessionaires 2000	Percent Change	Freight				Employees (000)	31.4	5.3	-83%	Tonnage (millions)	11.1	17.6	+59%	Tons per employee	353	3,292	+830%	Employee per km of network	1.15	0.24	-79%						State-owned 1993	Concessionaires 2000	Percent Change	Commuter Passengers				Employees (000)	12.0	7.6	-37%	Paying passengers (millions)	212	476	+125%	Passengers per employee	17,670	62,300	+253%	Employee per km of network	15.8	10.1	-36%
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• Appendix: Railway privatization case studies	
– Argentina	
→ – Mexico	

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Mexico	
Situation Leading to Privatization	
• Government-owned Ferrocarriles Nacionales de Mexico (FNM) provided all freight and passenger services	
• High subsidies, inefficiency, poor service quality	
– Operating losses and government subsidies > \$125M	
• Limited internal restructuring (1992-94) fell short of required results	
• Peso devaluation/economic crisis forced newly elected Government to turn to privatization	
– Also need to make transport competitive to take advantage of NAFTA	

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Mexico

Objectives:

- Maximize funds for government finances
- Reduce subsidies
- Introduce private sector efficiencies/service responsiveness/investment
- Get railway off the government's hands

Approach:

- Three vertically integrated 50 year freight concessions
- Five light density concessions
- Government retains ownership of infrastructure

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Mexico

Timeline

1992-1994 Structural Reform Program (reduces labour and network)

1994 Peso devaluation and economic crisis

3/95 Constitutional amendment, enabling rail privatization

5/95 "Law Regulating the Railway System" (concession procedures)

8/95 Restructuring begins; regional operations and terminal company separated

1996-98 Concessions granted

1998 Transition plan for remaining FNM assets/liabilities

Ongoing Concessionaires making significant capital investments

Ongoing Concession for new Mexico City commuter rail service under development

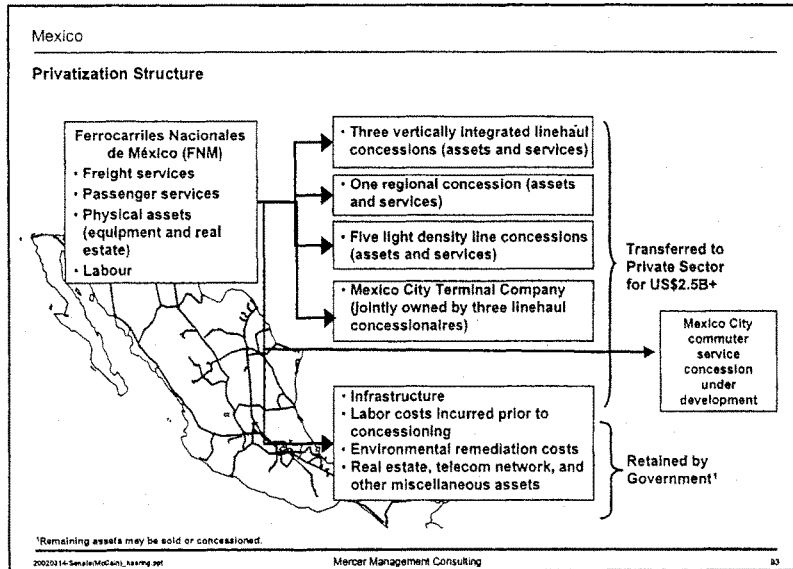
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Mexico

Key features of the privatization process

Action	Goal
<ul style="list-style-type: none"> • Three "shadow" railroads formed internally 	<ul style="list-style-type: none"> • Adopt commercial principles to prepare for privatization
<ul style="list-style-type: none"> • Detailed legislation/regulation in place 	<ul style="list-style-type: none"> • Give bidders a firm legal framework
<ul style="list-style-type: none"> • FNM CEO personally supervised labour relationships 	<ul style="list-style-type: none"> • Address labor concerns early • Reduce political issues and ease transition
<ul style="list-style-type: none"> • Concession structure defined based on input from potential bidders 	<ul style="list-style-type: none"> • Generate high quality bids and maximize sale proceeds • Structure concessions to be attractive to bidders • Ensure proposed industry structure will work
<ul style="list-style-type: none"> • Bidding process closely managed <ul style="list-style-type: none"> - Concessions phased - Contact/negotiations with bidders 	<ul style="list-style-type: none"> • Maximize sale proceeds • Reduce bidder uncertainty

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Mexico

Terms of freight concessions

- Minimum 51% ownership by Mexican companies required
- 50-year concessions with option for 50-year renewal
- Equipment included in concessions
- Government retains infrastructure
- Minimal Government regulation and control

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Mexico

Results

Successes	Challenges
<ul style="list-style-type: none"> • Government received more than \$2.5 billion in cash • Freight subsidies of more than \$700MM per year eliminated • "Rail Renaissance" <ul style="list-style-type: none"> - Freight traffic grew by 49% (1995-2000) - International freight traffic grew by 77% • Aggressive five-year private investment programs (US\$ 1.3B) to grow traffic • Proactive management of labour issues, fair buy-out provisions and higher wages for remaining workers led to strong co-operation and buy-in by labour unions • Responsibility for track investment and operations kept together, eliminating conflicts 	<ul style="list-style-type: none"> • Failure to fully develop institutional infrastructure for inter-railroad cooperation before privatization has led to conflicts between railroads • Some shippers have been slow to change their government-operation era perceptions of railroad service • First bidding ended in failure when bids did not meet the government's minimum target <ul style="list-style-type: none"> - Good news - Government strongly signaled that it would not accept less than fair value - Bad news - Temporary setback at the beginning of the process

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The CHAIRMAN. Very good.
Mr. Hamberger.

**STATEMENT OF EDWARD R. HAMBERGER, PRESIDENT AND
CEO, ASSOCIATION OF AMERICAN RAILROADS**

Mr. HAMBERGER. Thank you, Mr. Chairman. On behalf of the AAR, we appreciate the opportunity to be here and I would like to add my words of praise to the job that George Warrington did in recognizing the importance of cooperation between rail freight and rail passenger providers.

First, let me point out that it is important to recognize that Amtrak could not exist without the facilities and services of freight railroads. Outside the Northeast Corridor, of course, Amtrak operates almost exclusively over tracks that freight railroads own and maintain, and while passenger rail is important to the country, it pales in comparison to the importance of freight railroads.

Freight trains provide more than 40 percent of the Nation's intercity freight transportation and according to Lou Thompson, the World Bank's railways adviser, our railroads provide the most efficient, cost-effective rail freight service in the world. Consequently, any solution to Amtrak's problems must not burden the freight railroad operations.

I would like to just say I appreciate the comments from Secretary King about his recognition of maintaining adequate freight transportation and his comments about the cooperation he has received from two of our members. I would also observe based on my own experience and comments I received from several of our members that perhaps the sea change to which you refer occurred not just in the freight rail industry, but also in the hallways of State rail agencies who now recognize the importance of cooperation. So congratulations to all I guess who have come to that conclusion.

The freight railroads have identified seven principles which we believe should be part of the debate as we go forward.

Number one, intercity passenger rail service on a broad scale simply is not profitable in this or any other country and cannot exist without significant government subsidization. Every railroad passenger service in the world, as we just heard, receives a government subsidy, and indeed, Amtrak was created to preserve passenger service in the country at a time when freight railroads were losing over \$200 million annually equaling \$775 million in today's terms.

Number two, freight railroads should receive full compensation for the use of their assets by intercity passenger operators. By statute, Amtrak is accorded priority access and access on the basis of incremental costs which do not fully cover the costs incurred by freight railroad.

It is interesting to note that when freight trains operate over Amtrak's Northeast Corridor, Amtrak charges them as appropriate, fully allocated, not incremental, costs, and the difference is up to five times more than is paid by the freight operator for access to the Northeast Corridor than that paid by Amtrak to access to the freight roads.

Number three, freight railroads should not be expected to further subsidize intercity passenger rail service either through new taxes

or the diversion of existing taxes, and you will not be surprised to hear that I am referring to the 4.3 cent per gallon deficit reduction fuel tax which, of course, we believe should be repealed immediately.

Four, Amtrak should have as its business focus the safe transport of passengers, and therefore, subsidized passenger authorities, including Amtrak, should not have a statutory right to carry mail and express, but should be required to negotiate arrangements in these areas with the right-of-way owners. We understand the drive of Amtrak management to try to accumulate capital from outside sources. Senator Carper commented this morning there are cases where that occurs on a voluntary, bilateral basis. We think that is the way that should go forward.

Five, safety requirements and the integrated nature of railroading necessitate that intercity passenger rail be provided by one entity. We believe that should be Amtrak, and further, Amtrak's right of access, preferential access rates and operating priorities should not be transferred or franchised. We believe this because we operate a national system, and it is important that we deal with one entity who recognizes that this is a national system and can deal with us on the impact of what happens in Chicago affects what happens in New York and as we try to compete with trucks, and I will leave for another hearing whether or not we are competing on a level playing field with trucks. As we compete with trucks for business, we need to be able to deal with one entity that recognizes the importance of our system operating in competition with national truck system.

Six, Amtrak's present obligations, notably those under the Railroad Retirement Act, must not be shifted to the freight rail industry. We believe it would be inequitable for that to happen. It would threaten the viability of the railroad retirement system itself, and of course, given the reforms that Congress passed and the President signed last year that would be too ironic if that were to occur right now.

Seven, future high-speed passenger rail corridors should be separate, dedicated and sealed. I think this is just matter of safety and efficient operations.

Let me now apply these principles to your bill, Mr. Chairman. We are pleased that certain sections of the proposed National Defense Rail Act are consistent with these principles. Specifically, the legislation recognizes that passenger trains do need to be subsidized. It recognizes the value of an integrated system operated by a single entity. It recognizes Amtrak's obligation to the railroad retirement system. It increases the money available under the Railroad Rehabilitation Improvement Financing Program and removes the unrealistic lender of last resort requirement, and it promotes the industry's ability to ensure safety and security by increasing the need for authority on the railroads' property.

However, there are some provisions with which we have some concerns. The legislation does not appear to require that grade crossings should be eliminated on high-speed corridors nor does it require high-speed operations be conducted over separate, dedicated tracks, and high-speed, I think we are talking 125 miles an hour and above.

It encourages Amtrak to develop freight revenue which would distract Amtrak from its public purpose and generate conflict with the freight railroads.

Finally, we see no benefit from interjecting the Surface Transportation Board into issues between Amtrak and freight railroads regarding on-time performance which are handled now very efficiently through contracts which provide for penalties and incentives.

We recognize the difficult mission that you have undertaken, and we look forward to working cooperatively with this Committee, with Amtrak and others to achieve a viable passenger service in this country.

[The prepared statement of Mr. Hamberger follows:]

PREPARED STATEMENT OF EDWARD R. HAMBERGER, PRESIDENT AND CEO,
ASSOCIATION OF AMERICAN RAILROADS

America's freight railroads are grateful for the opportunity to present their views as you consider the future of Amtrak and intercity passenger railroading in this country.

Although there are numerous commuter rail and subway systems in the United States, Amtrak (more formally, the National Railroad Passenger Corporation) is the sole provider of intercity passenger rail transportation. It operates over more than 22,000 route miles, carries 23 million passengers annually, and serves more than 500 stations in 46 states and the District of Columbia. Amtrak is also the nation's largest contract provider of commuter rail service for state and regional authorities, serving an additional 54 million commuter passengers per year in California, Connecticut, Maryland, Massachusetts, and Virginia. Amtrak has approximately 23,500 employees.

Amtrak could not exist without the facilities and services of freight railroads. Other than the approximately 730 route-miles Amtrak owns (primarily in the Northeast Corridor bounded by Boston and Washington, and in Michigan), Amtrak operates the remaining 97 percent of its system almost exclusively over tracks owned and maintained by our nation's privately-owned freight railroads, via mandatory access at below market rates. Freight carriers also furnish other essential services to Amtrak including train dispatching, emergency repairs, station maintenance, and, in some cases, police protection and communications capabilities.

Throughout its history, Amtrak has faced recurring questions concerning its funding needs and the proper role it should play in our nation's passenger transportation system. Today, Amtrak faces perhaps its most urgent and serious reappraisal yet.

As policymakers deliberate the future role and structure of Amtrak and intercity passenger railroading in general, they should know that freight railroads will continue to work cooperatively to help ensure that intercity passenger railroading succeeds. Freight railroads believe that intercity passenger railroading in this country has a role in alleviating highway and airport congestion, decreasing dependence on foreign oil, reducing pollution, and enhancing mobility and safety.

It is critical, however, that as you deliberate the future of Amtrak and intercity passenger rail, you fully recognize the appropriate freight railroad role in the provision of intercity passenger service.

PASSENGER RAIL HISTORY

Immediately following the birth of our nation, economic development was concentrated along the East Coast and in areas with navigable rivers, largely because barges and ships were the only practical means available to transport people and freight long distances.

The rise of the U.S. rail industry changed that. In the second half of the 1800s, railroads allowed population centers to develop in areas previously considered inaccessible and allowed mineral, timber, and agricultural products to reach distant markets at home and abroad. Railroads were a catalyst that allowed our nation to grow.

Well into the 20th century, railroads were the primary means by which people and freight were transported in this country. In 1930, for example, the rail share of both the intercity freight and passenger markets was around 75 percent. Over time, though, a number of factors, especially the enormous expansion of our nation's highway system and the development of an extensive commercial aviation indus-

try—both accomplished with the help of hundreds of billions of dollars in government subsidies—brought enormous competitive pressures to bear on passenger railroading.

In fact, by the 1930s, passenger railroading had become clearly unprofitable. World War II brought a brief respite, but by the late 1950s, private railroads were losing \$750 million per year (about \$3.8 billion in 2002 dollars) in fully distributed costs on passenger service, according to an Interstate Commerce Commission (ICC) study.¹ A series of subsequent studies by others confirmed the ICC's findings. In fact, a noted transportation scholar wrote "it is no exaggeration to say that by 1958 railroad passenger service had demonstrated itself to be the most uneconomic activity ever carried on by private firms for a prolonged period."²

The primary reason that these massive losses continued for so long was that government regulators often made it extremely difficult for railroads to discontinue even clearly unprofitable passenger rail service. Until 1958, only state public service commissions could grant railroad requests to eliminate money-losing passenger trains—something commissioners were often loathe to do, no matter how much money the railroads were losing.

The Transportation Act of 1958 transferred to the ICC the authority to approve discontinuances of interstate passenger service, as well as appellate power over the discontinuance of intrastate trains that had been denied discontinuance by state regulators. From 1958 through mid-1967, the ICC approved the discontinuance of 490 interstate and 331 intrastate trains. Nevertheless, the passenger deficit in 1968 was not appreciably different than it had been a decade earlier.

By 1967, many purely local trains had been discontinued, and the railroads were pursuing the elimination of major trains that comprised the basic elements of the national passenger rail network. With fewer than 600 daily passenger trains nationally (down from more than 1,400 per day in 1958), political pressure against the cessation of passenger service intensified. In June 1968, the ICC called for more demanding legislative standards for train discontinuance, longer time periods for deliberation, and exclusive ICC jurisdiction over determinations applicable to the last train on any given route. If approved, these new standards would have made it even more difficult for railroads to eliminate unprofitable passenger service.

Looking only at incremental or avoidable costs (as opposed to fully distributed costs), the ICC found in 1969 that railroads could save \$200 million (approximately \$775 million in 2002 dollars) each year if they were allowed to exit the passenger business.³

In essence, for several decades the railroad industry was forced by various governmental bodies to lose hundreds of millions of dollars annually providing a public service that fewer and fewer people chose to use. By 1970, passenger rail ridership had plummeted to just 11 billion passenger-miles, an 88 percent decline from its 1944 peak of 96 billion, despite a 40 percent increase in U.S. population during the same period. By 1970, the cumulative passenger deficit had reached countless billions of dollars.

Unfortunately, the massive passenger losses were draining a rail system that was also facing unrelenting attack on its freight business from subsidized trucks and barges, leading to railroad bankruptcies, consolidations, service abandonments, deferred maintenance, and general financial deterioration. By 1970, railroads' share of intercity freight ton-miles had fallen to 40 percent, down from 56 percent just 20 years earlier, and the industry's overall return on investment had fallen to 1.7 percent—less than a child could earn on a passbook savings account.

In 1970, the largest U.S. railroad, the Penn Central, went into bankruptcy. At the time, it was the largest bankruptcy in U.S. history. Not coincidentally, the Penn Central was also the largest passenger railroad in the country.

THE RAIL PASSENGER SERVICE ACT OF 1970

The Rail Passenger Service Act of 1970 (RPSA) was a response to the very real possibility that the United States would soon have no intercity rail passenger service at all, and a recognition that rail passenger losses were a serious threat to the

¹ Interstate Commerce Commission, "Railroad Passenger Train Deficit, Proposed by Howard Hosmer, Hearing Examiner, Assisted by Robert A. Berrien, Fred A. Christoph, and Raymond C. Smith, attorney advisers," Docket No. 31954, 1958.

² George W. Hilton, *The Transportation Act of 1958*, Indiana University Press, 1969, p.13

³ Incremental (or avoidable) costs are those direct costs which result from additional traffic/volume or which would be eliminated by the discontinuance of a traffic or a particular activity. Fully distributed (or allocated) costs include incremental costs as well as a proportionate share of the fixed and common costs (including the cost of capital necessary to provide the service) allocable to the traffic or service in question.

viability of freight railroading. Given the huge financial pressure they faced, it is no surprise that when the RPSA created Amtrak, railroads welcomed the opportunity to rid themselves of their hopelessly unprofitable passenger obligations.

However, the RPSA exacted a hefty price from freight railroads for the opportunity to exit the intercity passenger rail business.

First, freight railroads were required to capitalize Amtrak in cash, equipment, or services. These payments to Amtrak totaled \$200 million (approximately \$740 million in today's dollars).⁴

Second, the RPSA authorized Amtrak to operate wherever it wished over the privately-owned freight rail network. Amtrak was also granted the power to force freight carriers to convey property to it if the property were necessary for intercity rail passenger transportation.

Third, the RPSA explicitly ordered freight railroads to grant preference to Amtrak trains over their own trains or any other customers in the use of any given line of track, junction, or crossing.

Fourth, the RPSA gave the ICC the authority to intervene if Amtrak and the host freight railroad could not agree on the compensation due the owner for Amtrak's access. However, a 1973 ICC decision that ordered Amtrak to pay a rate of compensation greater than incremental or avoidable cost was overridden by a 1973 amendment to the RPSA, which allowed Amtrak to pay no more than the incremental costs of the owning freight railroad caused by Amtrak's use of the tracks.

Railroads that refused to accept the statutory terms offered in the RPSA were required to continue their passenger operations—despite any losses they would incur—for at least four more years. Thereafter, they could seek relief before regulatory agencies, but received no guarantee that they would be permitted to discontinue unprofitable service at that point. All but a few of the railroads accepted the terms of the RPSA and immediately turned over passenger operations to Amtrak, rather than face continuing losses and the uncertainty of the regulatory process.

FUTURE PUBLIC POLICY DIRECTIONS

The special statutory privileges regarding its relationship with freight railroads that Amtrak has enjoyed over the past 30 years have amounted to a significant, mandatory, and inequitable subsidization of intercity passenger operations by freight railroads. As you consider the future of Amtrak and intercity passenger transportation, the freight railroads respectfully suggest that it is not possible to “develop a new, clear national policy for intercity passenger rail that can have the broadest possible base of support,” in the words of FRA Administrator Allan Rutter, if these inequities are not addressed.

While passenger railroading is important to our country, it pales in comparison to the importance of freight railroading. Our privately-owned freight railroad system is a tremendous national asset. Freight railroads operating in the United States move more freight, more efficiently, and at lower rates than anywhere else in the world, according to Lou Thompson, the World Bank's Railways Advisor. The safe, efficient, and cost-effective transportation service that freight railroads provide is critical to the domestic and global competitiveness of our nation. Indeed, freight railroads are responsible for over 40 percent of our nation's intercity transportation service. Therefore, we must find the most effective way to provide the passenger services that America needs, but without burdening the freight rail system—operationally, financially, or in any other way.

Freight railroads have developed a series of principles regarding the future of intercity passenger rail service. Our principles call for future rail passenger public policy to acknowledge the extreme capital intensity of railroading and to ensure that railroads' investment needs can be met. Policies which add to freight railroads' already enormous investment burden, such as further saddling them with support of passenger rail infrastructure needs, or which reduce their ability to provide the quality service needed by their freight customers, must be avoided. To do otherwise would undercut our nation's freight rail capabilities and be counterproductive in addressing our country's congestion, environmental, safety, and economic concerns.

The freight railroad principles are outlined below.

1. Intercity passenger rail service on a broad scale simply is not profitable in this or any other country, and cannot exist without significant government subsidization.

⁴The fee each railroad had to pay was based on each carrier's 1969 passenger services and consisted of the lesser of (1) 50 percent of the fully distributed passenger deficit; (2) 100 percent of the passenger service avoidable cost; or (3) 200% of the avoidable loss associated with passenger service over routes retained in the Amtrak system.

For decades prior to Amtrak's creation, our nation's railroads learned the hard way how difficult it is to recover the full costs of passenger railroading. Although Amtrak was created as a for-profit entity, experience has shown that this is not achievable. No comprehensive passenger system in the world operates today without significant government assistance.

Once policymakers in the Administration, Congress, and the various states agree on the nature and extent of intercity passenger railroading in this country, they must be willing to commit public funds commensurate with that determination.

2. Freight railroads should receive full compensation for the use of their assets by intercity passenger operators.

As explained above, freight railroads do not profit from Amtrak's operations. Rather, for the past 30 years, freight railroads have heavily subsidized Amtrak by virtue of Amtrak's statutory right of priority access to freight railroads' tracks at incremental cost. An incremental cost basis does not come close to reflecting the full market value of Amtrak's access to the owning railroad's tracks because it does not cover the full operating, capital, and other costs freight railroads incur in hosting Amtrak trains.

This has become an especially important problem over the past decade, as freight railroads are increasingly required to expand the capacity of their networks to accommodate growing traffic volume. In certain locations, railroads are experiencing serious and growing capacity constraints. Ton-miles per mile of road owned, a useful measure of freight traffic density, has risen from 3.9 million in 1970 (when Amtrak was established) to 14.8 million in 2000—a 279% increase. Largely because of this congestion, train “slots” on major freight corridors are as valued as gates and departure times at major airports or berths at ports. Moreover, because most shippers no longer carry large inventories, railroads must meet their customers' requirements for “just-in-time” or more predictable freight arrival. Consequently, asset utilization has become a crucial management tool and rail infrastructure, crews, communications, and customer satisfaction have come to depend on precise and efficient operations.

Thus, where Amtrak trains fill prized corridor “slots” at bargain prices, the result is a major cross-subsidy from freight to passenger service. It also limits the overall size of certain freight rail markets (because slots are not available to freight trains) and affects the reliability freight railroads can offer their customers.

Internal railroad studies have confirmed that the subsidies involved are substantial. For example, a few years ago, one railroad calculated that its annual subsidy to Amtrak exceeded \$56 million per year—and this was without including certain major categories of costs, including the cost of delays to freight trains and the resulting dislocation of freight crews and locomotives.

It is interesting to note that when freight railroads run freight trains over the Northeast Corridor, which is owned by Amtrak, Amtrak charges the freight railroads fully allocated costs, not just incremental costs. In fact, the fees that freight railroads pay Amtrak are many times greater (on a per car basis) than the fees which freight railroads must accept from Amtrak. Thus, railroads are prohibited by statute from treating Amtrak the same way that Amtrak treats freight railroads. Freight railroads should be fully compensated for Amtrak's use of their property, on the same terms that Amtrak is compensated for use of Amtrak's property.

3. Freight railroads should not be expected to further subsidize intercity passenger rail service, either through new taxes or the diversion of existing taxes (notably the 4.3 cents per gallon deficit reduction fuel tax).

If policymakers determine that intercity passenger service provides essential public benefits, then the costs of the passenger service should be borne by the public, not by freight railroads. For 30 years, freight railroads have subsidized Amtrak. Forcing them to continue on this basis will seriously hinder freight railroads' ongoing efforts to provide safe, efficient, and cost-effective transportation service.

Indeed, to force freight railroads to continue to subsidize passenger operations would be supremely inequitable. Freight railroads are suppliers to Amtrak. As such, they should be treated the same as those who supply Amtrak with locomotives, passenger cars, diesel fuel, electricity, and provisions for the dining car. Nor should freight railroads be held to a loftier “public interest” standard. Highway contractors are not required or expected to bid below cost because highways are in the public interest. The same rules should apply to railroads.

The 4.3 cents per gallon deficit reduction fuel tax paid by railroads deserves special mention. This tax should be repealed—not diverted to any other purpose—so that freight railroads can channel these funds into needed infrastructure and equipment. Diverting this tax to fund intercity passenger rail would perpetuate the inequities faced by freight railroads, because they would continue to derive no benefit from a tax they pay but their primary competitors do not.

4. Amtrak should have as its business focus the safe transport of passengers. Therefore, subsidized passenger authorities, including Amtrak, should not have a statutory right to carry “mail and express,” but should be required to negotiate arrangements in these areas with the right-of-way owners.

Amtrak was created as a passenger service company that, by focusing its management attention on passengers rather than on freight, would have an opportunity to resuscitate America’s passenger trains. Congress intended for Amtrak to have freight operations only incidental to its passenger service. Nor did Congress envision Amtrak establishing and scheduling ostensibly “passenger” trains for the primary purpose of serving freight needs and carrying passengers as an incidental activity.

Indeed, allowing Amtrak to transport general freight traffic under the auspices of “mail and express” service should not be allowed.⁵ This is especially so under the terms of access Amtrak currently enjoys regarding freight railroads’ facilities. Because Amtrak currently need only cover freight railroads’ incremental costs—with no requirement that Amtrak contribute to the owners’ fixed costs or profit—allowing Amtrak (or any other passenger authority) to carry freight forces freight railroads to subsidize their own competitors. Moreover, given Amtrak’s operating priority over freight railroad operations, allowing Amtrak to carry freight forces freight railroads to sacrifice their own competitive operational schedules in favor of Amtrak freight movements.

The special terms of access and other privileges granted Amtrak by the RPSA make sense only in the context of a clear-cut distinction between Amtrak’s passenger activities and other railroads’ freight operations. Permitting Amtrak to transport carload and trailerload movements of freight under its “express” authority obliterates that distinction.

Simply put, freight railroads fully appreciate Amtrak’s current financial difficulties and understand the reasons underlying attempts to increase Amtrak’s operating revenues and cost coverage. Amtrak, however, should not be allowed to offload its financial difficulties on the backs of the nation’s freight railroads, which already heavily subsidize Amtrak operations.

5. Safety requirements and the integrated nature of railroading necessitate that intercity passenger rail be provided by one entity—Amtrak. Further, Amtrak’s right of access, preferential access rates, and operating priority should not be transferred or franchised.

One of Amtrak’s fundamental purposes was to amalgamate several hundred disjointed passenger trains operated by more than 20 individual carriers into a coherent intercity passenger rail system. It was envisioned that a single carrier would yield greater efficiency and innovation. This approach remains just as sensible today.

Moreover, the terms and conditions by which Amtrak uses freight-owned tracks were set by Congress more than 30 years ago under circumstances vastly different from today. As noted above, at that time freight railroads were losing hundreds of millions of dollars per year on passenger trains they were forced by the government to operate. In order to be relieved from these huge losses, freight railroads accepted terms covering Amtrak’s use of their tracks that under other circumstances would have been unacceptable. Moreover, freight railroads did not agree to an “open door” policy and balkanized structure that would allow any number of state, regional, or local entities to claim access to their assets.

Further, freight railroads knew that Amtrak’s obligations were, in essence, the obligations of the United States and that Amtrak would be operated safely and professionally. Should Amtrak intercity services be transferred to other passenger operators, it is unclear under what circumstances the transfer would be made and what characteristics would apply to the operators. For example, private entities might have different degrees of financial backing; public authorities might or might not enjoy the full faith and credit of their sponsoring states; and some prospective passenger rail operators might be less committed to safety and sound operating standards than Amtrak.

If others are asked to provide Amtrak-like services, freight railroads must retain the right to negotiate terms (at arms length, free of governmental coercion) under which those providers will gain access to the freight railroad’s right of way. Freight railroads must become satisfied that acceptable operating practices and dedication to safety will be observed before they allow use of their facilities.

Finally, freight railroads view the granting of statutory access to other passenger operators to be an unconstitutional “taking” of private property.

⁵Mail and express traffic commonly refers to expedited delivery service involving small shipments.

6. Amtrak's present obligations, notably those under the Railroad Retirement Act and the Railroad Unemployment Insurance Act, must not be shifted to the freight rail industry.

Railroad employees and retirees are not covered by Social Security. Instead, they are covered by Railroad Retirement, a government sponsored and managed pension plan funded by payroll taxes on railroad employers and employees. Railroad Retirement covers the full rail industry, including freight, Amtrak, and commuter railroads; rail labor and trade organizations; rail lessor companies; and miscellaneous railroad affiliates.

Like Social Security, Railroad Retirement is a pay-as-you-go system: payroll taxes for current employees are used to provide current retiree benefits. Railroad Retirement is also a pooled system in which all rail participants contribute at the same statutory rates, all rail industry employees receive standardized retirement and survivor benefits based upon their years of service and earnings, and participating employees are assured of benefits regardless of the fate of their particular employers.

The integrity of such a system is based upon *all* participating entities contributing based on the current number of active workers employed. It is inequitable for a single firm, especially one as large as Amtrak (which accounts for approximately 10 percent of the rail industry work force), to suddenly be granted special relief from a pooled, pay-as-you-go system. Simply removing Amtrak from the Railroad Retirement system, in whole or in part, would force the remaining participants—primarily freight railroads—to sharply increase their contributions to maintain the viability of the system.

7. Future high-speed passenger rail corridors should be separate, dedicated, and "sealed."

"High speed" rail service is envisioned by many to be a primary component of future intercity passenger rail operations. It must be acknowledged that the expansion of high-speed passenger rail service throughout the United States presents serious challenges. To operate safely, high-speed passenger rail operations require the construction of separate, dedicated tracks. Further, grade crossings must be eliminated (either through closure or through the construction of highway underpasses or overpasses). These are exceedingly expensive undertakings and will require firm, continued commitments by the appropriate authorities, but they are necessary for successful implementation of high-speed projects.

THE NATIONAL DEFENSE RAIL ACT

The freight railroads are pleased that certain sections of the proposed National Defense Rail Act (S. 1991) are consistent with the freight railroads' principles outlined above.

First, at its heart, S. 1991 recognizes the inherent need for public subsidization of intercity passenger rail, since no system in the world is financially self-sustaining. Furthermore, the level of subsidy recognizes that the current level of funding falls short of what is needed.

Second, the proposed legislation recognizes the value of a harmonized intercity passenger system which is operated by a single entity.

Third, S. 1991 recognizes Amtrak's obligation to continue its pro rata funding of the pooled, pay-as-you-go Railroad Retirement System. To disregard this obligation would have severe implications for the other freight and passenger railroad participants of the industry system.

Fourth, the legislation appropriately increases to \$35 billion the authorization of the Railroad Rehabilitation and Improvement Financing (RRIF) program and removes the unrealistic lender of last resort barrier to implementation.

Finally, S. 1991 promotes railroads' ability to ensure safe and secure operations by permitting railroad police officers to enforce laws on other railroads' property.

There are, however, provisions of S. 1991 which are inconsistent with what the freight railroads believe is in the best interests of both freight and passenger railroads, and the national economy in general.

First, while S. 1991 appears to recognize the need for investments in grade crossings, there appears to be no requirement that grade crossings on high-speed passenger rail corridors be eliminated and that high-speed rail operations be performed over separate, dedicated tracks. Freight railroads submit that these are threshold requirements for the high-speed services contemplated in S. 1991. Safety and economic requirements preclude joint freight and high-speed passenger operations, and acknowledgement of this foundational criterion allows for a more realistic view of the true costs involved.

Second, the Section 130 grade crossing program was designed to address a different highway safety need than the establishment of sealed corridors for high-speed

passenger rail. Consequently, we would like to continue to work with this Committee on how best to address this grade crossing program.

Third, if the United States is to have a responsive and efficient intercity rail passenger system, it must come about through a realistic appraisal of what is needed and the provision of public funding sufficient to build and maintain that system. Freight railroads must be treated fairly and equitably. In this regard, the encouragement by S. 1991 for Amtrak to develop revenue sources from rail freight cargo can only serve to distract Amtrak from its appointed public purpose and generate conflict with the private sector freight railroad companies.

Finally, the freight railroads can discern no benefit from, and see considerable downside to, positioning the Surface Transportation Board between the freight railroads and Amtrak with regard to issues concerning Amtrak's on-time performance. The current arrangement of contractual incentives and penalties is eminently more efficient than, and preferable to, a regulatory construct.

SUMMARY

Congress has before it a difficult mission: to fashion a realistic, fair, and workable solution to the serious problems facing intercity passenger rail in the United States. In reaching that solution, we strongly urge you to review the principles above in order to ensure that freight railroads continue to be a vital part of the North American economy.

Freight railroads look forward to working cooperatively with this Committee, with Amtrak, and with others to achieve this worthy goal.

The CHAIRMAN. Very good.
Marc Morial.

STATEMENT OF HON. MARC H. MORIAL, MAYOR, NEW ORLEANS, LOUISIANA; PRESIDENT, UNITED STATES CONFERENCE OF MAYORS

Mr. MORIAL. Thank you very much, Mr. Chairman.

Mr. Chairman, Senator Breaux, let me first thank the Committee for holding these hearings on the future of Amtrak. I also want to publicly say how much we have appreciated our working relationship with George Warrington. We think he has been an excellent executive and a great leader for Amtrak.

I know much has been said this morning and I do not want to try to reiterate too much of what has been said, but I want to add maybe a broad perspective, Senator, because I think we are at a point in history right now where we can chart a course with a goal, and what we hope the goal is to build for the United States a first class national passenger rail system.

In the last 50 years in this country we built a first class national highway system. We did it in the name of national defense. What we have found is that the commercial and economic benefits of it have been a thousandfold. We have also in the last 50 years created a first class civil aviation system. Both of these systems were created with significant guidance, and yes, money from the U.S. Government.

The highway system is self-evident, the money we put in to build, to expand and to maintain that system. On the aviation side, people do not realize that we, in effect, financed most of the construction, the rebuilding of airports through direct subsidies through passenger facility charges.

We assisted the aviation industry with the FAA and with considerable regulatory oversight. We have got to chart a course, and I think why it is so important is that we cannot build any more highways in this country except in a few places.

Number two, the skies are crowded.

Number three, the population of this country is going to grow significantly in the 21st century, and we must begin to plan for the future, and mayors believe very importantly that developing a national passenger rail system, properly funded with strong, strategic investments in capital, with the proper support on the operating side, certainly should be the mission and the goal of this debate that we are having in America today.

At the local level, we run transit systems. Those transit systems are not self-sufficient. We can make them self-sufficient, but we would have to make fare boxes, the expense to the consumer at the fare box, \$4, \$5, which would defeat the purpose of a system which is affordable and available to people of all income levels.

I think as we go through this debate, I hope that the needs of the consumers are not forgotten, that the affordability of the system is kept in the discussion, and I also hope that we will debunk some of the notions, i.e., that people only ride trains for pleasure. That is not right and that is not true and that is not accurate.

People ride trains for transportation purposes. Tens of thousands of people come to New Orleans each year to come to special events on the trains. Maybe they cannot afford a plane. Maybe they do not like a plane. Maybe they simply like the train. So people travel on trains for more than pleasure.

Second, I believe that there is a market out there, Senator Breaux, for people who might wish to ride a high-speed train between Phoenix and Los Angeles, New Orleans and Houston, New Orleans and Atlanta, Portland and Seattle, Dallas-Fort Worth and Houston. There is a market out there because if you travel on short legs on airlines, with all of the security procedures, with all of the time to park, with all of the congestion, the time we spend in the air is a small portion of the time in the actual trip.

So I think we have got to look at this as a great opportunity to create in the 21st century the third leg, if you will, the third leg of a truly multimodal system in this country, and I think this Committee has a great opportunity to guide that, and the mayors of America want to be a participant in those discussions.

Thank you.

[The prepared statement of Mayor Morial follows:]

PREPARED STATEMENT OF HON. MARC H. MORIAL, MAYOR, NEW ORLEANS,
LOUISIANA; PRESIDENT, UNITED STATES CONFERENCE OF MAYORS

Mr. Chairman and Members of the Committee, I am Marc H. Morial, Mayor of New Orleans.

I appear today on behalf of the United States Conference of Mayors where I serve as the organization's President. The Conference is a bipartisan organization that represents mayors of the more than 1,200 cities with a population of 30,000 or more.

OVERVIEW—A NATIONAL PASSENGER RAIL SYSTEM

Mr. Chairman, I want to thank you and other Members of this Committee for holding this hearing today and as the spokesman for the nation's mayors, I cannot stress enough the importance of a secure and comprehensive national passenger rail system—a national passenger rail system that touches communities across America from my city of New Orleans to the nation's capital and beyond.

Let me begin by emphasizing that the nation's mayors overwhelmingly believe that the time has come to increase our investment in our passenger rail infrastructure and build out the third leg of our transportation system. We see a powerful linkage between a strong Amtrak, a growing national inter-city passenger rail system, and the long-term viability of our local and metropolitan economies.

Mr. Chair and Members of this Committee, as the focal points of economic activity, cities are vital to the nation's economic development.

THE U.S. CONFERENCE OF MAYORS CALL FOR A NATIONAL RAIL POLICY FOR
THE 21ST CENTURY

Mr. Chairman, the nation's mayors are not new to this discussion. On January 17, 2001, I led the U.S. Conference of Mayors in convening a National Rail Summit in Washington, DC as part of our 69th Winter Meeting. Over 300 mayors from around the country attended and called for a National Rail Policy for the 21st Century.

The nation's mayors understood that in three decades of existence, Amtrak was never provided with a permanent, reliable and sufficient source of funding to ensure its ability to deliver the world-class service many other countries now take for granted.

Mr. Chairman and Committee Members, it astonishes people in New Orleans when they learn that less than 1% of all federal transportation spending has gone to passenger rail over the past 3 years. This year is no exception; the administration's budget request for Amtrak funding is \$521 million. The same budget includes nearly \$24 billion for highway, road and bridge construction projects and \$14 billion for aviation purposes. How can we expect Amtrak to offer a vital transportation service to other modes without providing it with comparable levels of funding?

PROVIDING A NATIONAL RAIL SERVICE IS NOT PRIVATIZING THE SYSTEM

The French national passenger rail system for example is clean, safe and has an ultra modern fleet of sleek trains run by state-owned companies. Often lost in the admiration of the European system is the breakdown of the British system. In the mid-1990s, Britain broke up the state-run system aiming for privatization and all the traps that are a part of that discussion including new investments and improved services.

It simply did not work. What Britain has today is a financially troubled company overseeing the tracks and private firms running money losing passenger lines that have a reputation for being dirty, expensive and unsafe.

AMTRAK'S MISSION

We are requesting that our political leaders in Washington define whether Amtrak's mission is to provide an affordable national passenger rail service, including running certain politically popular but financially ill-advised long distance trains or is the mission to break even, perhaps even make a little profit. Mr. Chairman, my constituents and visitors to New Orleans need an affordable national passenger rail system.

New Orleans is a special events city. We routinely host national events including the NFL Super Bowl, Sugar Bowl, the New Orleans Jazz and Heritage Festival, and our world famous Mardi Gras. The success of these special events and related financial infusion into our local economy depends heavily on transportation choice and that includes Amtrak.

NATIONAL RAIL DEFENSE ACT

The mayors applaud Senator Hollings leadership on this issue of national urgency and support S. 1991, The National Rail Defense Act.

Mr. Chair and Members of this Committee, again, I want to convey the mayors strong support for S. 1991 and to urge your action on this priority legislation. We believe that the National Rail Defense Act is uniquely situated to ensure sufficient flows of public capital investment into the northeast corridor while guaranteeing defined budget allocations to our nationwide system of short and long distance routes.

Mr. Chairman, we also strongly support the priority given to the development and implementation of high-speed passenger rail corridors.

S. 1991 is a long-term plan to make passenger rail a part of our balanced transportation system. Mr. Chairman and Committee Members, the nations mayors feel strongly that the National Rail Defense Act will provide Amtrak the tools and funding needed to create a modern passenger system for all Americans to be proud of.

CLOSING REMARKS

In closing, thank you for this opportunity to appear before you today to offer the perspectives of the nation's mayors on The National Rail Defense Act.

I would like to underscore that this is a very high priority concern for the mayors and other local elected officials and we will stand with you and this Committee as

you examine ways to meet Amtrak's funding request of \$1.2 billion this year and development of a strategic vision and policy on a passenger rail system for the 21st Century—a national passenger rail system that will provide all Americans with transportation choice. The nations mayors firmly believe that The National Rail Defense Act is an important part of that vision.

As President of the Conference of Mayors, I can assure you that the nation's mayors will strongly support your efforts in this regard.

The CHAIRMAN. This has been excellent testimony. Let me yield to our Chairman of our Transportation Committee. You have got your distinguished mayor here.

Senator BREAUX. Thank you very much, Mr. Chairman. We talked about the good service that George Warrington has provided to Amtrak and that he is departing in the not too distant future.

The same compliments go to Mayor Marc Morial. Marc is serving currently, of course, as President of the United States Conference of Mayors. We just had an election down in New Orleans to select the next mayor of New Orleans, and I guess Marc's term is shortly to be completed, and New Orleans is a better place as a result of that service. We are very proud of what you have done.

The leadership has been absolutely tremendous in very difficult times, and we are just glad that you are with us and still functioning as the president over here. I did ask could he continue as president. He said no, it would be like me on the Commerce Committee; if I was not in the Senate, I could not be in the Commerce Committee.

So he is not mayor, cannot be president of the Conference of Mayors. So we understand that, and thank you very much, Marc.

The CHAIRMAN. You go ahead.

Senator BREAUX. Just quickly, Mr. Money Penny, I want to give you a chance. Senator Hutchison has raised the question of labor costs, and I think in Mr. Carmichael's presentation the charts that Senator Hutchison referred to say that the most important factor in Amtrak's operating costs is wages, fringes and employee benefits. Employment costs amount to a large portion of Amtrak's expenses, and so that Amtrak's unit employment cost exceeds the total unit expense of other transportation providers for several reasons, including compensation levels, as well as the rate of growth in compensation has outpaced inflation.

I wanted to give you a chance to say something about that if you desire to do so.

Mr. MONEYPENNY. Thank you, Senator. I can tell you that unless inflation has been zero the last 2 years we have not outpaced it. Our members' contracts expired more than 2 years ago. Let me add also that the sacrifices that Amtrak workers have made over the years started more than 20 years ago.

In 1981, Amtrak workers were told that Amtrak was in a financial crisis. We had a negotiated contract that included excellent pay raises. We were told that we had to defer 12 percent of those wage increases. Twenty-one years later our members are still waiting for that money to come back. From the years 1987 through 1992 our members had their wages frozen. Nobody got a pay raise.

For our coach cleaners, they went 1984 to 1992, 8 years, without a pay raise. We are, after all of that, left as I said in my testimony the lowest paid unionized rail work force in the country by dollars an hour, and I do not know how you make comparisons to airlines.

I wish Senator Hutchison were here to expound on that a little more.

We represent workers on American Airlines and other airlines. Mechanics there make over \$30 an hour and they deserve it. The best mechanic on Amtrak, no matter how many years of service he or she has, makes \$19 an hour. The same worker, who is doing the exact same work on Metro North or the MBTA or New Jersey Transit, makes \$3-, \$4-, \$5-an-hour more doing exactly the same work.

So I know it is ideologically pleasing for some to say when they look out the window in the morning and it is raining blankety-blank, "labor did that." You cannot credibly point to labor as the source of Amtrak's problem.

Senator BREAUX. Thank you. I got the impression that you were concerned about privatization. Suppose if it is privatization, I am not advocating it one way or the other, but if there was privatization, then would not your workers still be able to be represented by working for the privatized new system as well as working for Amtrak?

Mr. MONEYPENNY. I hope you heard the same thing I did this morning. Mr. Rennie, the privatization expert, just told us, if I understood him correctly, it is sort of a secret who might be interested in taking this service over. I asked the ARC after 4 years of studying if it is not Amtrak, who is it going to be? If we give a party and nobody comes, what do you do? And the answer I got was that the Peter Pan Bus Company had expressed some interest, and I am sure they run nice bus service. They just do not run any trains, and a foreign corporation which has, to the best of my knowledge, one North American employee.

Now I hear Mr. Rennie say there are 70 companies they think might be interested, but they are bashful. They don't want to say anything. Amtrak has been subject to the most withering scrutiny that Congress can give, and I do not know of any other Federal agency that has been studied in as many different ways as Amtrak has, and I would hope before we get on the road to privatization that we will subject whatever company steps forward, whenever they have enough courage to do so, to the same sort of scrutiny before we say let us pass legislation and see if anybody shows up.

I will say if a privatized company shows up, they have to deal with us. We are the only people that do this sort of work. Rail work is so industry-specific and safety-sensitive, there simply is not another work force to do it. I would just hope we do not throw it up in the air and see who wants to catch it.

Senator BREAUX. Thank you. Mr. Rennie, talk about the question of privatization. My understanding of Amtrak is it is kind of like a quasi-public, quasi-private operation that is trying to get this job done. If it were to be privatized, how could that bring about any change in the problems that we face? I guess you are saying that even if it was totally privatized you are still going to have to have the Federal Government paying a large portion of the cost of the operation. Do you envision where it has been done before that somehow the privatization brings about efficiencies that would eliminate the need for that type of subsidy?

Mr. RENNICKE. Well, in virtually every case, with the possible exception of the problems we had in the United Kingdom with Railtrack, which I want to be very clear is their infrastructure company, not the train operating company, you had vast efficiency improvement.

In Argentina today, 82 percent fewer workers deliver three or four times the amount of passenger-miles than there were when we started the privatization program. Private companies found a way to create value. The government borrowed \$300 million from the World Bank, and basically we had a program that everybody wanted. The employees were happy, the prior employees working in the same area.

In Mexico today, private companies down there now run the freight business. There are almost 60 percent fewer employees working on the railroad than there were 4 years ago. There was no labor disruption. Pension funds were stabilized, and basically the benefits to the government came from the drastic reduction in the unit cost of the operation and drastic improvement in service because specialists who had a business capability that were different from the incumbent companies brought some management expertise to the table that was not there before, and that essentially improves the bottom line.

There are very few places where privatization was undertaken where there are not substantial improvements in productivity. The government still has to pay, as Mr. Hamberger pointed out. There is really no place in the world where a passenger railroad or intercity railroad really funds itself totally, but they pay far less. That is really the crux of why those countries did it, and why there are 70 companies or more waiting to see a real RFP or a real resolution to the commercial offering that the U.S. would have in a private sector environment.

Senator BREAU. Thank you.

Mr. King, I have one quick question. In the McCain bill we talked about requiring or encouraging cities that benefit from the Amtrak service to have to kick in a certain percentage of money, I think it was 20 percent maybe in the Northeast Corridor, of the operating cost, and I raised the question, what if one city along the route or one State just says "We are glad you are coming through our State, but we are not kicking anything in." How do we handle that with the State? Just mandate everybody pitch in? How do we handle that?

Mr. KING. That is a very interesting question. We had the same question paving secondary roads in our department, and we were faced with that situation in the Southeast. What we want to do in the Atlanta to the Washington, DC, Corridor is to extend the Northeast Corridor through Richmond, Raleigh, Charlotte, Greenville, Spartanburg, to Atlanta.

North Carolina and Virginia have been very aggressive on that and have come a long way and invested a fair amount of money so far. Georgia has shown a lot of interest in particular lately. South Carolina's heart is in the right place, but they have not found a way to put any money in it yet.

Senator BREAU. You cannot get to Atlanta from Charlotte without going through South Carolina other than by air.

Mr. KING. Your point is well taken. The question is how do we buy services. Right now, North Carolina buys two services from Amtrak. One is a Charlotte-Raleigh-Charlotte round trip. The other is a Charlotte-New-York-Charlotte round trip which performs very, very well. The Senator from Oregon made the point that we perhaps are not charged on an equitable basis for those services, and I would submit that this is certainly the case with us. At least our perception is that we are paying disproportionately as compared with other States.

I think the answer to your question is that if we do not have unanimity at the end of the day when we are ready to step forward as a group of four States and put money on the table to buy service from Amtrak or any other service offerer that might be out there, then all four States are going to have their financial plans in place, and I am confident they will. We have still got a lot of work and collaboration and planning to do before we are ready for that.

Senator BREAU. Thank you.

Mr. Hamberger, thank you.

No questions. Marc, thanks for being with us.

The CHAIRMAN. That is the original railroad. The first in the country was from Charleston-Hamburg, and we still have it in the Charleston museum which is the truth.

Mr. Rennie, you or anyone in the sound of my voice, please give us the name of anybody that really wants to operate a private national rail system.

Mr. RENNICKE. I did in the material.

The CHAIRMAN. Who?

Mr. RENNICKE. We have got the names of people ready to go. I think they will come.

The CHAIRMAN. Do not give me that they will come and so forth. You name them because we have not been able to find them.

Mr. RENNICKE. You have not put the For Sale sign up. It is like somebody walking down the street knocking at every door, trying to buy a house and people do not want to sell to you. I think as soon as you define what it is that you want to sell or privatize.

The CHAIRMAN. We want to sell the system and any part of it and that is it, and let us negotiate the terms and everything else. There is no use to operate top secret. Business people are business. If it is an opportunity, Mr. Rennie, they will come. We have got people that will come in and offer, do all kind of things around here. So do not give us you have got to wait for the special occasion.

Mr. RENNICKE. If I could have your authority to act on your representations here, I think I could produce some people just on those representations who would come and talk to you.

The CHAIRMAN. You have the authority and we would appreciate it very much.

Mr. RENNICKE. I will.

The CHAIRMAN. The testimony has been very, very helpful to us, and the Committee is indebted to each of you.

We are going to keep the record open for questions. The hour is late so we are going to be in recess now until the call of the chair. Thank you all very much.

[The hearing adjourned at 12:20 p.m.]

