S. HRG. 109–369

REAUTHORIZATION OF AMTRAK

HEARING

BEFORE THE

SUBCOMMITTEE ON SURFACE TRANSPORTATION
AND MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

APRIL 21, 2005

Printed for the use of the Committee on Commerce, Science, and Transportation

U.S. GOVERNMENT PRINTING OFFICE

26–844 PDF WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

TED STEVENS, Alaska, *Chairman*

JOHN McCAIN, Arizona
CONRAD BURNS, Montana
TRENT LOTT, Mississippi
KAY BAILEY HUTCHISON, Texas
OLYMPIA J. SNOWE, Maine
GORDON H. SMITH, Oregon
JOHN ENSIGN, Nevada
GEORGE ALLEN, Virginia
JOHN E. SUNUNU, New Hampshire
JIM DeMINT, South Carolina
DAVID VITTER, Louisiana

DANIEL K. INOUYE, Hawaii, *Co-Chairman*
JOHN D. ROCKEFELLER IV, West Virginia
JOHN F. KERRY, Massachusetts
BYRON L. DORGAN, North Dakota
BARBARA BOXER, California
BILL NELSON, Florida
MARIA CANTWELL, Washington
FRANK R. LAUTENBERG, New Jersey
E. BENJAMIN NELSON, Nebraska
MARK PRYOR, Arkansas

LISA J. SUTHERLAND, *Republican Staff Director*
CHRISTINE DRAGER KURTH, *Republican Deputy Staff Director*
DAVID RUSSELL, *Republican Chief Counsel*
MARGARET L. CUMMISKY, *Democratic Staff Director and Chief Counsel*
SAMUEL E. WHITEHORN, *Democratic Deputy Staff Director and General Counsel*
LILA HARPER HELMS, *Democratic Policy Director*

SUBCOMMITTEE ON SURFACE TRANSPORTATION AND MERCHANT MARINE

TRENT LOTT, Mississippi, *Chairman*

TED STEVENS, Alaska
JOHN McCAIN, Arizona
CONRAD BURNS, Montana
KAY BAILEY HUTCHISON, Texas
OLYMPIA J. SNOWE, Maine
GORDON H. SMITH, Oregon
GEORGE ALLEN, Virginia
JOHN E. SUNUNU, New Hampshire
DAVID VITTER, Louisiana

DANIEL K. INOUYE, Hawaii, *Ranking*
JOHN D. ROCKEFELLER IV, West Virginia
BYRON L. DORGAN, North Dakota
BARBARA BOXER, California
MARIA CANTWELL, Washington
FRANK R. LAUTENBERG, New Jersey
E. BENJAMIN NELSON, Nebraska
MARK PRYOR, Arkansas

CONTENTS

REAUTHORIZATION OF AMTRAK

THURSDAY, APRIL 21, 2005

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

The Subcommittee met, pursuant to notice, at 9:30 a.m. in room SR–253, Russell Senate Office Building. Hon. Trent Lott, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF HON. TRENT LOTT, U.S. SENATOR FROM MISSISSIPPI

Senator LOTT. If the hearing will come to order, we will go ahead and get started with my opening statement and then we will move to the witness testimony, we're going to have a number of Senators that will be joining us this morning, we expect eight or ten, but we work on Senate time, which is about 15 minutes late. But we'll get started anyway, so we can sort of set the parameters on this hearing.

I want to thank the witnesses for being here, I'm looking forward to hearing your testimony, and I'm also looking forward to having the chance for the Committee to ask some questions, and try to begin to get a vision of where we really want to go.

This morning the Subcommittee on Surface Transportation and Merchant Marine will be receiving testimony on the policy issues surrounding the reauthorization of Amtrak. As Chairman of this Subcommittee, enacting legislation to reform Amtrak is one of my top priorities for this session of Congress. I am willing to work hard on developing consensus, bipartisan legislation, but only if the legislation truly improves the situation and makes some sense for the future.

Ten years ago, when I also served as Chairman of this Subcommittee, I helped write the legislation which eventually became the Amtrak Reform Act of 1997. Unfortunately, for a variety of reasons, I'm sure, many of the Act's provisions intended to improve Amtrak's performance were never used. Despite assurances from Amtrak management at the time that the railroad was on a "glide path to self-sufficiency," Amtrak still requires large Federal operating subsidies. One of my goals for today's hearing is to determine why we didn't use more of the 1997 legislation, what was wrong with the way we wrote it, and make sure that we don't repeat those mistakes, come up with some new and different ideas.

I also think that it's important we are honest with ourselves about what are the prospects for Amtrak or whatever we have in its place to actually ever make a profit, or to be self-sufficient. If that's not going to happen, we need to acknowledge it, if it's not going to happen, but if we want to keep it or some form of it, how are we going to fund it?

We put that decision off long enough. This is the year where we have to make the cut, make the decision. Today we will basically hear three proposals on how to proceed with intercity rail. First we'll hear from the Administration. The President proposed zero funding for Amtrak—as I understand it, not to kill it, but to send Congress a wake-up call that the time to reform Amtrak is now. I hope that was their thinking, and I hope that we get the message without actually killing it. In a way it could happen, we didn't get the legislation last year for a variety of reasons, no use trying to re-hash that, we're going to get something this year, one way or the other, we're going to make a decision.

Now last week the Administration re-submitted its legislation proposal for reforming Amtrak, I'm sure we'll hear about that today, and while I think some of its provisions are totally unrealistic, some of them maybe can be used, and we'll try to decide which is which.

Second, the Amtrak Board and David Gunn, the Amtrak President and CEO, have put together a Strategic Reform Initiative including some legislative proposals. I think the Board should be commended for its hard work in developing this initiative, which in many ways is a departure from some of the past thinking that we've had from the Board.

Finally, we'll hear from the Department of Transportation's Inspector General, who has worked on these Amtrak issues for many years, both at the Department of Transportation and at the General Accounting Office. His testimony proposes an outline for a new model of intercity passenger rail. I've found his testimony in the past to be very helpful, our private discussions have been giving me some ideas of what we need to do, and so I look forward to hearing from all the witnesses.

It is my intent to, after this hearing, after consultation with the Chairman of the full Committee, to begin to actually develop a bill. It is my intent that it consider all the aspects of where we need to go, where we can go, it's my intent for it to be bipartisan, I want the Administration to be involved. Among other things, I've already met with management, with the Secretary of Transportation, the Inspector General, Mr. Gunn, labor, and have talked to a number of Senators on both sides of the aisle, including Senator Lautenberg.

We're going to get this done, and we're going to have something ready to go to the floor this summer. We're going to beat the deadline of having to get something done before the end of this fiscal year. We'll have to get the votes, but we're going to come up with something, and I hope it's something worth having.

Senator Lautenberg?

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

Senator LAUTENBERG. Mr. Chairman, you're an inspiration this morning and I'm glad to see that energy and vitality focused on what we do about Amtrak and what we do about making sure that we have a transportation system that reflects the needs of the country. And I am appreciative of the fact that you're holding this hearing on the reauthorization of Amtrak.

It's been 8 years since we last authorized Amtrak. At that time I was, I look back with some envy, I was Ranking Member of the Transportation Appropriations Subcommittee, sabbaticals aren't all that they're cracked up to be, Mr. Chairman.

I can't overstate how important it is for our country, as I see it, to have a balanced, national transportation system. We've got an interstate highway system, we have a national system of airports to facilitate air travel, but passenger rail has fallen by the wayside in our country, and even if you want to take the train, service is limited. And in many parts of the country it isn't an option at all, and we can do better, and we must.

Providing another transportation choice isn't just a matter of convenience—I see it as a matter of national security, to ensure that we don't depend entirely on one mode of travel if a problem strikes. Many Americans would choose to take a train if they could, and many already do. Thousands of senior citizens use Amtrak service to Florida rather than brave the traffic and the large trucks on I–95.

Now, I understand that there are many ideas about how to run passenger rail service in our country. There are some facts that we must consider. First, it's going to take money to do it. Zero will not cut it. No passenger system in the world makes money, not even Japan's.

Second, the states cannot afford at this time to simply pick up the Federal contribution to Amtrak. Expecting them to do so would be yet another unfunded mandate, and it would sink state budgets into a sea of red ink.

Thirdly, we need to heed the lessons of other countries that embarked on flights of fancy by privatizing their railroads. They risked the safety of their operations, and they ended up paying more in the end. Every organization needs strong leadership. And Amtrak, I'm pleased to say, has that. And under President and CEO David Gunn, Amtrak has overhauled its financial accounting system, trimmed its workforce by 20 percent, while adding 20 percent more trains.

Last year, Amtrak achieved record ridership of 25 million riders nationwide. I remind you, the equivalent of 125,000 fully loaded 757 airplanes. Amtrak works, and Americans depend on Amtrak every day, we sure can tell by some of the protests that have arisen about removing sellers from the line. But we needed it most, Amtrak, when our Nation was attacked on September 11, 2001.

When our commercial aviation system was shut down on 9/11, stranded passengers turned to Amtrak to reunite themselves with their families. And thank goodness they had that choice. That terrible day reminded us that our Nation cannot depend entirely on one mode of transportation, no matter how attractive it looks. And since the Federal Government created Amtrak 34 years ago, we've invested an average of less than $1 billion a year in rail infrastructure and operations, not nearly enough for a world class system.

Germany has a modern high-speed rail system. They invested $9 billion in passenger rail service in 2003 alone, and instead of trying to kill Amtrak, we've got to find a way to build a passenger rail system that's as good as any in the world. And I thank you, Mr. Chairman, once again, for calling the hearing and for your vitality and promise that we're going to get a railroad bill, that Amtrak go out of here, and I plan to work with you on it, and hope that we come up with something that really spells out not only the problems, but how we're going to do it long term.

Senator LOTT. Thank you, Senator Lautenberg. Our witnesses today are the Honorable Jeffrey L. Rosen, General Counsel, and Secretary's representative to the Amtrak Board at the Department of Transportation; David Laney, Esquire, Chairman of the Board, National Railroad Passenger Corporation or Amtrak; David Gunn, the President and CEO of the National Railroad Passenger Corporation—Amtrak; and the Honorable Kenneth Mead, Inspector General of the U.S. Department of Transportation. We will call on you in that order. Mr. Mead, we're saving you for clean up and for comments on many of the things that you will hear before your testimony, so get prepared, take notes. And, we'll begin, then, with Mr. Rosen.

STATEMENT OF HON. JEFFREY A. ROSEN, GENERAL COUNSEL, DEPARTMENT OF TRANSPORTATION

Mr. ROSEN. Thank you. Mr. Chairman, Senator Lautenberg, thank you for giving me the opportunity to talk to you today about reforming Amtrak. The Department of Transportation has previously submitted my written testimony, which I hope you will include in the record.

Senator LOTT. It will be included in the record. I might say that all of your prepared statements will be included in the record, we'd appreciate it if you'd summarize it in as close to 5 minutes as you can.

Mr. ROSEN. Absolutely, thank you, Mr. Chairman. I'll be relatively brief in my oral remarks. I wanted to cover just three points.

First, it is now clear that we have arrived at a moment when true reform of intercity passenger rail is necessary, is possible and should be achieved. Amtrak itself now agrees that reform is needed because Amtrak is not sustainable as currently structured or funded. Over the last several months, Secretary Mineta has traveled the Nation, meeting with railroad workers, state governors and transportation officials, weekday commuters, city mayors and just about anyone else who would listen to his message that the 1970's approach to Amtrak can't survive, and has shared with them the Administration's new vision for intercity passenger rail. Members of this Subcommittee and others in Congress have also expressed both interest and concern about the future of intercity passenger rail, and of course the President's budget proposal for Amtrak is itself a call to action.

So, the actions taken by President Bush and Secretary Mineta have helped us lead the way and it is a welcome and perhaps an unprecedented development to have Amtrak itself ready to embrace genuine reform. I have had the privilege of serving as Secretary Mineta's designee to the Amtrak Board, so I am respectful of the extraordinary efforts of Amtrak's highly committed management and staff, and have observed how closely they worked with a Board of Directors, who themselves added a reservoir of business experience and insight to Amtrak's strategic planning process. This hearing comes at an opportune time, and hopefully will enable the Congress to capitalize on this historic opportunity for reform as you outlined, Mr. Chairman.

Second, as we talk about specific reform measures, the fundamentals of what needs to be done to save intercity passenger rail are, in my view, clear. With, perhaps, the potential for a new consensus on some key items that both the Administration and Amtrak are agreed upon, if you compare the two sets of proposals.

Last week, Secretary Mineta re-transmitted the Administration's proposed reform legislation to Congress, while again reiterating his five key principles for intercity passenger rail reform. Amtrak's own newly announced strategic initiatives adapt and endorse many of the same concepts and proposals. Agreement exists on such things as transitioning to competition, empowering the states to make infrastructure decisions and to receive support from a State/Federal funding partnership, providing for state involvement in infrastructure decisions affecting the Northeast Corridor, introduction of sound economics to eliminate train operating subsidies and reduced expenses, improved financial reporting and transparency, and enabling the separation of Amtrak's train operations from the infrastructure role.

The areas of commonality and overlap between the Administration bill and the Amtrak plan provide at least a common baseline that can be a starting point for a reauthorization process that can help us save intercity passenger rail travel.

Third and last, however, I nonetheless want to underscore that reform, to be meaningful and long-lasting, requires both implementation and legislation. Implementation involves the detailed specifics in the followup. And the legislative effort will continue to involve some hard choices. Because notwithstanding the many areas of commonality that are emerging, there are, of course, other areas of divergence that will require careful consideration by the Congress.

One example that needs to be highlighted is the question of what to do with approximately $3.8 billion of Amtrak's existing debt, the repayment of which amounts to nearly $280 million per year. The Administration proposal differs from some others, in that we have not endorsed absolving Amtrak and its lenders of responsibility for those privately made loans. This issue, as well as some others, remain to be worked out. However, we hope to work closely with the Congress to achieve the ultimate goal of finding a total package that will save intercity passenger rail, introduce a new State/Federal partnership for rail infrastructure, enable competition for the selection of train operators, and provide the rail passengers in this country with the high quality service they need and they deserve.

So, I want to thank the Subcommittee for holding this very timely hearing, and I would be pleased to respond to any questions.

[The prepared statement of Mr. Rosen follows:]

PREPARED STATEMENT OF HON. JEFFREY A. ROSEN, GENERAL COUNSEL, DEPARTMENT OF TRANSPORTATION

Chairman Lott, Senator Inouye, and Members of the Committee, I appreciate the opportunity to appear before you today to represent Secretary of Transportation Norman Y. Mineta and the Administration as this Congress takes up the very important issue of reform of intercity passenger rail service. If my testimony today accomplishes one thing, I hope it is to convince you that fundamental change in the way we support intercity passenger rail service is not only necessary but inevitable. And that change needs to happen this year, before we spend one more taxpayer dollar to prop up a fundamentally broken system.

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

To some, perhaps this is old news. Congress looked for change in the Amtrak Reform and Accountability Act of 1997, and actually indicated that "Federal financial assistance to cover operating losses incurred by Amtrak should be eliminated by the year 2002." In fact, the notion that Amtrak should operate free from Federal operating subsidies is codified in the United States Code. 49 U.S.C. § 24101(d) states that "Commencing no later than the fiscal year following the fifth anniversary of the Amtrak Reform and Accountability Act of 1997, Amtrak shall operate without Federal operating grant funds appropriated for its benefit." In the 1997 Act, Amtrak was afforded new flexibility to get its own house in order. But by 2002, Amtrak's situation was no better; to the contrary, it had grown worse, with massive increases in Amtrak's debt, continuing operating problems, and financial crises in both 2001 and 2002. Amtrak's response once again was to turn to the Federal Government for even greater Federal financial assistance. In no other functioning service market would rising costs and declining revenues be defined as a "success" if this produced a small increase in the number of customers. Yet, that is exactly what the defenders of the 1970 approach now say, as if the loss for each rider were "made up in volume." In 2004, Amtrak increased its ridership by approximately 4 percent to a record 25 million passengers, asked for a record $1.8 billion Federal subsidy, and recorded a financial loss of more than $1.3 billion, of which approximately $635 million was a cash loss. [1]

Things do not have to be this way. The Administration has made clear that there is an important role for intercity passenger rail in our transportation system, with a new model that will be responsive to the needs of the traveling public. But we can only get there by reforming the failed model of 1970, and committing to a new approach. Happily, Amtrak itself now recognizes the need for reform, and we have reached a time when a new approach may now be possible. It is from this standpoint that I am pleased to be here today to discuss the future of intercity rail.

In my testimony today I will cover three things. First, I will provide a summary of the historical trends and current state of Amtrak's provision of passenger rail service. Second, I will briefly review some recent history of Amtrak efforts to sustain itself and the events leading up to the near-crisis situation we face today in intercity passenger rail service. And finally, I will outline the Administration's approach to

[1] These are unaudited numbers.

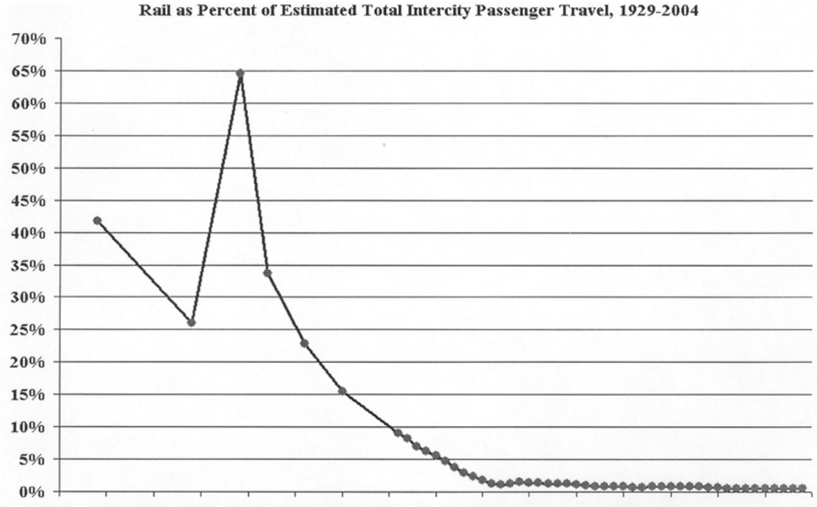
saving intercity passenger rail and setting the platform for its viability in the future.

I. Riding the Rails: Amtrak's Past and Present

Amtrak was created in 1970 as a private corporation in a major restructuring of the larger rail industry, which was in a state of major financial distress. In that restructuring, freight railroads ceased providing passenger service altogether. Instead, for the first time, there would be a single national provider of intercity passenger rail service to replace the multiple regional systems that reflected the areas covered by each of the freight railroads' route systems. The intent was that the national monopoly would reinvigorate passenger rail by permitting Amtrak to consolidate operations and achieve efficiencies that, after a very brief period of Federal assistance, would preserve and expand intercity passenger rail service as a for-profit company.

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

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



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

That also belies one of the frequent arguments of today's defenders of the 1970 model—that the Federal Government supposedly subsidizes other modes of transportation at a much greater rate than Amtrak. In fact, FY 2005's appropriated subsidy of $1.207 billion represented approximately 9 percent of the total discretionary Federal funds for the Department—9 percent of the subsidy goes for one-half of one percent of the market. The argument also passes quickly over another important fact: highways, transit and aviation are, unlike rail, funded substantially by true user fees and also by state investments. (Even the most ardent rail proponents evince little interest in a new Federal passenger rail ticket tax.)

Perhaps most importantly, however, the argument overlooks that Federal financial support for roads, airports, and transit goes to *infrastructure* and not to operations. In other modes of transportation, Federal aid goes to highway and airport infrastructure, for example, but Federal taxpayers are not regularly asked to write annual billion dollar checks to private trucking companies, private bus companies, private automobile commuters and vacationers, nor even to private airlines, although the taxpayers have regularly done so with regard to Amtrak.

In considering where we are with Amtrak, it is useful to consider the varied things that Amtrak presently does. Generally, these can be grouped into activities relating to rail infrastructure, corridor train operations, and long-distance train service.

Rail Infrastructure

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

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

List of Users of the NEC Other than Amtrak

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

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

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

In FY05, Amtrak plans to spend $215 million on fixed facility infrastructure projects, most of which will come from the $1.2 billion of Federal appropriations to be provided to Amtrak.[2] None of those funds will be allocated to states, or to infrastructure in locations where Amtrak does not presently operate.

Corridor Services

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

Corridor services, which are trips of five hours or less, have seen an increase in ridership of 50 percent over the last ten years. Rail corridor service of three hours or less is very competitive with air service on the same corridors. Approximately 20

[2] The total Federal capital grant for FY 2005 is $492 million, of which approximately one-third will go toward fixed facilities, one third to mechanical (car and locomotive) projects, and one third to debt principal repayment, environmental remediation, information systems, and other purposes.

million people, or 80 percent of all Amtrak riders in 2004, traveled on a corridor service.

The NEC. The largest portion of Amtrak corridor trips are on the Washington-New York City-Boston Northeast Corridor. This is not surprising since this corridor has a long history of rail travel, a large and mobile population base, and significant public investment has gone into the infrastructure. NEC travel accounts for almost half of all the people who travel on Amtrak. If one looks at NEC train operations, separate from the NEC infrastructure, this is the one area where Amtrak operates at something close to a breakeven basis.

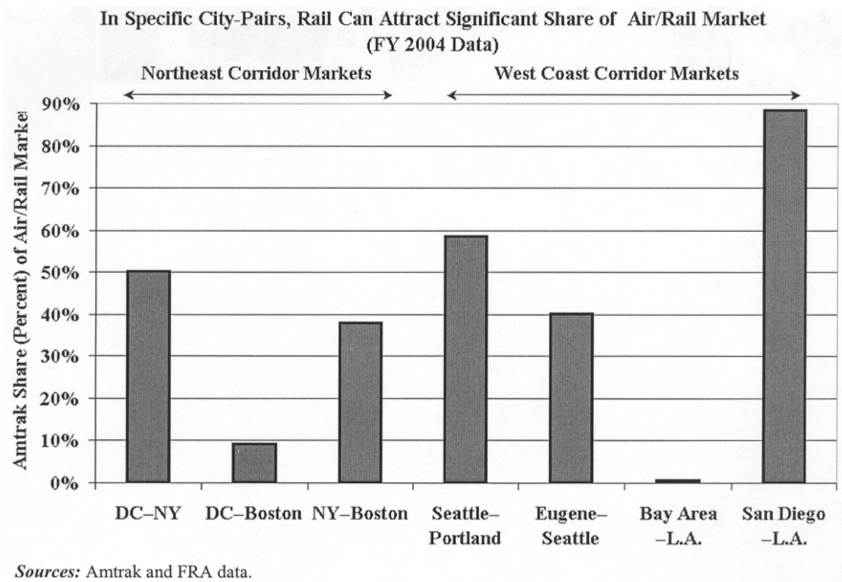
Other Corridors. In addition to the NEC main line, Amtrak operates trains for corridor service in fifteen other states.

List of States with Corridor Service

Note: States listed are the primary states served by each corridor.

California	**New York**
Pacific Surfliner	Empire/Maple Leaf
Capitols	Adirondack
San Joaquins	**North Carolina**
Connecticut/Massachusetts	Carolinian (Extended corridor)
Inland Route (New Haven-Springfield)	Piedmont
Illinois	**Oklahoma**
Chicago-St. Louis	Heartland Flyer
Illini	**Oregon**
Illinois Zephyr	Cascades (with Washington)
Hiawatha (with Wisconsin)	**Pennsylvania**
Maine	Keystone Service
The Downeaster	Pennsylvanian (Extended corridor)
Michigan	**Washington**
Wolverines	Cascades (with Oregon)
Blue Water	**Wisconsin**
Pere Marquette	Hiawathas (with Illinois)
Missouri	**Vermont**
Kansas City-St.Louis	Ethan Allen Express
	Vermonter (Extended corridor)

As shown in the chart below, there are several corridors in which the train service has been able to attract a very significant share of intercity passengers. In 2004, a total of approximately 8 million people (i.e., approximately one-third of the total Amtrak ridership) traveled on these corridor routes. In many instances, these corridors are subsidized in part by states. State operating subsidies for these trains totaled ten percent of the combined Federal and State funding of Amtrak. However, States have not borne the full cost of these routes, and some states that have corridor trains have not paid anything at all, thereby producing issues of equity among the states, as well as market uncertainties about how travelers value the services.

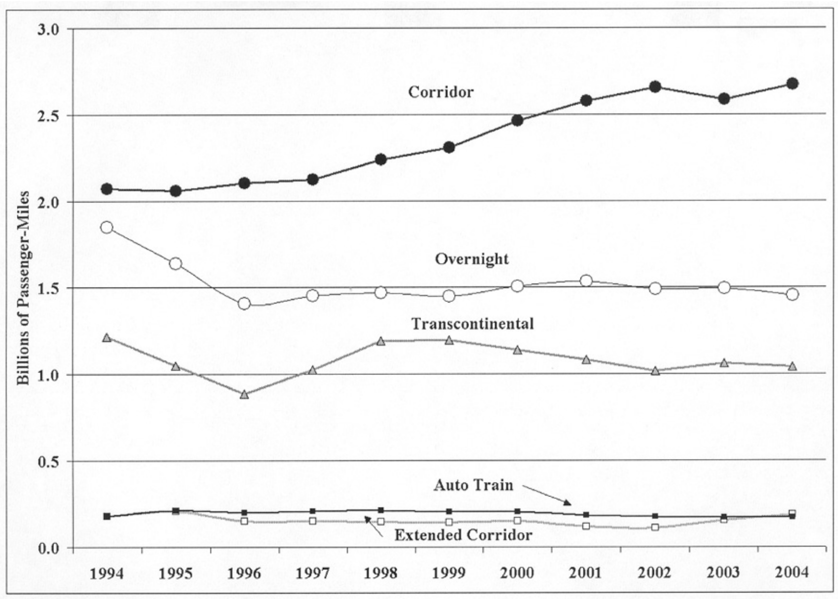


Long-Distance Services

Contrary to the trend line for ridership on corridor services, extended trips have seen declining revenues and ridership—and increasing costs—over the last ten years. DOT refers to these services as Transcontinental (more than one night), Overnight (one night) or extended corridor (greater than 500 miles, but with no sleeping accommodations). Amtrak presently operates 15 such trains.[3] Amtrak has continued to lose extended trip customers to an airline industry that is offering a low cost, high quality service, and to automobile drivers who choose to use the highways rather than rail. Amtrak has had little or no success responding to this competition. As Amtrak's presence in this segment of the intercity transportation market has dwindled, Federal subsidies per passenger have continued to grow. In FY 2004, the average passenger on a long-distance train received a subsidy of approximately $214 per trip on a fully-allocated basis,[4] up from $158 in the year 2000—a 35 percent increase quintupling the modest 7 percent inflation over the same period.

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

[4] Fully allocated costs include depreciation and interest.



Source: Amtrak traffic data.

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

On-Time Performance of Long-Distance Trains, FY 2004

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

Overall, the picture of where things stand in intercity passenger rail service is far from what was hoped for when Amtrak was created in 1970.

II. Recent History and the Call to Change

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

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

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

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

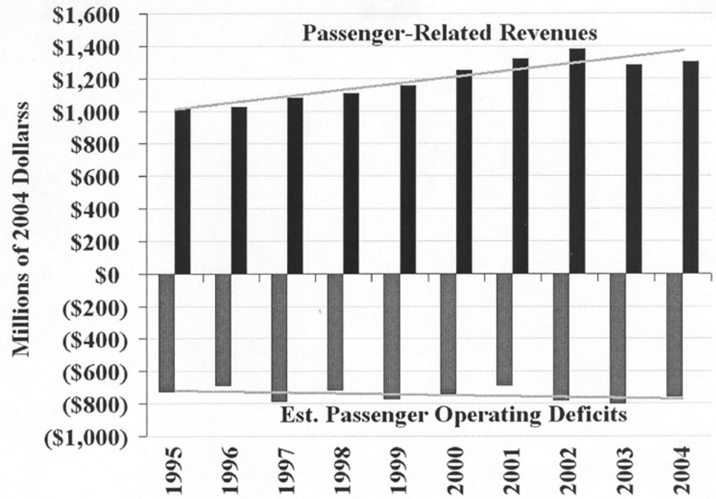
Since 2002, Amtrak's record-keeping has improved. In 2005, the independent audit was completed in March instead of September and no material weaknesses were found. While Amtrak's auditors still find significant areas for improvement, they comment favorably on developments over the last three years.

Through participation on the Amtrak Board, and through changes to the appropriations process that enabled stronger FRA oversight of the grant process to Amtrak, Secretary Mineta and DOT have sought a variety of improvements that Amtrak could make on its own. That process continues and is ongoing. Because I anticipate that the improvements instituted since David Gunn assumed leadership of Amtrak will be covered in the testimony to be supplied by Amtrak itself, I will not detail them here, but it should suffice for me to say that Amtrak operates in a more efficient and better way than it did three years ago.

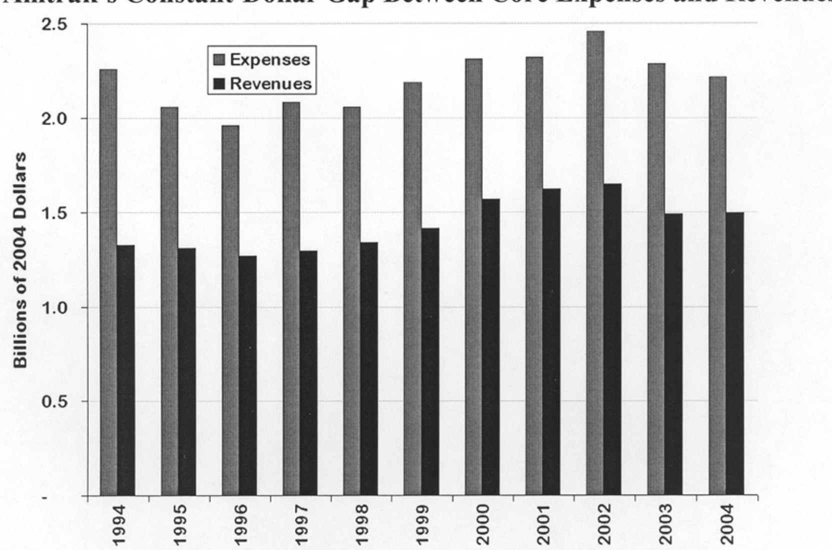
But notwithstanding the very significant management improvements and a much-enhanced and valuable involvement of the Amtrak Board, fundamental difficulties continue to confront Amtrak, because the 1970 model of intercity passenger rail is a framework that is flawed. Amtrak continues to spend dramatically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

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

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



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



Further adding to Amtrak's deterioration is that the company's debt increased massively in the late 1990's, from $1.7 billion in 1997 to $4.8 billion in 2002, without adequately increased passenger revenues to pay the debt service. Because of this increased debt, Amtrak's repayment requirements (principal and interest) are forecasted to be approximately $273 million in FY 2005 (up from $111 million in 1997).

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

Passenger rail is already by far the most heavily subsidized form of intercity passenger transportation. When viewed on a per passenger-mile basis, analysis by the Bureau of Transportation Statistics indicates that the aggregate Federal expenditure for intercity passenger rail is 30 times greater than for commercial aviation. Likewise, the intercity bus industry, where there are no comprehensive or dedicated Federal operating subsidies, carries as many as 350 million passengers annually (according to Eno Foundation estimates)—14 times Amtrak's ridership. So continually increased operating subsidies is not the right answer.

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

III. The Administration's Plan for Reform and Preservation of Intercity Passenger Rail

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

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

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

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

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

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

Last week the Administration's Passenger Rail Investment Reform Act (PRIRA) was transmitted to the 109th Congress. It sets out and details the Administration's proposals on specific ways to achieve these objectives. After a deliberate transition period, intercity passenger rail would become an economically viable and strategically effective mode of transportation, supporting numerous successful rail corridors nationwide. The Federal role in passenger rail would, however, be revised and strengthened to mirror much more closely the current Federal program supporting mass transit. As set out in Secretary Mineta's transmittal letter accompanying PRIRA, we look forward to working with the Congress to discuss and fashion the specifics of legislation in ways that will successfully reform intercity passenger rail for the future.

In addition, this week Amtrak's own Board of Directors and its Management are releasing strategic initiatives crafted by Amtrak to begin the process of reform within the company itself. That is a timely development, with many positive elements. Amtrak's own recognition of the need for reform is a welcome response to Secretary Mineta's steadfast resolve to address the problems of intercity passenger rail, and create a viable future. It is encouraging that Amtrak's own plan adopts many of the Administration's proposals, though it lacks some provisions and our legislation will still be necessary. It is critical that we continue to pursue all avenues for reform, including legislation, if we are to avoid a collapse of Amtrak.

Conclusion

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

The Administration has been clear that it cannot support the failed model of the past, nor support putting more funding into that failed approach. We have been equally clear that IF meaningful reform is accomplished and implemented, the Administration would support funding of infrastructure and transition needs for train operations and related costs.

Secretary Mineta has repeatedly expressed the Administration's support for intercity passenger rail service as an integral part of our overall national transportation system. Congress, the Administration, and Amtrak itself have a brief window in which to adopt and implement meaningful reform. If this does not occur, discussions over reforming intercity passenger rail service will be taking place in a severe crisis situation in the not too distant future. In that unwelcome scenario, no options could be ruled out. The company faces a depleted cash balance, and a failed 1970 business model. It is for this reason that we urgently need Congress to address our legislative reform proposal this year.

As you can see, there is much work ahead for all of us as Congress considers these issues. Secretary Mineta and his team look forward to working with the Congress to assess and implement long-term solutions to the recurrent crisis that plagues the old model of intercity passenger rail. Thank you for the opportunity to share these observations on Amtrak and intercity passenger rail. I will be pleased to respond to any questions you may have.

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

Mr. LANEY. Mr. Chairman, Senator Lautenberg, thank you for the opportunity to appear before you today. My name is David Laney, I'm Chairman of the Amtrak Board of Directors. I have a prepared statement that I would like entered into the record, and I'm going to give a brief statement outlining the major elements of the Strategic Reform Initiatives Package which we're releasing today, and I believe each of you has a copy of. And, needless to say, joining me—as all of you are aware, and are probably familiar with—is David Gunn, sitting to my left.

For the past several months, the Board and senior management at Amtrak have been working on an approach to reform Amtrak, and to revitalize rail passenger service in the United States. The reform initiatives we offer you today are the results of our efforts, drawing upon expertise in and outside of Amtrak, and on a considerable body of legislative initiatives and reform recommendations that has preceded our own planning.

What you have before you is a detailed set of initiatives, some of which Amtrak can do on its own, and others of which will require government action. Taken together, we believe that Amtrak's strategic reform initiatives can revitalize intercity passenger rail transportation.

Our proposal advances four essential objectives: First, the development of passenger rail quarters based on an 80/20 Federal/State capital match program, with states assuming the initiative as developers and purchasers of competitively bid corridor services.

Second, return of the Northeast Corridor infrastructure to a state of good repair and operational reliability, with all users gradually assuming financial responsibility for their proportionate share of operating and capital needs.

Third, continuation and possible addition and elimination of certain national long distance routes that meet established performance thresholds, with a phase-in period to allow for performance improvement, and state financial contribution, if needed, to meet performance thresholds.

Finally, fourth, the opening of markets for virtually all functions and services involved in intercity passenger rail to competition and private commercial participation.

We've identified three sets of reform initiatives to achieve the objectives that I just mentioned. They include—in general terms—structural, operating and legislative changes. The operating initiatives identified in our plan highlight a range of actions intended to improve the performance of each business line, in order to provide better service, to achieve savings and to enhance revenues. Our recommendations for changes in legislation hinge directly on creation of a Federal capital matching program, and they will help us establish a platform for open competition for intercity passenger services.

The lynchpin of this plan is the establishment of a Federal capital match attractive enough to attract increased state financial involvement in existing and emerging corridors. Continued development of rail quarters is critical to the future of rail passenger service in this country. And the pace of development will increase with the Federal Government as a reliable financial partner, just as it has for decades with highways, transit and aviation.

On this point we agree with the Administration and every other responsible proposal for passenger rail reform. The demand and the desire to do so exists today, ridership on corridor trains has increased over 22 percent in the last 5 years. However, to fully begin to realize the value of intercity passenger rail in addressing transportation challenges will require positioning it on comparable footing with other modes. Only then will states begin assuming the lead, and only then will we begin to see the emergence of real competition in the passenger rail industry.

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

Amtrak owns most of the NEC, it is the only end-to-end user of the corridor, and in terms of train miles operated, it is also the majority user. Amtrak NEC trains operate at the highest speeds in North America, and there are still segments of the NEC where we are the only entity operating trains. Our immediate challenge is to restore the infrastructure to a state of good repair, which we're doing, and is detailed in our proposal.

The next set of challenges is to increase capacity for all users of the corridor to address growing ridership demands. We believe that Amtrak is in the best position at the moment to oversee, and coordinate this work. Our plan outlines a number of short-term and long-term initiatives to address these issues.

Amtrak is committed to operating a national system of rail service. Rightly or wrongly, long distance trains have become a focal point in the debate over reform of passenger rail service. While we believe their continued operation is amenable to the many communities they serve, they also present the basis for any future expansion of rail quarters. We're confident that we will reduce their operating losses through a series of steps that we outline in our proposal. We will not eliminate, however, the need for financial support for long distance operations.

Central to this is the establishment of a phased-in performance improvement program that will couple cost-saving efficiencies with revenue-enhancement initiatives, so that over time these trains will achieve financial performance thresholds, or be discontinued. Our proposal outlines a series of specific steps that we would take in evaluating our various long distance routes.

The first job is to set fair and clear performance standards for long distance trains, and establish a minimum performance threshold. We would then rank each route so that we can determine early on which trains meet the threshold or fall short. For all long distance trains, we will work aggressively to improve their performance so that they will more likely achieve the desired goal. During this process, we will be providing clear reports to the states reflecting the level of support each state, each particular route will require, in order to continue service on that route. We'll make every reasonable effort to improve the performance, and close the operating gap, but ultimately, states along the routes will be required to cover any recurring gap in order to continue train service on those routes.

If a train continues to fall below the established performance threshold, then we will notify the states involved and begin the process of discontinuing the service on that route. We do believe that there are many opportunities for competition in the rail passenger service industry. In some cases, having a single provider such as Amtrak allows for economies of scale and certain cost efficiencies, but we can assure you that in some areas, we are not—and never will be—the most efficient provider of rail-related services.

There are actions that Amtrak can do on its own, and others that will depend on Federal legislative action. Some of the legislative decisions in this area will be difficult, and no doubt will encounter stiff resistance from a number of entrenched interests. Any discussion of competition will involve making decisions about access rights to the freight rail infrastructure, tort liability limitations, and limited changes to certain labor, and labor/retirement laws. We have provided a discussion of each of these matters in our proposal.

Also, and perhaps most important, included in our report is our funding request for Fiscal Year 2006. Typically, Congress receives that grant request from us in February. Since we were well into this planning exercise, we elected to hold off making the request until we had completed our work, which we have now done.

The last dozen pages of the proposal details our Fiscal Year 2006 budget requirement, which is $1.82 billion, or $1.645 billion if our working capital needs are covered by a short-term credit facility instead of a grant. We think that's the appropriate approach.

Finally, it's worth emphasizing that Amtrak's Board and management have concluded that the company cannot continue to operate at Amtrak's current funding level of $1.2 billion, significantly—if at all—beyond Fiscal Year 2005. The negative financial impact—which we still haven't fully quantified, and won't be able to do for some time—of the recent problems, could very well exhaust our working capital and leave us without available cash by fiscal year end.

We've taken, and will continue to take, aggressive steps to achieve short-term savings, but we have very little maneuverability in our operating budget and cannot responsibly make material reductions in capital expenditures, which are critically tied to critical projects on the Northeast Corridor infrastructure, and its state of good repair. Over time, significant savings will be achieved only through an aggressive, continued and systematic multi-year transition process with legislative assistance. It's for this reason that we have brought forward our Strategic Reform Initiatives to help you in your decisionmaking process for Fiscal Year 2006 and beyond.

In closing, both David Gunn, his management team, my fellow Board members and I, look forward to working closely and cooperatively with you in the weeks and months ahead as we develop our plan, and move this debate forward—hopefully to some conclusion. The current funding model of unpredictable annual appropriations levels is unsustainable, there is absolutely a better way to do this.

We have no choice on our own but to start, but we will ultimately need your support. David Gunn and I look forward to your questions, and Mr. Chairman, thank you very much.

[The prepared statement of Mr. Laney follows:]

PREPARED STATEMENT OF DAVID M. LANEY, ESQ., CHAIRMAN OF THE BOARD, AMTRAK

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

For the past several months, the Board and senior management at Amtrak have been working on an approach to reform Amtrak and revitalize rail passenger service in the United States. The reform initiatives we offer you today are the results of our efforts, drawing upon expertise in and outside of Amtrak and on the considerable body of legislative initiatives and "reform" recommendations that has preceded our own planning. It is by no means the final word on this discussion, nor does it answer every question. However, we believe it does advance and inform the discussion about what to do with Amtrak and what will need to be done to make rail passenger service a viable and vital part of our Nation's transportation system. What you have before you is a detailed set of initiatives, some of which Amtrak can do on its own and others which will require government action. Taken together, we believe that Amtrak's Strategic Reform Initiatives can revitalize intercity rail transportation.

Our proposal advances four essential objectives:

1. Development of passenger rail corridors based on an 80–20 Federal/State capital matching program, with states assuming the initiative as the developers and "purchasers" of competitively bid corridor services.
2. Return of the Northeast Corridor infrastructure to a state of good repair and operational reliability, with all users gradually assuming financial responsibility for their proportionate share of operating and capital needs.
3. Continuation and possible addition and elimination of certain national long-distance routes that meet established performance thresholds, with a phase-in period to allow for performance improvement and state financial contribution if needed to meet the performance thresholds.
4. Finally, the opening of markets for virtually all functions and services involved in intercity passenger rail to competition and private commercial participation.

We have identified three sets of reform initiatives to achieve the objectives that I just mentioned. They include, in general terms, structural, operating and legislative changes. Amtrak has already made substantial progress in establishing an organizational structure and creating management controls which have resulted in cost savings and better management; but we have considerable room for further improvement. We will, of course, continue to implement these types of changes and refine those already in place. To build on such improvements, this plan outlines a new focus on providing planning, budgeting, accounting and reporting of financial activity and performance along our distinct business lines—infrastructure management, NEC rail operations, state corridor operations and long-distance operations. This type of change we feel will improve our own planning and performance capabilities, and enhance the financial clarity of our operations.

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

The lynchpin of this plan is the establishment of a Federal matching program attractive enough to attract increased state financial involvement in existing and emerging corridors. Continued development of rail corridors is critical to the future of rail passenger service, and the pace of development will increase with the Federal Government as a reliable financial partner, just as it has been for decades with highways, transit and aviation. On this point, we agree with the administration and every other responsible proposal for passenger rail "reform." The demand and desire to do this exists today. A number of states have already begun developing rail corridors, essentially on their own nickel. They have recognized the need, the value of passenger rail capacity in responding to increasing congestion, and the popularity of rail service when it is adequately supported. (Ridership on corridor trains has grown 22 percent over the last five years.) However, to fully begin to realize the value of intercity passenger rail in addressing transportation challenges will require positioning it on comparable footing with other modes. Only then will states begin assuming the lead, and only then will we begin to see the emergence of real competition in the industry.

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

Amtrak owns most of the NEC, it is the only end-to-end user of the Corridor and, in terms of train miles operated, it is also the majority user. Amtrak NEC trains operate at the highest speeds in North America, and there are still segments of the NEC where we are the only entity operating trains. Our immediate challenge is to restore the infrastructure to a state of good repair, which we are doing and is detailed in our proposal. The next set of challenges is to increase capacity for all users of the corridor to address growing ridership demands. We believe that Amtrak is in the best position, at the moment, to oversee and coordinate this work. There is very little disagreement about the importance of the NEC, both as a national transportation asset and its economic importance to the region it serves. While the Corridor does come close to covering its operating costs, it will never cover its capital needs. Our plan outlines a number of short term and long-term initiatives to address these issues.

Amtrak is committed to operating a national system of rail service. We believe that many of the communities served by long-distance trains lack real transportation choices and rely on these services. Amtrak operates 15 long-distance trains and for more than half of the states we serve, they are the only Amtrak service. Rightly or wrongly, long-distance trains have become a focal point in the debate over "reform" of passenger rail service. While we believe their continued operation is integral to the many communities they serve, they also represent the basis for any future expansion of rail corridors. It is important to note that we are confident that we will reduce their operating losses through a series of steps that we outline in our proposal, and we believe those reductions will be substantial; however, we will not eliminate the need for financial support for long-distance operations. Central to this is the establishment of a phased-in performance improvement program that will couple cost-saving efficiencies with revenue enhancement initiatives, so that over time these trains will achieve financial performance thresholds or be discontinued.

I understand how important the question of what we do with long-distance trains is to this debate. Our proposal outlines a series of specific steps that we would take in evaluating our various long-distance services. As I said a moment ago, the first job is to set fair and clear performance standards for long-distance trains, and establish a minimum performance threshold. Once that is accomplished we would rank each route so that we can determine early on which trains meet the threshold or fall short. For all long-distance trains, we will work aggressively to improve their performance so that they will more likely achieve the desired goal. During this process, we will be providing clear remarks to the states reflecting the level of support each particular route will require in order to continue service on that route. As stated earlier, we will make every reasonable effort to improve the performance and close the operating "gap," but ultimately states along the routes will be required to cover any recurring "gap" in order to continue train service on such routes. If a train continues to fall below the established performance threshold, then we will notify the states involved and begin the process of discontinuing service on that route.

We do believe that there are many opportunities for competition in the rail passenger service industry. It is true that in some cases, having a single provider such as Amtrak might allow for economies of scale and certain cost efficiencies. We can assure you, however, that in some areas we are not the most efficient provider of rail-related services. A key goal that all of us should share is the development of a vibrant passenger rail service with a competitive supply industry and multiple service delivery options. This does not exist today. In this regard, there are actions that Amtrak can do on its own and others that will depend on Federal legislative action. Some of the legislative decisions in this area will be difficult and will no doubt encounter stiff resistance from a number of entrenched interests. Any discussion of competition will involve making decisions about access rights to the freight rail infrastructure, tort liability limitations and limited changes to certain labor and labor retirement laws. We have provided a discussion of these matters in our proposal.

Also included in our report is our funding request for FY06. Typically, Congress receives our grant request in February. Since we were well into this planning exercise, we elected to hold off making a request until we had completed our work. In so doing, we felt that we could give you a more comprehensive and accurate request for FY06 in the context of our reform package. The last dozen pages of the proposal details our FY06 budget requirement, which is $1.82 billion, or $1.645 billion if our working capital needs are covered by a short-term credit facility instead of a grant. We have also included a preview of how we would go about reporting Amtrak's financial information by business line.

Finally, it is worth emphasizing that Amtrak's Board and management have concluded that the company cannot continue to operate at Amtrak's current funding level of $1.2 billion significantly, if at all, beyond FY05. The negative financial impact of the recent *Acela* problems could very well exhaust our working capital and leave us without available cash by fiscal year-end. We have taken and will continue to take aggressive steps to achieve short-term savings, but we have very little maneuverability in our operating budget and cannot responsibly make material reductions in capital expenditures (principally tied to NEC infrastructure, and its state of good repair). Over time, significant savings will be achieved only through an aggressive and systematic, multi-year transition process with legislative assistance. It is for this reason that we have brought forward our Strategic Reform Initiatives to help inform your decision-making for FY06 and beyond.

In closing, both David Gunn, his management team, my fellow Board members and I look forward to working with you in the weeks and months ahead as we develop our plan and move this debate forward. In many ways, the relative financial stability the company has achieved in the last two years, as well as the enormous amount of work that has been done to improve our infrastructure and operations, has afforded us the opportunity to develop a vision for Amtrak and intercity rail passenger service. The current funding model of unpredictable annual appropriation levels is unsustainable. There is a better way to do this. We have no choice but to start now, but we will need your support. David Gunn and I look forward to your questions.

Senator LOTT. Thank you, Mr. Chairman, and now, President David Gunn, thank you for your service over a difficult time, and I think you've been the only salvation we've had, in some respects, at Amtrak, but I think you know we're going to have to make some changes, and I think you're the right guy to try to help us decide what they are, and move in that direction. And we'll be glad to hear your testimony.

STATEMENT OF DAVID L. GUNN, PRESIDENT AND CEO, AMTRAK

Mr. GUNN. Thank you, Senator. I'll keep my remarks very short, since I think the Chairman, obviously he speaks for all of us, but I think it's important to congratulate the Chairman and the Board for what they've done in a very difficult process here. This has not been an easy task, to come up with a reform package, and I think it's a good plan that we've put forward, and I look forward to working with you to turn this into a reality.

I'd like to make just one brief comment about the reform package, and just remind you that it really is a package, and that it's interrelated, so one has to be careful if you pick and choose pieces out of it. Obviously the most important—I think—piece is the funding piece, for the state of good repair projects, and for working capital, and getting the states in a position where they can access Federal capital through a transit-style program, we'll say on an 80/20 match.

The proposals that we've made on the Railway Labor Act are designed to overcome some real difficulties we have in terms of productivity, and they'll be controversial, but what we're asking for is to be treated as any other company outside the railroad industry would be treated. In terms of the moving toward, transitioning out of, railroad retirement and gradually converting to social security, it's important for costs, it's also important if you want to open up competition. Since railroad retirement is a rather unique, and unfortunately, a very troubled system, I think the next step is developing a realistic implementation plan and timetables, once we know where we're headed on this reform journey. But I think that the future of intercity passenger rail, if we can pull this off, will be much brighter than it has been for years, but the key to it is to give the states the ability to be the purchaser of services and to access capital.

Senator LOTT. I was still meditating on that last comment, I thought you had more to say. He did, he pulled the train up to a stop, the brakes are working fine. Mr. Mead?

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

Mr. MEAD. Thank you, Mr. Chairman. First, you had a hearing a couple of weeks ago on surface safety, I wanted to compliment the Committee for having that hearing, and especially the majority/minority staffs for the prompt followup to it. The followup was of very high quality, and I just wanted to mention that before we start talking about Amtrak here.

Congress has provided direction in piecemeal fashion through appropriations bills since the last authorization expired in 2002. And we've testified several times since then on Amtrak's high debt load, unsustainably large operating losses, poor on-time performance, levels of deferred infrastructure and fleet investment. And each time I come up here, it seems that Amtrak is perpetually one, two or three steps from the edge of collapse, and I'm really encouraged by your words, Mr. Chairman, that the Committee plans to move on reauthorization in a timely way this session.

So, we're testifying again today on these same subjects, but I've got to say, testifying with a greater sense of urgency than in the past. As time goes on, this limp-along, status quo system that we have comes closer and closer to a major failure. The problem is, no one really knows where or when such a failure is going to occur.

We reported last year that the current model is broken, and there seems to be a fair amount of agreement on that point. But the reason it's broken goes beyond just persistent budgetary shortfalls, and extends to matters like who decides on the type and amount of service, who provides the service, and who selects the providers. Right now, other than the threat of budget cuts, there's really very little in the current model that provides incentives for cost control.

Mr. Chairman, Amtrak is quite literally coming to the end of its rope. And for several reasons, the bankruptcy option would be a complex and risky undertaking, and in our opinion, one not to relied on if the objective is to promote a more rational and reliable national passenger rail system. In short, a comprehensive reauthorization that provides new direction and adequate funding is needed, and it's needed this year.

Now, what should this reauthorization contain? The reauthorization, in our opinion, ought to focus on improving mobility in short distance corridors around the country, not just in the Northeast Corridor, and in restructuring long distance services to complement those corridor services. That's going to require new relationships between the Federal Government and the states, and among the states, Amtrak and the freight railroads. And it's going to require giving the states greater authority over passenger rail decisions that immediately and directly affect them, and it isn't going to happen overnight.

But in order for this to work, a considerably more robust Federal funding program for capital, with a reasonable state match, is going to be required, along with additional state contributions. It's going to cost some money. The Administration's proposal, I think, recognizes well that the current model is broken, and it confronts several key issues in a straightforward way, while leaving others unanswered or unaddressed. We concur with the emphasis on corridor development, within and outside the Northeast Corridor. These are the places where the demand is, and we concur as well with the greater decision making powers given the states.

Also, we think the authorization ought to leave open the door to competition. Amtrak is currently the sole provider, and as such it has few incentives, other than the threat of funding cuts, to operate more efficiently. We're not in a position to say, though, if or how many competitors are going to step up. I'm not assuming that there's going to be a lot of competition, but I think we should leave the door open. And there will need to be a level playing field, because there are some privileges that Amtrak has right now that others do not have.

Consideration is also going to have to be given to the very legitimate interests of the freight railroads who—it so happens, outside the Northeast Corridor—own the rail infrastructure. Left unanswered, though, by the Administration's proposal, is a very central issue, most notably the amount of Federal funding it supports. This has fostered, in our judgment, a perception that while the states would be given more authority and responsibility under the Administration's proposal, the funding burden for operating losses would fall largely on them, with no corresponding commitment to significantly expanded Federal capital funding. We think the debate on reauthorization would be much better informed if the Administration spelled out its proposed Federal funding levels with greater clarity.

Now, I fully recognize that there are problems with this model that go well beyond money, but the funding levels are going to be an integral part of any solution, and in reaching consensus, particularly if we're going to ask the states to contribute more funds than they're currently providing. Our own take on the funding issue—this is the IG's take, it's not the Administration's take, necessarily—for 2005, the appropriation for Amtrak ended up at about $1.2 billion. In addition, Amtrak is estimating in 2005 that it's going to get about $140 million from states for operating losses, and another $200 million in capital. So, that puts Amtrak, effectively, at $1.5 billion for their current system. That level of funding is not sufficient to make progress toward achieving a state of good repair, in the Northeast Corridor or elsewhere.

Now, if Amtrak receives $1.2 billion again next year, even combined with the contributions expected for 2005—in other words, that they were just carried over to 2006—we think what's going to happen is that Amtrak will, first of all, have to defer major capital projects they already have on the drawing board, and two, they will need to cut services, almost certainly in significant ways. I wouldn't go so far as to say the railroad will stop operating, but you almost certainly will see very significant cuts in service, and your capital program will be right on the edge of a high risk.

For 2006, passenger rail is going to need Federal funding between $1.4 billion and $1.5 billion plus the existing state contributions, just in order to maintain the status quo as we know it today. That level of funding, the $1.4 billion to $1.5 billion level, even with the state contributions, won't be sufficient to move the system to a state of good repair, let alone permit the corridor development that we're all talking about.

And I'm focusing on 2006 because I'm assuming that you will pass the reauthorization, but you're not going to effectively transition to a new system overnight, so I'm trying to outline for the Committee what's going to happen in 2006. Now, for 2007 and beyond, Federal funding levels between $1.7 billion and $2 billion would put us on a road to bringing the existing infrastructure and fleet to a state of good repair, and better position states to use the Federal funds, plus their own revenues, to invest in rail corridors.

Now what does that mean, about the states use their own funds? Now, that assumes that the states would provide a reasonable match of between 15 and 30 percent for capital grants. That compares with what we've used in other modes of transportation. It is different from what the Administration's proposing, at the end of the reauthorization, I think the Administration ends up at 50/50, I think that a more reasonable state match would be in the 15 to 30 percent area. And that would be for capital grants.

It also assumes that the states would cover a larger portion of operating losses, and I'm going to deal with that in a minute, because I don't think it's reasonable to just say, "Here, start covering all operating losses." It also assumes that Amtrak's going to implement cost saving measures, some of them they can do in short order, like the food and beverage system, which is probably somewhere between $80 million and $90 million that could be saved.

Now, there are other key elements of the reauthorization package that I'd like to outline briefly for you, that extend beyond just a level and mix of funding. First is the Northeast Corridor. Two points that I know about this corridor, you've got to bring this corridor to a state of good repair, and one reason why—look at the on-time performance, the on-time performance is going down, down, down—and the other problem in the Northeast Corridor is go-slow orders. The way they deal with this in rail is a little different than they do in aviation. Aviation, when you have a problem at 30,000 feet, you can't say, "Oh, let's deal with this problem by slowing down." In rail, that's one of the things they do, they put on go-slow orders. And that affects how quickly you can get through the Northeast Corridor, so the state of good repair is very important.

But there's a second issue with this Northeast Corridor. There are some proposals that would separate the operator of the Northeast Corridor from the infrastructure. In other words, the infrastructure would be handled by some separate business than the operator. Great Britain has tried that. Now, we don't feel—I'm speaking for the IG now—we don't feel that we have enough experience in this country to say you ought to separate the two. We think that's too risky right now, you need to know more, and I can't recommend that step today.

Debt: Amtrak has about $3.8 billion in long-term debt. We can sit and argue about whether they should have accrued that or not, I think in my own judgment that it was bad judgment to borrow that much money—it created a picture, it made it look like Amtrak was really meeting the goals of the last reauthorization, but one of the reasons was because they were borrowing all this money—so their debt really increased. Well, the fact of the matter is that the Federal Government, in annual appropriations, is paying that debt. We're actually paying this debt in the annual subsidy. And we think a good case could be made for the Federal Government not writing a check to Amtrak anymore to pay off this debt, but to just pay it off.

One reason is, remember when they mortgaged Penn Station? I think you probably remember, a few years ago they mortgaged Penn Station. That's a 9.5 percent loan that we're paying off. The U.S. Treasury can borrow the money cheaper than that, so since we're paying it, basically, anyway, we think a good case could be made that some consideration be given to discharging it. As far as future borrowing, their ability to borrow more money ought to be frozen, unless the Secretary of Transportation on a stack of Bibles certifies that would be OK.

Long distance trains: Amtrak provides long-distance service in 41 states. It so happens that in 23 states, long distance trains are the only rail service in the states. Of the 23, there's probably five or six that have potential for corridor development, that is, between city pairs. But that leaves about 16 states. The trains incur heavy losses, you've all heard about it, you know how controversial these long-distance trains are, and I'm not going to sit here and make up the policy, do a policy call on whether you should keep them or not, but they do serve a transportation need for people, they do incur heavy losses. But, I've got to tell the Committee—as unpopular as it is to say this—getting rid of all your long-distance trains is not going to solve the funding problem.

The math looks like this, Mr. Chairman. The operating losses are around $600 million a year from the long distance trains. Get rid of them, and eventually we might be saving $300 million. So you say, what happens to the other $300 million? Well, the other $300 million would be re-allocated, probably, to facilities that our long-distance trains share with the corridor trains. So, it wouldn't just be a case of, "OK, let's stop these trains, and we'll save $600 million, like that." In addition, there's a thing called a C–2 payments, these are required by existing labor rules, and the C–2 payments, in 2006, would actually exceed cost savings. It would actually cost us more in 2006 if we were to stop the long-distance trains. So that's the math.

Now, what about the states, what do we do with the states that don't have any potential for corridor development, and have these long-distance trains? Well, one thing I would suggest for the Subcommittee's consideration is that you construct a formula grant program—no match required—that goes to the states who don't have any potential for corridor development, but do have long-distance trains, to cover a reasonable percentage of the losses that they're now incurring. Rather than just saying, "You should pick that all up." We have some ideas on how you might construct such a formula, but I do think the needs of those 16 or 17 states also need to be considered.

Thank you, Mr. Chairman, that concludes my statement.

[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 Subcommittee:

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

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

Amtrak is quite literally coming to the end of its rope and, for several reasons, the bankruptcy option would be an extraordinarily complex and risky undertaking—in our opinion, one not to be relied upon if the objective is to promote a more rational and reliable national passenger rail system. In short, a comprehensive reauthorization that provides new direction and adequate funding is needed and needed this year.

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

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

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

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

Our own take on the funding issue is as follows. In Fiscal Year (FY) 2005 Amtrak received a Federal appropriation of $1.2 billion. In addition, Amtrak anticipates $140 million in state contributions for operating costs and $200 million for capital projects. In effect, Amtrak had access to funds of about $1.45 million. This level of funding is not sufficient to make progress toward achieving a state of good repair.

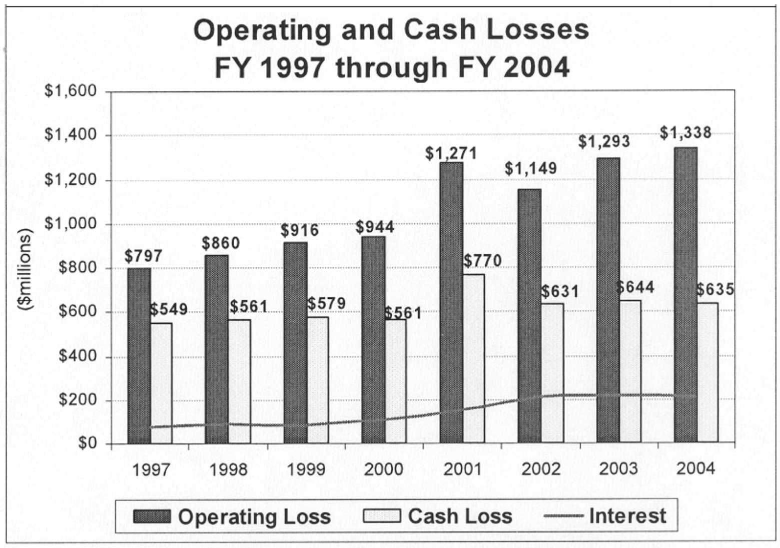
If Amtrak receives only $1.2 billion in Federal funding in FY 2006, even combined with expected state operating and capital contributions, they will likely continue to defer needed capital investment and may need to cut services. Amtrak needs Federal funding between $1.4 billion and $1.5 billion, plus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

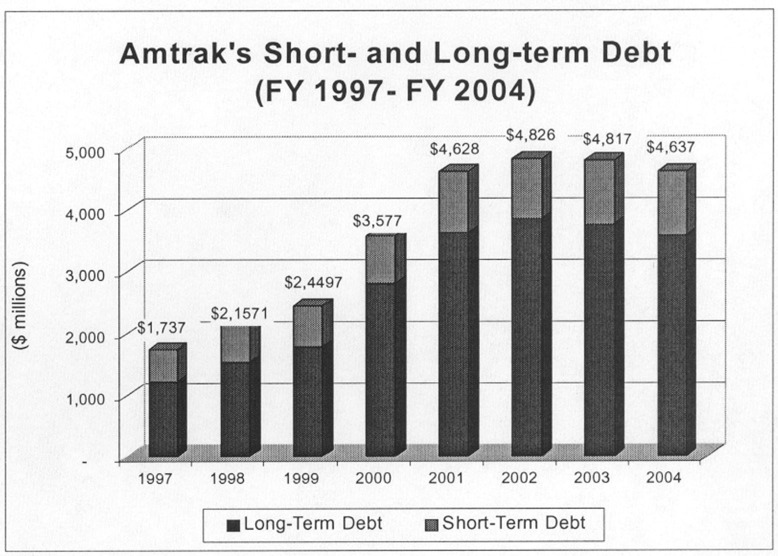
For 2007 and beyond, Federal funding levels between $1.7 billion and $2.0 billion would put us on the road to bringing the existing infrastructure and fleet to a state-of-good-repair and better position states to use Federal funds plus their own revenues to invest in rail corridors. This assumes that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

Current Model Is Broken, Resulting in Severe Financial Instability and Declining Service Quality

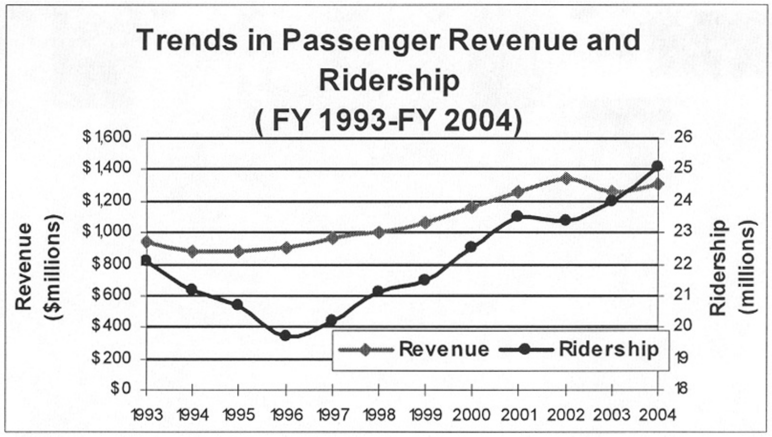
Despite multiple efforts over the years to change Amtrak's structure and funding, we have a system that limps along, never in a state-of-good-repair, awash in debt, and perpetually on the edge of collapse. In the end, Amtrak has been tasked to be all things to all people, but the model under which it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

- Amtrak is in a precarious financial condition. Its system continues to suffer operating losses on all but a handful of routes. Losses on some longdistance trains (excluding depreciation and interest) exceed $400 per passenger. For the last 6 years the average annual cash losses have exceeded $600 million. The growth in cash losses since FY 2000 is primarily attributable to rising interest expense.
- Amtrak is carrying a large debt burden. Its total debt grew 178 percent between FY 1997 and FY 2002, although it has declined slightly in the past 2 years. For the foreseeable future, Amtrak's annual debt service payments will approach $300 million.

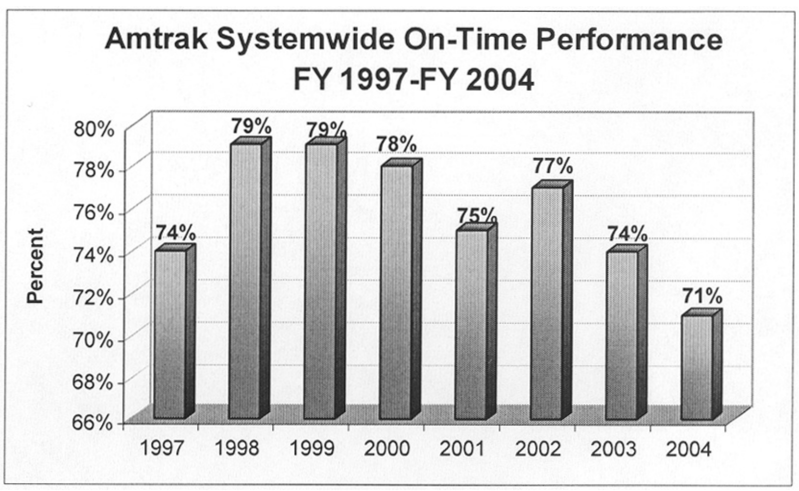




- While ridership increased to 25.1 million in FY 2004, passenger revenues were $1,304 million, below the $1,341 million achieved in 2002, due primarily to fare pressures. For the first 5 months of FY 2005, passenger revenues were $3 million lower than the same period in FY 2004.



- Amtrak has an estimated $5 billion backlog of state-of-good-repair investments, and underinvestment is becoming increasingly visible in its effects on service quality and reliability. Deferred capital investment has led to several system failures in recent years, including a failure of a key 12-kilovolt electric cable during the August 2003 northeast power blackout; fallen overhead power lines (catenary) on the line between New York and New Rochelle; and broken bolts on the Thames River bridge in Connecticut. No one knows where or when a critical failure will occur, but continued deferral of needed investment increases the risk that it may not be too far away.
- Further, on-time performance fell from 74 percent in FY 2003 to 71 percent in FY 2004, with even Amtrak's premier service—Acela Express—achieving on-time performance of only 74 percent. On-time performance for long-distance trains averaged less than 50 percent. Last year, the poorest performing train, in this regard, was the Sunset Limited, with an on-time performance of only 4 percent.



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

Bankruptcy Is No Substitute for Reauthorization

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

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

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

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

Eliminating Long-Distance Service Will Not Solve the Funding Problem

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

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

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

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

Where Do We Go From Here? Reauthorization Guidance Is Essential

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

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

Adequate Federal and State Funding Should Be Provided in Order To Restore the Intercity Passenger Rail System and Invest Meaningfully in Corridor Development

Federal funding levels, along with state contributions, have not been sufficient to subsidize operations, address deferred capital needs, and significantly improve service along the existing rail network. In the last 2 years, Amtrak has received annual Federal funding of $1.2 billion. These amounts were supplemented by operating and capital contributions from state and local sources—in FY 2004 these were $135 million and $114 million, respectively. In effect, Amtrak received about $1.45 billion in public funds.

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

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

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

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

Formula Grants With No Match Required. This approach provides funds to states outside the Northeast Corridor that do not have corridor development potential and that rely on long-distance trains for substantially all intercity passenger rail service. By discussing this approach, we are not taking a position on the ultimate policy of whether long-distance service should be retained or eliminated but merely presenting it as an approach for funding states that do not have the population densities to support corridor development.

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

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

Restore Northeast Corridor to a State-of-Good-Repair. The Northeast Corridor presents a difficult challenge. The funding priority for the Northeast Corridor reflects the accumulated deferral of investments which has resulted in an estimated $5 billion backlog of capital projects, threatening current and future service reliability. The effects of the deteriorating infrastructure are readily evident. For example, Amtrak's reported on-time performance in the Northeast Corridor as a whole between 1994 and 2002 ranged from 82 to 89 percent. In FY 2003, it dropped to about 80 percent. For FY 2004, even Amtrak's premiere Acela service posted an on-time performance of only 74 percent, far short of Amtrak's stated goal of 94 percent. If the decision were made to keep the current Northeast Corridor intact, we estimate Amtrak would need to spend about $575 million annually for an extended period on infrastructure and rolling stock to eliminate the backlog of capital investment in the Northeast Corridor.

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

Construct for 5-Year Reauthorization Funding. Congress and the Administration have a difficult decision to make in determining the appropriate level of funding for intercity passenger rail. The level of funding can obviously vary. We have been giving this some thought and would like to present a construct for consideration. We recognize that many assumptions need to be made about who pays for what and how to balance national, regional, and state transportation needs. Those are decisions for Congress and the Administration to make.

In building this construct, we made several assumptions for purposes of illustration. These include:

- Formula grants will not fully cover train operating losses. Amtrak's forecast net cash operating needs (excluding interest) were used as the starting point. The levels of funding represent imputed cost savings of 10 percent per year from a combination of revenue growth and operating cost savings.
- Over the 5-year reauthorization period, Federal subsidies decline for long-distance trains and corridor operating subsidies shift to the states. We expect states to place higher performance and efficiency demands on the service provider to lower operating costs to more affordable levels.
- Debt service is based on Amtrak's projected debt service payments through FY 2009, adjusted for installment payments on their RRIF loan and possible early buyout options on leased equipment.
- Capital requirements to restore the system to a state-of-good-repair are based on Amtrak's Strategic Plan for FY 2005–FY 2009 and on assumptions we made on allocating capital needs between the Northeast Corridor and the rest of the system. The funding allocation assumes a capital need of $575 million for infrastructure and fleet in the Northeast Corridor and $250 million for infrastructure and fleet outside the Northeast Corridor.
- Funds available for capital match represent funds remaining after state-of-good-repair funding requirements are met.

Construct for 5-Year Reauthorization Funding
($ in Millions)

Federal Contributions	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	After State-of-Good-Repair
Formula Grants (Capital and/or Operating Subsidy)	$570	$513	$462	$416	$374	$337
Debt Service	276	361	314	298	298	298
Capital to Restore System State-of-Good-Repair	754	776	825	825	825	
NEC Infrastructure+Fleet	575	575	575	575	575	
Non-NEC Infrastructure+Fleet	179	201	250	250	250	
Available Capital for Match			97	261	503	1,365
Total Federal Contribution	$1,600	$1,650	$1,700	$1,800	$2,000	$2,000

NEC: Northeast Corridor

New Federal capital available for state match does not become available until annual Federal funding levels reach $1.7 billion. This construct highlights the policy choice that needs to be made between restoring the system to a state-of-good-repair and investment in new corridor development. At $2 billion, we would expect about $500 million to be available to states to match for use in new and/or improved corridor development, and after a state-of-good-repair has been achieved this Federal funding level would provide over $1.3 billion for state capital matches.

Too Premature to Separate Management of Northeast Corridor Infrastructure From Operations

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

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

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

Pay Off Legacy Debt and Restrict Future Borrowings

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

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

Senator LOTT. Thank you, Mr. Mead. Senator Snowe, thank you for coming, if you've got any questions you would like to submit for the record, and your statement will be included in the record. We've been joined by Senator Pryor and Senator Dorgan, also.

Let me, I don't want to take up all the time asking questions of each one of you, but I'll just get started and try to go 5 minutes or so, and I'll yield to the other Senators, and then we can get a second round, but let me begin with you, Mr. Rosen.

From the Administration's standpoint, the Administration's proposal calls for the states to pick up 50 percent of the costs, is that right?

Mr. ROSEN. On infrastructure matching grants, that's correct.

Senator LOTT. And does the Administration really think the states could or would do that?

Mr. ROSEN. Well, Senator, right now there are a number of states that pick up 100 percent of the cost, and so for, at least those states, it would certainly be advantageous. For other states, they already put in something comparable to that when they want to improve transit infrastructure, so I think it is likely that there would be states that would be interested.

Senator LOTT. Is it true that the President's budget proposal provided zero funds for Amtrak?

Mr. ROSEN. Yes, with the caveat that there was funding of $360 million in the event directive service was needed if there were an Amtrak shutdown.

Senator LOTT. Did the Administration contemplate the seriousness of such a ridiculous proposal? I mean, what in heck? What if we don't act? Congress is not a swift operation, what if we don't do another authorization bill, what if we just balled up in the Senate or in conference, we don't produce an authorization, and the Appropriations Committee says, "Well, sorry, we just don't have the money," or the Administration opposes it, I guess there was some reason for that, but I frankly was extremely stunned and disappointed that such a proposal would be sent up here by this Administration.

Mr. ROSEN. Well, Senator, what I think I can say about that is that the course we were on, all of us on this panel has said in one fashion or another, that the course we are on is unsustainable, and so Secretary Mineta has made plain in a number of contexts that the point of the President's budget request was to be a call to action, because the course we're on is unsustainable. I think it's heartening that you've scheduled this hearing and that you've made the very hopeful remarks that you have about the intention of this Committee and hopefully the Congress.

Senator LOTT. Well, obviously with my record and all, I want to work with the Administration, but I need your genuine real involvement and help to get this done, and I hope the Administration, the Transportation Department will remember that one of the critical components of economic development in America is the transportation system. If we don't have well-funded proposals for highways and for airways and for railways and ports and harbors, we're not going to be able to grow economically, because we won't have the capacity. And, quite frankly, I don't think the Administration is stepping up adequately to the transportation area, in general. Would you like to respond to that?

Mr. ROSEN. I would, Senator. I think there are two aspects. One is that the Administration proposal does call for a major role of both the Federal and State Governments in a partnership for infrastructure development and I think that that would be more comparable to what we have done with airports, highways, transit. I think we do regard infrastructure development as an important underpinning of economic growth. So, I think there's an area of concurrence there that transportation infrastructure is an important activity, and that's why our proposal moves to a model that will enable that.

As to the question of—I'm sorry, I lost the other part of the question.

Senator LOTT. That's all right. I'm sure you were a little surprised at my reticence here, but I care a whole lot about the transportation area in general, and I really want us to do a better job of thinking about the future, and it's more than just a budget item, it's about our kids and our future, and I get excited about that.

Mr. Mead, you and others, and again, I appreciate your thoughtfulness, but maybe it's because I come from a truly poor state, but I don't quite understand—I realize maybe Illinois does a lot on its own, in some states they do 100 percent—but it feels to me like we're trying to say, "Well, we can't figure it out, so we're going to kick this ball over to you guys in the states." This is a national rail passenger system. This is interstate commerce, we have interstate highways, what the heck are we doing here? States can't come up with 50 percent, in most instances. At the very most, like what you proposed, I think something where the states would come up with, I think you said 15 and 30, that's what we do—I think—with highways, 20 percent. But this is an interstate activity, the Federal Government should have the principal lead here, and not try to say, "OK, Mississippi, Alabama, Texas—figure this thing out." What are we supposed to do?

Mr. MEAD. I concur mostly with that view. I do think that those three states that you named, they ought to have a major decisionmaking role, if you're going to adopt a corridor in those states between population areas, that ought to be a call that a state can make, and the states need a robust Federal capital contribution. The comments I made, I think a lot of thought has gone into the Administration's bill, but I was trying to point out in my comments about the funding, that funding—let's face it—funding is a key issue in the problem we're facing here. It's not the only problem, but what I hear in my travels is the states saying, "Well, this is all very nice, that we get this decisionmaking power, and more responsibility, but what's in this bag that you're giving us?" And that's why I would urge that the Administration reflect on what they're willing to support in the way of Federal funding.

Senator LOTT. Mr. Gunn, I do think we've really got to find a way to fund Amtrak adequately or give you access to some reliable, steady stream of money, or give it up. But we can't, if we're going to continue to appropriate money or provide you some other opportunity, like bond authority, we also have to expect you to make some tough decisions that involve management and labor, you're going to have to take some actions to save money, we've got to make sure, we've got to be diligent in making sure that people's money is spent well. I realize that a route that affects my state could be eliminated, I do think we'll have to belly up to the bar and recognize some of these long distance routes are just not going to make it. So, that is the other side of the equation. And I assume that your proposal that you're offering here today, the initiatives, I believe the Chairman did point out that you are calling for some belt-tightening and some changes in the way you conduct business. Would you like to respond to that?

Mr. GUNN. From the management's point of view, what we want to try to do is to reduce the deficits as much as possible on these trains, and there are a number of proposals that are detailed in the reform package as to the types of things that we're going to do that we think will improve productivity. We obviously want to, I mentioned the Railway Labor Act and the need to properly size train crews and to restructure our maintenance functions from a craft basis to an industrial basis. These are all things that we're fully prepared to try to undertake, and that we will undertake to the extent that we have the authority to do it, but I would just caution you that—and I think the DOT Inspector General talked about this—there's not a lot of savings eliminating a single train, because what happens is, you have to take out large swathes of service to get at the overhead, or the shared costs of these routes. But, we have already taken off, I think it's three or four trains since I've been here, we did the Three Rivers just recently, we truncated the Palmetto, we took off the Kentucky Cardinal, a series of trains that we've removed, so we think that there should be standards applied to these trains, and we'd like the opportunity to make them as efficient as possible. Because we have actually made progress in the deficit per train mile, so we think, we can't make money with these trains, but we can make them better, and that makes the political decision a lot easier, because you don't have as much funding to go into it. But we support—your point of view is supported.

Senator LOTT. We'll have another round, I'll come back to you, Mr. Laney. Senator Lautenberg?

Senator LAUTENBERG. Thank you, Mr. Chairman. And, in answer to your question about what happens if the budget goes through as the President's proposed it for Amtrak, you asked what would be the outcomes—there would be very long waits at the platforms, I can tell you that, and it's just outrageous when you think about that 25 million people used Amtrak last year. Twenty five million people. And everybody knows that we have something called essential air service, but there are places where we had essential train service, because it's the only mode for lots of people, as Mr. Mead suggested.

Mr. Rosen, the President essentially proposed zero for Amtrak in his budget, and now the Administration plan says such sums as may be necessary. So, does the Administration feel that zero is necessary for Fiscal Year 2006?

Mr. ROSEN. Well, Senator, you're talking about two different models. The Administration budget calls for zero under the old 1971 model of Amtrak, the "such sums as necessary" is in the Administration proposal for a new approach to intercity passenger rail.

Senator LAUTENBERG. And the new approach invites competition and we talked about Amtrak's bottom line being so disastrous. So, will we have a rush of competitors come in there and take over these lines that don't make any money?

Mr. ROSEN. Well, Senator, the Administration proposal envisions a 6-year transition period, during which time, financial benchmarks would be applied to the trains, the State/Federal partnership would be established, the opportunity for states to participate in the planning of rail, the way they do for other transportation would be established, and in that period, as we move from a single national provider, Amtrak, to a decentralized system, where states have a major role in the transportation planning process, and where competition was enabled by leveling the playing field on some of the items, I think we believe that there will be companies that would be interested in competing to be train operators. We have other people that are train operators in commuter rail, we know that there are people, other people that know how to operate trains, how many of them? Will they rush? The question when you transition to competition is that markets are dynamic, you can't fully——

Senator LAUTENBERG. Mr. Rosen, thank you very much for the extended answer.

Mr. Gunn, what do you think about competitors coming in there, anxious to take over, and by the way, they'd have to maintain some reasonable degree of cost, because there's no way to drive people away from transportation opportunities than high costs, but what do you think about the possibility of competition coming in here and doing it better, especially coming from the private side?

Mr. GUNN. Well, I think, if you look at the Board's reform proposal, and this is sort of awkward because Mr. Rosen is on our Board, but he's also speaking for the Secretary, but our proposal, it says that if you want competition, you need to level the playing field, and it's not clear how many people will show up to be full service operators, but to do that, you need to level the playing field. There are people out there, but you'd have to change some of the ground rules for how we operate, you'd have to deal with the access to the freight railroads.

I personally think competition, you should also look at competition in a different way, as well, and I'm not against what you're talking about, but I think that the easiest way to get competition going is providing services. Whether it's food service, whether it's selling tickets, whether it's certain maintenance services—we already contract out, and use contracting a lot to try to control costs. But, I think if you want to have full-service operators show up on interstate services, you're going to have to make some changes in the rules, which is, I think the Board's reform package—and the Chairman mentioned that in his testimony—that the goal, you have to level the playing field. Because we have an advantage, right now. We have an advantage on the insurance, the liability insurance, we have an advantage on access to the freight railroads, we have the advantage of having size on our side, the economies of scale, so this is not something you want to do casually. I'm not against it, but I think if you're going to have other operators show up, it's important that you have, it be very well thought out. They won't appear out of the ether to run the Southwest cheap.

Senator LAUTENBERG. Do we have examples of countries where, I'm talking about the more advanced, the more developed countries, where they've had private operators come in and do it successfully, and do it within budgets and good quality of service?

Mr. GUNN. Well, probably the poster child, or boy for this type of organization is Britain. Now, where they've set up private—they broke their railroads, they destroyed vertical integration, and they set up a separate infrastructure company, separate rolling stock company, and separate operating companies. And they actually had a lot of private companies that have shown up to do it, because the amount of subsidy has just skyrocketed. There's a lot of money to be made, if you continue to subsidize it. And that's what's happened. The quality of service has not improved. The cost of service has deteriorated, and they've lost a lot of the control they used to have when it was a unified——

Senator LAUTENBERG. The quality of the service also has deteriorated.

Mr. GUNN. Yes, it has.

Senator LAUTENBERG. Is safety on the British—?

Mr. GUNN. I don't have the entire history of the British railways, but they've certainly have had some unfortunate incidences that came about. I think it's more of a factor, rather than privatization versus government, it's the function of destroying the vertical integration. I mean, I think it's, you can have a private company, or you can have a quasi-government operation like Amtrak, as long as it's vertically integrated, you can get a pretty efficient operation. If you destroy that, I think you really, it will be very expensive. And that's what's happened to Britain. I mean, they're now spending like $12 billion a year subsidizing their rail system, up from about two.

Senator LAUTENBERG. So, that's a highly undesirable competitive position. Thank you, Mr. Chairman.

Senator LOTT. Thank you, Senator Lautenberg. Let's see here, Senator Pryor.

STATEMENT OF HON. MARK PRYOR, U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Thank you, Mr. Chairman, and thank you for your leadership and attention to this, along with Senator Lautenberg, and certainly Senator Inouye. I'd like to, if I could, with the panel's attention, focus your attention on long distance service. Arkansas has a long distance line called the Texas Eagle, approximately 20,000 people ride it each year, services mostly rural towns, also stops in Little Rock, kind of cuts right through the state, pretty much northeast through southwest. And, a lot of people enjoy that service, certainly we don't have nearly the ridership, say, like New Jersey or some of the more densely populated states, but we just don't have that population density, so I understand the challenge that you all have.

I think I'd like to focus on two things. One is this idea of state funding, Mr. Rosen, you were talking about that a few moments ago, and others have as well, and also this concept of evaluating, somehow coming up with an evaluation of long distance service, and you all have referred to that as well. So, Mr. Rosen, let me start with you, if I can. You talked about a 50/50 matching on infrastructure grants, where the states would match 50 percent. The first question I have is, let's say that, again with the Texas Eagle, let's just say it goes through four or five states, and one of those states is Arkansas and let's just say, not to pick on anybody, but the State of Missouri decides they're not going to pay, but the other four states do, how will that work?

Mr. ROSEN. Well, the way we envision it working is that the states would have to find a mechanism to talk to one another, a bill enables, as actually the 1997 Reform Act, states to form compacts with one another, and they could agree on their own ground rules on that, which is to say that if somebody doesn't participate, what happens next? Do others have to kick in, what happens to the service? But the precise mechanism depends, to a great extent, on what the states decided to do about that.

Senator PRYOR. So, in other words, you'd leave it up to the states, and I can just see the issues boiling up on that already about what factors do you consider for each state's contribution, do you consider the number of miles in the state, which certainly is something that we can understand, the number of passengers that utilize the service, the number of stops that are made, I mean, I can see a big fight there, but as I understand it, what you're saying is, that's not Amtrak's headache? You think the states need to resolve that?

Mr. ROSEN. Yes, sir, that's right, in essence, the purchasers, and in this instance the states would be functioning as proxies for the consumers, they would have to develop a mechanism to resolve that. Now, as is, I think, always the case, we at the Department of Transportation would assist and enable, and if necessary, perhaps we could participate in regulations or guidelines or other mechanisms gained from best practices and experience, but I think in the first instance, we would look to the states to work that out.

Senator PRYOR. Mr. Laney, do you or others on the panel, do you all have any comments on that, and how we should resolve this?

Mr. LANEY. Senator, let me add to what Mr. Rosen's comments were. First of all, the entire process, start to finish, has not been fully designed, but we all are of the mind that the process does need to be clear, in terms of understanding, and ultimately evaluating and then ranking trains. What you heard from Mr. Mead was an interesting proposal, and it's an interesting comment, the fact that in about half—it's not exactly half—in about half of the states that we provide service, the only service we provide is long distance service. And, if there is a concentrated investment in a combination of Northeast Corridor and other corridor services throughout the states, whether it's matched at whatever level, states like yours, and a number of other states, are going to say, "What's in it for us?"

The evaluation process, the establishing a threshold, the deciding, ultimately, what trains—if they are not, if there's a gap in terms of operating deficit, if it's not close, and then not supported by the states—the question becomes, is there still a continued role for the Federal Government. And I think Mr. Mead was suggesting that there is. So, there may be a balance between pure state coverage, and a combined Federal/State coverage that still fits into that construct.

Mr. MEAD. I'd like to just add to that, I think there are two issues that are implicit in the question that you pose. The first one is the service you have now. What I was suggesting was that at least for the period of the reauthorization, that your state, along with the other states that have this long distance service, you would get a formula grant—I haven't exactly figured out how it would be calculated—but it would be for the purpose of paying the operator a percentage of the operating loss. And it would be no match required. Because I feel that you have to, the states that don't have corridor development potential, that they're still states, and they still have transportation needs in the rail area.

Then the second part of the question you posed, I think has to do with capital development. Maybe an analogy isn't apt, but I think of Chicago O'Hare Airport. Chicago O'Hare Airport would not be expanded unilaterally because the Federal Government decided that there should be an expansion program at Chicago O'Hare. That is directly and immediately a decision for the State of Illinois. Then the Federal Government has to provide some capital, to assist in the development of that. And I guess what I'm trying to say is—and I think all of us are to one degree or another—that you also need a capital program to make things better than they are now, and that is the one where the match issue comes into play. The Administration's proposal right now is for a 50 percent match. I think you need a more reasonable one of somewhere between 15 and 30 percent, that's more compatible with what we've done in aviation, highways, transit, for new projects.

Senator PRYOR. Thank you, Mr. Chairman.

Senator LOTT. Senator Dorgan?

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

Senator DORGAN. Mr. Chairman, thank you very much. I think that the responsibility for part of the mess that we have here is a responsibility that goes to the doorstep of the Administration and the Congress. I mean, think about this just a little bit, and the message that we've been moving around here in recent years, start it up, shut it down, slow it down, keep it open, get rid of long distance trains, bring in competitors, and by the way, don't adequately fund capital investment or infrastructure, and also run it as a business. I mean, what a terrible way to run a railroad, what on earth are we thinking about? I've always known you need a glossary of terms to understand what's being said in this town, but I'm reminded of it again this morning, Mr. Rosen, "zero funding is a call to action." I come from a small town, but you know, I recognize a big hoax here. Zero funding is not a call to anything, it's zero funding, it means you want to shut the place down. And I agree with my colleague, Senator Lott, I think that's an absurd proposition.

Look, 34 years ago this started because there was nobody interested in running passenger service. The railroads had shut it down, and so we created passenger service. We created it, there was no competition, there was no one interested in doing it. And, let me also say, just as I finish the comment, I'd be glad to have you respond, we've seen decisions based on bad intelligence in this town, in very significant ways, let me describe another decision based on bad intelligence.

Secretary Mineta was in Detroit, this was last month, and he was asked about a previous comment he'd made when he said, "Amtrak runs routes that nobody wants to ride," he said, "The problem is," now this is quoting the Secretary, "The Empire Builder is going from Seattle to Chicago and it's going through, let's say, Montana, but there are only 53 people a day using that train service. Can I really justify pouring that kind of subsidy into the Empire Builder for that segment of service?" Well, unaccustomed as I am to speak up for Montana, let me just say—and they're good neighbors of ours, but my colleague speaks up for them daily—in fact, the Empire Builder in 2004 handled 437,000 passengers, that's the Empire Builder, 1,195 per day, one eastbound, one westbound train, and I have the boardings and so on for Montana, but if you miss the mark by this much, in order to make your case, you don't like long distance trains, speaking for the Administration, what's left?

You all probably want to respond to some of this, except I just want to say this: I think it is worthy of this country to continue to make investments for a national rail passenger service system. No, not Boston to Florida only, because I expect that route only can probably justify itself based on market conditions. Although you get competitors in there and cherry pick and then we wonder, but I think a national rail passenger system is worthy, I'm perfectly willing to subsidize it, I want it to run well, I want it to invest in capital equipment and infrastructure so that we have a rail passenger system that works, but Mr. Gunn cannot run a system under these conditions, it is impossible to do. This Congress and this Administration ought to decide—do we want a national rail passenger service, or not? But let's not zero fund it and say it's a call to action, that's not a call to action.

If you want to respond to that, it felt good to say it.

Mr. ROSEN. May I respond to that?

Senator DORGAN. Yes, of course.

Mr. ROSEN. It is a call to action, and the reason it is, is that as the Secretary said repeatedly—if you and the Administration wanted to kill Amtrak, the easy way to do that would be to do nothing. The very fact that we came forward with our own reform proposal, with a different model for passenger rail is a demonstration that it's a call to action. It is saying we don't want to put money into a failed model, into a failed approach, and let's remember—Amtrak is a private corporation. It is somewhat unique in terms of how we do transportation in this country that it does both infrastructure and operations. We don't have, we have Federal support for airports and for highways, but we don't provide an annual Federal grant or an authorization for trucking companies or airlines, and so we have an unusual model there that has produced tremendous difficulties as you alluded to, year to year and over the long term, $29 billion in the last 34 years, and everyone on this panel has agreed that there is a need for change. So, I would suggest, respectfully, that the zero budget is both a call to action, and a recognition that the old model doesn't work.

Now, with regard to the issue of the subsidies on long distance trains, let me just quickly say the Secretary's point on that is that the subsidies per rider are extremely high——

Senator DORGAN. That's not what he was saying, go ahead and defend him, but defend him based on what he said.

Mr. ROSEN. Let me make the point. The subsidies in the aggregate for a per passenger mile, for passenger rail, exceed any other mode of transportation. And that takes me to the bottom line point that I want to just get to, in terms of long distance. We have to think of our national transportation system as a multi-modal system, that we have buses, we have cars, we have airplanes, we have rail. And for different locations, there's a mix of what are the best solutions, and in the end, we have to be looking for what's cost effective for different parts of the country.

Senator DORGAN. Please understand, there's a difference between cost and value, and in North Dakota, 90,000 people get on and off Amtrak, many of them elderly, it is a very important part of our transportation system.

Mr. ROSEN. And I don't minimize that at all, sir, I think we want to work with you on those kinds of issues.

Senator DORGAN. What I'm saying is, though, the Secretary of Transportation apparently has an involvement in recommendations of what to do with Amtrak, and he certainly has a profound misunderstanding about the Empire Builder. That train goes from Chicago to Seattle, carries a lot of people from Montana and North Dakota, is a wonderful train, and I'm just asking you to straighten him out on the numbers, because he's profoundly misunderstanding what's happening there.

And I want to make one final comment. There isn't any question that rather than a call to action, you, Mr. Rosen, and the Administration want to shut down long distance trains. I understand that, but why don't you just say it, rather than use words that seem to mean something else. If you don't like long distance trains, try to shut them down, we'll have a fight about that, but in the end, I think we should keep Amtrak, we ought to provide the funding necessary for capital investment, the funding necessary for infrastructure, and then ask Mr. Gunn to run a railroad based on business principles, but I sure think at this point we're moving in the wrong direction, I couldn't agree more with my colleague, Senator Lott's comments at the start of this, and that may have been surprising to some of you, but I know that he's cared a lot about Amtrak for a long, long time, as have many of us on this Committee.

So, I appreciate the contribution, I'm sorry I was a bit late to the hearing, but I have read all of the testimony, I appreciate the contributions that you've made today.

Mr. MEAD. Senator Dorgan? I just want to make a quick comment. I thought you really described well the responsibilities on the Congress and the Administration, and for each of the last 3 years, on the Appropriations Committee, we do this annual Death Dance, and we fight over the appropriate funding level. And I have made a point, in each of the last 3 years that it is time for a reauthorization, that's the only way of government in handling programs. And, what we've really been doing is we've been running the authorization process through the appropriations process for each of the last 3 years, and the piecemeal fashion is not a good one.

Senator LOTT. Good point, Senator Burns?

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

Senator BURNS. Thank you very much, Mr. Chairman, thank you for this hearing this morning, and I guess I'm with my colleague in North Dakota, we have the same concerns that he does, and there's a lot of misinformation, I think, that is sent out to the public, and why we have a big misunderstanding. I, on this particular subject, I learned a long time ago, Mr. Rosen, Mr. Mead, and Mr. Laney and Gunn, Top Gunn, that anything that's really done to benefit a community is seldom done with the blessings of a majority. And later on it's found that your worst critics are the biggest fans of the idea 20 years later. We're dealing in a national transportation system here that I think would be awfully hard for it ever to break even, under any model. Even with the grant program, and here I live in a state that's 148,000 square miles, from up there in the northwest corner to the southeast corner is further than from Chicago to Washington, D.C., with 900,000 people, and we're expected to make the match. That's going to be tough. In the airline industry, we're regarded as one of those "fly over" states. And with Amtrak, it is definitely not a fly through, because it's just not passenger. There is cargo. We have people along that system that use it daily, in their freight business, because that's the only way they can get it in there out of Chicago or Minneapolis, or the other way from Spokane or Seattle. We are isolated. And the same worry that Senator Pryor had for his state, what if some state falls out of that thing, and you lose the service because one state does not choose to participate in your grant program.

The Chairman, we're working with the Chairman very hard on reauthorization, and to come up with a new plan on how, but I don't think the American people should be lulled into the idea that this will make money and stand on its own. I don't think that you can come up with a model that's going to do that. But, anyway, why should we be any different than in any other mode of transportation, than to provide the scantiest of rail transportation systems here and just call it what it is, we're going to have to subsidize it. I don't know of a bus service in any city that pays for itself. I don't know of any kind of transportation that's intercity or intracity that pays for itself. Light rail or anything, that pays for itself. This is something that the American people say, "We need this, and it's going to cost some taxpayer dollars in order to make it operate." And we should face that point, give the true figures, and the ridership and all of this, instead of going through this thing every year, and we're going to go through the appropriations process, and we'll do the right thing, I'm sure of that, but let's tell the American people that this is an essential service, it is a service that the American people have chosen to have, and that a certain amount of taxpayer dollars is going take to make it work. And that's all I have to say.

Mr. ROSEN. I didn't mean to interrupt you.

Senator BURNS. No, no, you can respond if you'd like.

Mr. ROSEN. Well, what I'd like to say is a couple of things, Senator, because I think that you raise some important points, and I think they're points that are worth thinking through a lot. You have a multi-modal system that's always, for me at least, the starting point as to how we're going to get people where they need to go, it's never one answer, it's never, "We just need a rail system, or we just need something," it's what's cost effective, what's going to work. Now, we talk about the long distance trains, they perform a slightly different function than the corridor trains, the corridor trains have a heavy business-type function, a lot of people, they are just trying to get from one city to the next, much like on the Northeast Corridor. The long distance trains are more mixed, there's a lot of people that it's a leisure trip. And, you have to think of it a little differently, sometimes. And I'm not, myself, persuaded, that it's true to say that no long distance train can every operate without a subsidy. I mean, you're talking about an area of the country where you're from, Senator, very attractive and scenic, and it depends whether you could make the trains more attractive, so that people that aren't currently using them, and if we're separating infrastructure, because your point is, that it's hard to make things profitable when you have to cover major capital costs, but if you separate out the infrastructure, and you say there are matching grants for that, so then we're talking about, are you subsidizing the operations, we generally in this country don't subsidize operations.

And, harkening back, then, to the question I think Senator Lautenberg had raised on the U.K., the World Bank released a study on the U.K. system last September, and what the U.K. has done was create 25 operating companies, which was separate from who runs the infrastructure, and they had them as franchises. Eight of those require no subsidies, and the World Bank concluded that the system of competing operating companies in the U.K. was actually, produced more traffic, more passengers, more than economic growth alone would have called for, and that the safety record was better than the old British rail monopoly.

So, all these things, it ultimately comes down to, let's take a careful look at what the facts are and try to do something that will work for the people in your state and other states that will improve intercity passenger rail.

Senator BURNS. I would agree with you on some of those assumptions, and some of those are fact, and I look forward to working with you on this, but we—I'll tell you what we board, we board 140,000 people at White Fish, Montana, now that's summertime, that's Glacier Park, that's skiing in the wintertime at Big Mountain, you're probably familiar with that area up there, and then the rest of that is kind of what we call train over, to get to there. But it's very, very important in those stops along the way on the Hi-Line, because we subsidize a little air for them, but that doesn't take the place of that train and people who like to ride that train. So, we'll be working very hard on this reauthorization. We have some ideas, the Chairman has some ideas, we look forward to working with you so that we've got some sort of consistency, and a program that we can move forward with, that doesn't just scare everybody to death in Montana, or North Dakota, or Idaho and Washington every time appropriations or the budget comes up, because this just makes it a political football, it makes it doubly tough to solve. So we're trying to work right now on a plan that would allow us to move forward, knowing what the numbers and the figures are, and if there's someplace that we can privatize it or whatever, I'm sure we'll explore those avenues. I look forward to working with you, but in the meantime, it's pretty important to us, and you can see why we get very, very nervous about it. But there has to be some sort of common sense to the approach of what we do. And I thank you for your testimony today.

Thank you, Mr. Chairman.

Senator LOTT. Senator Sununu?

STATEMENT OF HON. JOHN E. SUNUNU, U.S. SENATOR FROM NEW HAMPSHIRE

Senator SUNUNU. I think I'll take a crack at what zero funding really means. I think zero funding means that, and I think Mr. Mead alluded to this, the current process of allocating funds and to a significant extent, the current use of funding, is unacceptable. When you look at the way money is being used, and you say, "This system, this process, this allocation is not acceptable," then you obviously pull back until you can reorganize the way that the funds are being allocated. I think more than anything, that's what zero funding means, or zero funding is trying to convey, and I think that's what the sentiments were when someone said zero funding is meant to be a wakeup call. We can argue about exactly what the intentions of a given individual is when they say, "This is a wakeup call," or "We need to change the process," or "We need to make modifications," but my concern is that we're going to go through a lot of discussion about authorization and rail transportation and people in the economy, and we're going to end up in exactly the same place, and I may be alone in the opinion that a $200 per person subsidy for a train ride is excessive, I may be alone in thinking that $500 million operating losses in perpetuity to operate 12 or 14 or 15 routes is unacceptable, but I don't think it's a very good use of taxpayers money. In New Hampshire, $500 million is a lot of money. That isn't to say that every route operated by Amtrak needs to show a per passenger profit, but we really do need to inject a little bit of fiscal reality into this debate. I won't say there's been no such reality in the discussions, but I haven't heard a great deal.

A few specific points. First, a point was made, and I think it's worth repeating, because I don't know that it really sank in, but the subsidies, per mile, in these endeavors are higher than the per mile subsidies in any other form of transportation. Even those that we may all support, intercity bus or intercity transit, even those involving the subsidies that we all know are provided at some level to aviation, and even to highways, in the way we collect and levy taxes. But the subsidies here are dramatically higher than any other area of transportation.

Second, the suggestion that every bus line in the company requires a subsidy isn't the case. There are possibly bus lines that are connecting the cities in these long-distance routes operating without a subsidy, or to the extent that we might define a tax, or the money we put into the highways as a subsidy, at a per passenger subsidy that isn't even in the same zip code as the ones we're talking about here. And while they may have been touched on very briefly at the beginning of this hearing, I'd like to get in a little bit of questioning to clarify for me what the size of these operating losses are.

Why don't we begin with Mr. Gunn? What were the operating losses on long distance trains in 2004?

Mr. GUNN. If you use the FRA cost, which is the direct cost, long distance trains lose about $300 million a year.

Senator SUNUNU. What does FRA stand for?

Mr. GUNN. That's Federal Railroad Administration. That's the amount of money you would save if you eliminated those trains.

Senator SUNUNU. I would argue that those are really two different questions. The operating loss is not the same as a cost avoidance, if you eliminate the trains. Because your point is, you may be losing $500 million a year in operating losses, and you've made this argument before, that because of your labor agreements you would have to continue with some payments of moneys, even if you terminated the lines, and so, you don't want to include that in calculating operating loss. And I would argue that's probably not how most corporations would view an operating loss.

Mr. GUNN. If we eliminated all of the long distance trains, you would save something in the neighborhood of, but kept everything else, you'd save something like $300 million plus some capital, say $350 million. But, to save that money, you would have to spend over a billion dollars in labor protection, that's the point we've made. I'm not——

Senator SUNUNU. What was the calculated operating loss in 2004?

Mr. GUNN. I said, using the incremental loss, the amount of money you would save by eliminating the trains is about $300 million. And then you'd save some capital.

Senator SUNUNU. What was the operating loss in 2003?

Mr. GUNN. Actually, our operating loss has been constant.

Senator SUNUNU. As far as long distance trains.

Mr. GUNN. I don't, I can't remember, but it's basically been constant. Our operating losses have been, since I've been here, we've basically been able to control it, and it's been constant. But, I don't remember the loss, the specific loss in 2003.

Mr. ROSEN. Senator, I might be able to just help slightly, what I think you're asking, on a fully allocated basis, if all costs, both the direct costs and then attributed cost for overhead and support are included, in Fiscal Year 2004, the subsidy was approximately

$214 per trip on the long distance trains, and that was up from $158 in Fiscal Year 2000. In the aggregate, that would amount to, order of magnitude of a little in excess of $600 million a year.

Mr. GUNN. That's fully allocated, however. The trap we can get in here, is if you're talking about, we're going to eliminate those trains, what does it do to Amtrak's cash requirement, and I think that's the relevant question, it is $300–$350 million after you pay C–2.

Senator SUNUNU. Well, I would say $350 million is also real money.

Mr. GUNN. I'm not arguing that point, Senator.

Senator SUNUNU. I find it somewhat problematic that when any Member of Congress or any member of the public tries to get a clear assessment of these operating losses, we get generalities—"We would save about $300 million, and it depends on how you allocate it," and that we get one set of numbers for the allocated operating loss, and we talked about the opportunity costs of the contract, but I just find it problematic that we cannot agree on, and I don't have a preferred methodology, but we cannot agree on a methodology for giving the public an honest assessment of what the operating losses are, and what the magnitude of the subsidy is. I think that does a disservice to the Members of the Committee who are working very hard to make decisions. We may disagree, Senator Lautenberg may say, "This is important, we should provide a subsidy to maintain operation in a particular way," and he may value that subsidy at a particular level, and I may say, "That's not an acceptable subsidy, but it would be great if we could at least agree on the set of facts before us."

Mr. GUNN. I don't mean to argue with you, Senator, but every month we produce an income statement, a set of financials which include an income statement, a performance statement by train. Now, for example, I have the February results. I have March results, but I don't have the detailed train sheets yet. But, we produce, and we use, we show the deficit by different costing, in other words, the FRA-defined costs, which are really the incremental costs, then we have other overhead costs which would go away if you could get at them, which means all the trains would go away, but we produce, every month, there's no shortage of routine data, and it's according to GAP, it's auditable and we've done this since I've been here.

Senator SUNUNU. And the aggregate operating loss shown by those statements for 2004——

Mr. GUNN. I have, for example, through February, the long distance trains, which is what we're talking about, the FRA-defined loss was $100 million, and that's for 5 months.

Senator LOTT. Mr. Gunn, I hope you work with Senator Sununu, and all of us, to get the data.

Mr. GUNN. But the data is here, my only point is, we have the data——

Senator SUNUNU. It's just frustrating to hear different ways of presenting the question about the subsidy and the operating losses. I know—to be clear—that you have received a lot of credit for improving the reporting and for improving the accounting, but we're making policy decisions.

Mr. GUNN. The results, I can't improve.

Senator LOTT. Senator Stevens, the Chairman of the full Committee is here and I know he may have some comments and some questions.

STATEMENT OF HON. TED STEVENS, U.S. SENATOR FROM ALASKA

The CHAIRMAN. Well, first, Mr. Mead, I know that Amtrak's carrying a $3.2 billion debt, the interest rate's about 10 percent.

Mr. MEAD. Now, on part of that, sir, it is about 9.5 percent, they mortgaged Penn Station a few years ago to Credit Lyonnais, I think.

The CHAIRMAN. Did you ever make the recommendation that it be made tax free? Let them issue tax free bonds?

Mr. MEAD. No, we didn't make that recommendation, but we are recommending that the reauthorization have the Treasury discharge that debt, because you're paying it anyway at a higher interest rate, so if you're going to pay it anyway, you might as well pay it at a cheaper interest rate.

The CHAIRMAN. That might encourage you to enter more debt, if we made it part of the national——

Mr. MEAD. The second thing I'd do, Senator Stevens, is freeze their ability to borrow. Their freedom to borrow is what got us in this hole, and so that's the second thing I would do.

The CHAIRMAN. For the Amtrak people, when the Alaska Railroad got into trouble, we finally worked out an arrangement that our state bought the Alaska railroad, and now we have sort of a partnership, as the President mentioned in connection with this issue when he set up this recommendation. Have you looked at that proposal? Why shouldn't these states buy a piece of this railroad and let us work together. Our state covers, basically, the operating expenses, and the Federal Government assists us in capital investment. Why isn't that a model for you all, too?

Mr. GUNN. The problem, Senator, is that the Alaska Railroad is an intrastate operation, and with Amtrak, the bulk of our service is interstate, and some of our trains go through eight, nine states.

The CHAIRMAN. That's where it fails, doesn't it?

Mr. GUNN. Yes, but I think you get into the situation where everybody will hold their money in reserve until they're faced with a crisis, and by that time it's too late. I think Alaska was very wise with what they did, and even in the Northeast Corridor, which is where we run track and run the whole thing, we still go through eight states, and it's very difficult.

The CHAIRMAN. Have you suggested a model where there'd be some kind of sharing? Why shouldn't the states be part of this?

Mr. GUNN. Well, actually, in the Board package we do, the Reform Package that Amtrak's put forward, the goal is to get the states to move to a situation where the states pay the operating deficit, similar to the Alaska situation, for their corridor services. That's what we're proposing, but to do that, you need to give the, you have to have the partnership which the Alaska Railroad has on capital.

The CHAIRMAN. Is the Amtrak Board representative of the states that have the major part of the riders of Amtrak?

Mr. LANEY. Senator, I'm the Chairman of the Board, and I'm delighted you've joined us. We'll want to visit with you further about what's going on in Alaska, it's a model we've looked at carefully, we're going to look at it a lot more carefully, and it makes a lot of sense to the extent we can adapt elements of what's being done in Alaska to what we're doing.

But we have four members of the Board, and they, I think, represent a variety of states, depending on where they live during the year, from the kind of states that have only long distance service, the states that are centered right in the middle of a group of states that enjoy the benefits of the Northeast Corridor, so I think we're fairly well represented, as well as you know, one member of the Board is Secretary Mineta, and he's designated Mr. Rosen as his representative on the Board, so we've got the Department of Transportation and it's perspective brought to bear with all of our discussions and thinking and planning as well. So, it's a broad representation.

The CHAIRMAN. So, have you engaged the states, and the Governors and their staffs in conversation of how to save this railroad?

Mr. LANEY. Yes, sir, we have, in a number of different ways, and they are, they've made it very clear, I think virtually all states that enjoy one benefit or another from Amtrak, that they are very interested in being heard, and we've made it equally clear that we are very interested in hearing from them. They've already contributed a lot to what you see in our proposal with respect to long distance and corridor service.

The CHAIRMAN. How important is long distance service, compared to the commuter service on this train?

Mr. LANEY. I don't know that I could compare the two, they're apples and oranges, but both are essential elements, we believe to the future of intercity passenger rail.

The CHAIRMAN. Well, when I came to the Senate, those of us from the West came to the Senate, I went home many times by rail. We found it much more convenient and less expensive than travel by air. I know you don't understand a necessity for long distance, federally supported trains. Tell me, why is there a necessity for these long distance trains going west?

Mr. GUNN. I'll take a crack at that, if I may, I think if you look at the ridership on the long distance trains, we've got a report that details each of the trains, which you're welcome to see, you'll see that the ridership on the bulk of these trains, or the bulk of the ridership on these trains is not endpoint to endpoint. If you take the Empire Builder, for example, that Senator Dorgan was talking about, that train has, serves a lot of areas that have no other options, probably a lot like the Alaska Railroad in the north. So, people will ride from Minneapolis to Rugby, or Minneapolis to Havre, or Shelby, and these trains—and they're busy. The trains are not empty, they actually carry a lot of people. And, on a number of these trains you're providing services where there isn't a good option for the people.

I would submit that if you actually rode the Empire Builder, you'd be surprised at the on/off through all of these towns that we go through—most of the towns are 2 hours apart, but it's a busy train, and it provides, I think, an essential service to those communities.

The CHAIRMAN. Respectfully, I don't think that answers the long distance thing, but my time's up. I hope you've all read that delightful new book, The Christmas Train. If you haven't, it would be worthwhile.

Mr. MEAD. I have some numbers here that respond to the questions. There are about 4 million riders on the long distance trains that you referred to. This is an annual figure for 2004, 4 million.

The CHAIRMAN. Are they going the long distance, or are they just riding part way on the long distance?

Mr. MEAD. I'm coming to that.

Senator SUNUNU. Can I clarify that? 4 million riders, you mean, 4 million embarkments.

Mr. MEAD. I'm going to answer, if you let me give out the number, there were four million total riders for 2004 that got on a long distance train. Of that number, only 527,000 went from beginning to the end. Also, there were 400,000 that went between city pairs, where you already had the Amtrak corridor services, and our analysis showed that the remaining three million people rode about between 500 and 700 miles. And that's how it broke down.

The CHAIRMAN. More than—?

Mr. MEAD. Three million went between 500 and 700 miles.

The CHAIRMAN. Has that changed since 9/11?

Mr. MEAD. I don't know, sir.

Senator LOTT. Well, we will continue for another round. Thank you, Mr. Chairman.

Looking at the solution here—and that's what I think we need to do, rather than just looking back at where we have been, but looking forward at where we want to go—I do think we have to make a basic decision, Do we want a national rail passenger system, or not? If we do, how are we going to pay for it? If we don't, this is the year where we need to face up to this. But if we do, how we're going to pay for it?

And I think we've got to do it in three steps. One, I do think we need reauthorization with some innovative ideas and new options. I want to look very carefully, Mr. Laney, at the report you provided that—we've been talking to Mr. Gunn and Mr. Mead and a lot of others to try to come up with some ideas where this authorization is not just a rehashment of where we are. Second, I do think we need to identify what we really are going to have to do with annual appropriations. But I don't think that's enough. I think we've got to have more.

And that leads me to the point that Senator Stevens touched on, and I wanted to come back, because I've asked most of you about this before. I do think we're going to have to have a national transportation bonding authority, capital bond authority, with the tax incentives that go with it. None of you touched on that.

Now, Mr. Laney, you've worked in this area. You're a leader in Texas in the transportation area. What is your reaction to that? What's your thought about the bonding-authority capability?

Mr. LANEY. Senator, that's a question that ultimately goes to the heart of a matter that's much bigger than Amtrak itself and goes to the overall issue of infrastructure in the rail industry. And most of that infrastructure, as you know, is freight-rail infrastructure. Outside of the Northeast Corridor, that's the rail we operate on, and, ultimately, as go the freights and their infrastructure health, so goes most of Amtrak, whether it's corridor service or long-distance service.

There is—and everyone in the freight-rail industry and in our industry and in the highway industry know it—we are approaching very significant constriction and bottlenecks and congestions throughout our transportation system nationally in the infrastructure capacity.

Senator LOTT. So, is this the solution?

Mr. LANEY. Bonding is an enormous step forward, we think, in terms of injecting potential capital. And I'm speaking not for the board of Amtrak; I'm giving my own——

Senator LOTT. That's what we're looking for.

Mr. LANEY. It's an enormous potential opportunity to address—to begin to address the long-term issues and negative impacts of capacity constraints on freight rail, just like we've done it in the highway capacity. And there's an interrelationship, as you know very well, between freight rail and freight on highways. And freight cannot absorb the demand driven from highways because of highway congestion in the direction of freight rails.

Senator LOTT. Thank you, Mr. Laney.

Mr. Gunn, what's your comment on——

Mr. GUNN. I agree with my chairman.

[Laughter.]

Senator LOTT. He's a very smart man.

Mr. Mead, you and I have talked about this. What's your reaction?

Mr. MEAD. Yes. And since that discussion, I've given it some thought. And I think the conundrum, the big issue, on bonding is, where would the money come from to pay the purchaser of the bond the RI, the return on investment, during the life of the bond?

If you look to a model that Amtrak proposed several years ago, it worked like this. You buy the bond. Say, I'm Amtrak, hypothetically. I get $1,000. I take 20–25 percent of that, and I put it in an escrow account. And, over the life of that bond, the interest accruals on that 25 percent that I've put aside are sufficient to pay off the face value of the bond. But you, as the investor, are going to say, "Well, Mr. Mead, I want a return of investment. I don't want to wait 25 years. I want a good return on my investment during the life of the bond." I can't figure out where that money's going to come from. In the aviation world, when they float a bond, the airlines, the landing fees, all contribute to the repayment of it. In Amtrak's situation, I don't know where the money would come from. And that's a conundrum that I'm still trying to work through, sir.

Senator LOTT. Well, we'll be waiting on your answer, because this is what we intend to do, so we've got to have some logical answer to that question. And you've touched on one. Maybe you touched on both of them. We may have to look at some way to get a—some fee, some designated source to make sure there's repayment there.

Mr. Rosen, what would be the Administration's position on that?

Mr. ROSEN. Well, Senator, the question of how bonding would work often comes down to the particulars. And so, I don't know that I want to say, in a definitive way, an Administration position, but let me suggest that I think there are at least two sets of potential difficulties that we would really need to take cognizance of. One set of them relates to the whole problem of accountability and repayment. And Inspector General Mead was alluding to part of that issue, of, how do you ensure that there will be repayment? But, also, how do you ensure that the funds will be used in the optimal manner, because, in the private-sector financing, the bondholders are going to be paying real close care as to whether those debenture agreements are being fulfilled and the funds are being used appropriately.

On the other hand, anytime you talk about Federal-backed or subsidized bonds, you have a whole different set of problems, which is, is this an efficient way of financing relative to the general fund? Because the U.S. Government can borrow money, and can do it pretty efficiently and cheaply. And so, the question you always have to ask is, if you're going to create something that's different than a U.S. Treasury debt instrument, what advantages are you gaining from that? And that can be an extremely problematic question, and it's one you always have to confront.

But, as I say, it does come down to the specifics, but I think it's a mistake for people to just assume that bonding is an easy thing that gets us out of the conundrum of, are we using taxpayers' dollars? Because the ultimate answer may be that we are, and we, ultimately, may not be doing it efficiently. And so, those are the kinds of tests that you have to look at.

But the—again, as I say, it does come down to the specifics. And I don't want to speak for the Administration in any comprehensive way without knowing the details of what we'd be talking about.

Senator LOTT. Well, I would urge you, the Administration, to look at this. If we're going to have a national rail passenger system—and I assume the Administration is for that—we're going to have to figure out how we're going to pay for it. And I don't think what you've come up with is enough. I mean, are you just going to rely on us to appropriate the funds annually? We've proven we can't do that in an adequate way. So, you know, and competition and other things have suggested state participation. That's all fine, but I don't think it's enough. So, we need a little more innovative thinking from the Administration on how we're going to do more, if we want to do this in a responsible way. And I urge you to look at that.

Mr. ROSEN. Senator, I hear your general point on that, and I think the fundamental problem that I think many people are concerned about, and I infer you may be, is the multi-year problem, that it's not so much that it's an appropriation, but that it's an annual event. And I think we would be interested in working with you and this Committee, and perhaps the appropriators, as well, to think about how to deal with that aspect.

Senator LOTT. Thank you very much.

Senator Lautenberg?

Senator LAUTENBERG. Thank you, Mr. Chairman.

I wonder, in terms of sources of funds, what do you think of the security—our security requirements are, relative to rail service? Mr. Rosen, do you think there's any need to have a comprehensive rail system throughout the country, in the event of attacks by those who would bring us harm?

Mr. ROSEN. Well, I think that's bound up in the larger question of—one of our fundamental transportation policies is to have mobility—is to have nationwide mobility and, as I've alluded to earlier, a multimodal system. So, you don't want the system to be entirely susceptible to a weak point anywhere. But I don't think you can build one piece of your system entirely on the premise that this is because we're concerned about the next attack. The way you try to develop a secure system is both to have mobility in multiple modes and, as DHS has the lead with respect to—thinking about how you provide security measures in the modes.

Senator LAUTENBERG. We're going to differ on that. I think it's an essential part of protecting our society's mobility in the event of a disaster such as we saw. And I remember vividly, at 9/11, when Amtrak was the only thing that was running in the—that area of the country, and we were so glad to have that when aviation was shut down. And if it happened before, heaven forbid, it could happen again.

Secretary Mineta—we were talking about subsidies of varying types—Secretary Mineta has been quoted as saying that if the states won't pay for service, then trains shouldn't open their doors whole moving through that state. Well, we have an example in the State of New Hampshire, where it doesn't contribute anything to the Downeaster service provided by the State of Maine. Would the Secretary, therefore, say, eliminate all stops in New Hampshire, even though doing so would significantly impact the ridership and the financial performance of the service?

Mr. ROSEN. Well, again, I think you have to differentiate between the status quo 1970 model, where the situation is what you describe, but not just in New Hampshire; many places are not currently providing state support and—because they're not called upon to do so by the existing system of Amtrak.

Senator LAUTENBERG. So what would the Secretary's view be, based on this? Going back, this is a statement, that if the state doesn't pay—doesn't contribute anything, the doors—the train, even if it passes through the state, shouldn't stop and open them.

Mr. ROSEN. OK, but let me be clear, the Secretary is not alluding to what should happen, or should have happened in the past, with regard to the status quo.

Senator LAUTENBERG. I see. So——

Mr. ROSEN. The Secretary is alluding——

Senator LAUTENBERG.—we're going to deal in the realm of—you'll forgive me——

Mr. Rosen, you made a statement, in your testimony here, that—you say, likewise, the intercity bus industry, no comprehensive or dedicated Federal operating system carries as many as 350 million passengers annually.

Mr. ROSEN. That's right.

Senator LAUTENBERG. The CRS report says that, in fact, there is a provision under the—not CRS—what about Section 5311 intercity bus program—offers a 50–50 Federal/State match for intercity bus operations, and an 80–20 for intercity bus infrastructure. Well, is there any challenge in those two positions?

Mr. ROSEN. No, I don't think there is, Senator, because I think what you're alluding to is not a comprehensive Federal program. You're talking about a transit program that has a small indirect way. And I believe the expenditure on that's about $20 million a year. So, I don't think we're talking about kind of——

Senator LAUTENBERG. Well, we're not talking about amounts, we're talking about principle here.

Mr. ROSEN. Well, I think the principle's quite different, as well.

Senator LAUTENBERG. All right, well, I read your statement, "No comprehensive"—you can pick words apart here—"dedicated"—there are operating subsidies to some intercity bus operations.

Mr. ROSEN. Senator, if we were talking about $20 million a year for Amtrak, I don't believe we'd be having this hearing. I mean, I think we're talking about very different——

Senator LAUTENBERG. Thank you for your opinion, Mr. Rosen.

I want to ask whether or not—Mr. Gunn, for instance, you might be interested—knowledgeable about what happened in the case of Argentina and Mexico when they eliminated subsidies for intercity passenger rail service.

Mr. GUNN. Actually, I'm not very knowledgeable of those two areas. I know the British results better.

Senator LAUTENBERG. OK.

Mr. GUNN. But, basically, the Argentine railroads are gone.

Senator LAUTENBERG. They're out of business.

Mr. GUNN. Yes.

Senator LAUTENBERG. And——

Mr. GUNN. With a few——

Senator LAUTENBERG. Yes.

Mr. GUNN.—of bulk commodities, but—and there are commuter services left.

Senator LAUTENBERG. The service disappeared, I can tell you that——

Mr. GUNN. Yes.

Senator LAUTENBERG.—from CRS.

Mr. GUNN. That's all I know. I don't——

Senator LAUTENBERG. And that's what would happen if we stay on this fantasy ride that we want to——

Mr. GUNN. Well, Senator, you asked me a question earlier about privatization. I think the one thing everybody has to realize, that no matter who's running it, there's going to be a subsidy. This is not——

Senator LAUTENBERG. Well——

Mr. GUNN.—going to be a profit——

Senator LAUTENBERG.—I think a good way to invite companies or organizations to compete is, tell them there's a subsidy. Unless we just outright say, "If we ever go private, there will never be a subsidy by the Federal Government." And I think that would change the conditions a lot.

Mr. ROSEN. Senator, could I just offer a thought on that? The place where perhaps we differed is, the Administration is—finds it acceptable to have what you could call a subsidy for infrastructure.

But we're talking about operations. And on the train operations—for example, the Alaska railroad is not subsidized on operations. It is——

Senator LAUTENBERG. You don't want to discuss the Alaska railroad. You have to look at how Alaska was skillful enough to acquire that railroad and the costs that——

[Laughter.]

Senator LAUTENBERG.—it takes, and then we—New Jersey would take that anytime.

[Laughter.]

Senator LAUTENBERG. Mr. Chairman, the one thing that we see here—and I think you were very clear in your comments—and that is that we've got to step up to the plate with this thing, and we can't pretend that there's not a problem here, that, frankly, I think, would have a gigantic effect on the way people move through our country. We'd have—we've got essential air service because it's necessary. That's why it's there. Otherwise, you'd never get it through here. And we provide that service. It's fairly high cost. Some are a couple of hundred dollars a passenger. And that's what government's for. It may surprise people here to know that we even pay for border protection and lots of other things, and healthcare. Gee, that's a surprise. That's what government's about—supplying services, my friends, and we've got to continue to supply services. And I hope, Mr. Chairman, that when we get to work on our bill, we're going to make sure that there is a national passenger rail service, and one that has enough investment in infrastructure to bring it up to modern times.

Senator LOTT. Thank you, Senator Lautenberg. And I'm looking forward to working with you on this. And I do think the Federal Government has a role to play. Where people, or cities, individuals, can't do things for themselves, the Federal Government does have a role. Personally, I don't like operating subsidies to intercity—intracity transit systems. And I wonder how much of a responsibility the government has to pay for a lot of things—a lot of individuals' needs. But in other cases, like in transportation, it is interstate. The individual and the state, or the city, can't do it by itself. That's why I do view this one, and other transportation programs, as different from just Federal Government subsidizing everything.

Senator Sununu?

Senator SUNUNU. Thank you, Mr. Chairman.

Obviously, if you're running intercity rail, and a national rail system is going to be intercity, but I would certainly draw the Committee's attention to page 3 of Mr. Rosen's testimony, which clearly shows the percentage of intercity transportation that is rail. I assume this is all rail. Mr. Rosen, it is all rail?

Mr. ROSEN. It's all intercity rail. In other words, it wouldn't cover trolley cars in the city, for example.

Senator SUNUNU. It's a very small portion. It looks like it's less than 1 percent, to me. But when the line starts hugging the very bottom of the graph, it's hard to tell. And so, we get back to the question of, well, to what extent do we wish to subsidize this level of ridership and this portion of ridership?

I'm sorry Senator Lautenberg has left, but I'm going to say good things about him, in general, in this sense. I don't know that I support the idea of New Jersey taking over the Northeast Corridor, but I do think that that's the kind of idea that at least ought to be explored. Whether it's New Jersey or a combination of states in the Northeast Corridor taking responsibility for owning, operating, managing, making capital resource allocations, creating incentives for riders, marketing, and all the rest, I think they would, in all likelihood, do a far better job than is being done under the current umbrella. That's not a comment on management quality so much as it is a commentary on the structure itself and the mandate we're putting on this entity to continue to operate nationwide. And it does come back to——

Senator LOTT. Could I inquire of the Senator, under those circumstances, where a group of states would get together to manage and operate and pay—they would also pay for everything; there wouldn't be a Federal subsidy under that arrangement, right?

Senator SUNUNU. Perhaps. But, then again, perhaps they would do a better job if they were to negotiate a subsidy. My guess is it would be dramatically less than the one we're currently providing. But——

Senator LOTT. My point is——

Senator SUNUNU. And——

Senator LOTT.—we, in Mississippi, are not going to be willing to help pay for that service just up there——

Senator SUNUNU. We are not negotiating——

Senator LOTT.—in the Northeast.

Senator SUNUNU.—a contract now, but I——

[Laughter.]

Senator SUNUNU.—certainly understand that the——

Senator LOTT. I just want to make sure everybody——

Senator SUNUNU.—that the nature and the structure of the subsidy may be different, but there still may be a subsidy, nonetheless.

In response to the question about the state's share and the Downeaster, in particular, if we went to a system where we had state-sharing—I think Mr. Rosen was being very polite to me; he didn't want to make an awkward comment about New Hampshire—but if we went to a system where we had state-sharing, and that was the methodology for support and finance of very reasonably strong systems like the Northeast Corridor, and a state like New Hampshire didn't want to participate, I suppose, in theory, it would be appropriate for there not to be stops in that state.

Now, I think that, again, if the states had a sharing arrangement, they would look out for their riders, their commuters, their travelers, their economic interests, and come to an agreement about how best to approach it. But that's not the system in which we're operating. The Downeaster, in particular, was a route that was instituted with a great deal of help from former Senator Mitchell in order to provide service to Portland. The contract for operating that was negotiated largely under the auspices of the Maine Rail Authority. In partnership with New Hampshire, they've established a couple of stops in New Hampshire, as well as the ones that are in Maine.

But the problem is, we're not in that situation. And I don't think that that's an especially clever way to argue against the kind of reforms people have suggested here.

Mr. ROSEN. Senator, could I elaborate on one aspect of that? Because I think you make very good points. It's also not impossible for a state to determine—and this is where I was going when Senator Lautenberg asked me to stop—that even if New Hampshire didn't want to participate, that the people in Maine and Massachusetts want to be able to stop in New Hampshire, and that Maine and Massachusetts would simply decide they'll pick up the tab.

Senator SUNUNU. It would be very parochial of me to suggest that people from Maine and Massachusetts wanted to visit New Hampshire, but I think you make a very good point.

Mr. MEAD. One—may I make a point on this—the operating issue?

Senator SUNUNU. Yes, please.

Mr. MEAD. In our oral testimony, and in our written statement, there's a section on capital grants, and there's a section on formula grants without a required match. That's designed for states, during this reauthorization period, to get something when they may not have opportunities for capital development—but where the Federal Government would contribute, without match required, to that state, a grant. Now, if the state's not going to use the grant for rail, they're not going to—they shouldn't get it. Now, it would not cover 100 percent of the loss, so the State of New Hampshire would have to pay more than it's paying now.

Senator SUNUNU. Under a state-share program.

Mr. MEAD. There would be—I think it's fair to say——

Senator SUNUNU. Well, by definition, since we don't have a state-share program now, and we went to a state-share program, then states would have to share more than they're sharing now.

Mr. MEAD. Right. I have a——

Senator SUNUNU. I don't mean to belittle the point, but there's no question, this would be a different form of subsidy, but, at the same time, let's not think that taxpayers in New Hampshire or California or Oklahoma or Mississippi aren't providing some subsidy now. They're just not providing it through their state government; they're providing it in the form of Federal tax revenues——

Mr. MEAD. That's exactly right.

Senator SUNUNU.—that are contributed to Amtrak at a clip of roughly $1.2 billion per year.

Mr. MEAD. Right. And I've got in front of me a list of the states that actually do make direct operating-loss contributions to Amtrak, and also make direct capital contributions.

Senator SUNUNU. Those contributions, though, are done on the basis of agreements in which they have voluntarily entered into with Amtrak. Is that correct?

Mr. MEAD. Under the current model, yes, sir, that's absolutely correct.

Senator SUNUNU. Mr. Gunn, how many long-distance routes are being operated now?

Mr. GUNN. Fifteen.

Senator SUNUNU. Fifteen, OK. I have a list of 16. What's—in my list of 16—I think this is from 2003, early 2004—which one did you get rid of?

Mr. GUNN. The Three Rivers.

Senator SUNUNU. Three Rivers. But you're still operating the Pennsylvanian and the Cardinal?

Mr. GUNN. The Pennsylvania and the Cardinal are still operated.

Senator SUNUNU. What's——

Mr. GUNN. The Palmetto has been truncated.

Senator SUNUNU. What does that mean?

Mr. GUNN. It doesn't go south of Savannah. It used to go to Miami.

Senator SUNUNU. And you say, since you've been at Amtrak, you've eliminated three. So——

Mr. GUNN. There was the Kentucky Cardinal, the Three Rivers, and then the Palmetto has been shortened.

Senator SUNUNU. I'm sorry, I thought the Cardinal was still operating.

Mr. GUNN. Did I say the Cardinal? I didn't mean that. The Palmetto——

Senator SUNUNU. We probably just scared Senator Mitch McConnell. But——

Mr. GUNN. Yes. Anyway, there are three that I can think of right now that we've taken off.

Senator SUNUNU. Three Rivers, the truncated Palmetto——

Mr. GUNN. Yes.

Senator SUNUNU.—and a third——

Mr. GUNN. The Kentucky Cardinal.

Senator SUNUNU. Oh, there are two different Cardinals. I see. I find that confusing, but—OK.

The numbers that I've seen show that overall revenues declined by 10 percent in 2003, by 8 percent in 2004. What do you project overall revenues to be in 2005, relative to——

Mr. GUNN. I didn't bring my budget for 2005, but they would——

Senator SUNUNU. Do you expect them to decline again?

Mr. GUNN. No. They were basically flat.

Senator SUNUNU. That's your projection.

Mr. GUNN. It was what—I can tell you what we've done up to now, but I don't know—I didn't bring my budget——

Senator SUNUNU. What, in your mind, is the reason for the significant decline in revenues over the last two and a half years? And why do you think that trend is going to stop in 2005?

Mr. GUNN. I think that a couple of things happened; one of which was, there was definitely a change in mix from higher-fare tickets to lower-fare, to coach. The mix changed. And, obviously, the endpoint-to-endpoint competition from the low-fare airlines has hurt us.

Senator SUNUNU. And why do you think that——

Mr. GUNN. Yes, that—and the other thing, just—the Chairman just reminded me—I don't know what revenue figures you're looking at, but if it includes mail and express, we got out of that business. Do your figures include mail and express?

Senator SUNUNU. I think, in the Congressional Research Service documentation that they put together, those would be combined revenues——

Mr. GUNN. That's the other thing that—if you're looking at the total revenue per train, the biggest reason for the drop would be getting out of mail and express.

Senator SUNUNU. And why did you get out of mail and express?

Mr. GUNN. Because we were losing money on that.

Senator SUNUNU. And what is the impact, then, on your operating loss? Isn't your operating loss either the same or slightly greater?

Mr. GUNN. Yes—no, the first year, it was basically a wash, because we—this is cash, now—it was a wash. I think—because there were some things we had to do to get out of the business—I think we'll pick up two, three, four million dollars a year, cash. We had to write off a lot of assets, which gave us a big bookkeeping loss from that in 2004. But we were also able to sell—we've been fortunate that we were able to sell all of our road rail—or we had two types of—three, really—three types of basic equipment, and our road railers—we were able to sell those to a freight railroad and basically get rid of the paper that—because they were all financed. We're in the process of trying to reach a deal to sell—or to long-term lease a bunch of our—the boxcars, and that will—we'll recover cash from that. And we've stored about 40 locomotives that we're in the process of trying to lease to other operators. We're close to leasing a batch of them right now. So, that will help. That will generate cash. So, there's a series of things that, if they happen, will help us, will improve—will have a very positive impact on us. And——

Senator SUNUNU. The Federal appropriation was $1.2 billion, is that correct?

Mr. GUNN. For the—1.2.

Senator SUNUNU. And your request is $1.8 billion this year?

Mr. GUNN. Yes. But that—let me just say, the difference—it's 1.8, but if we had a credit facility to take care of our working capital, it drops to 1.6, approximately. In other words, the difference—the actual difference, in terms of what we intend to spend on the railroad, is 400, and it's all capital.

Senator SUNUNU. Well, that would seem to reflect an insignificant change in your operating level.

Mr. GUNN. Well, our goal is to keep the operating deficit from growing, which is fair. You know, given the physical conditions we have, that's a pretty ambitious goal, but we've been successful over the last couple of years. Because we do have inflation. I mean, that—and the price of fuel and a whole series of things that are buffeting us. But the growth in the request is capital. It's to begin to—it's to repair—on the infrastructure side, it's to repair the Northeast Corridor, basically, although we have some other small projects and facilities we own. On the equipment side, it's to continue the overhaul of the existing fleet, which, I might add, we can thank the Lord we were doing it, given what happened with these sellers.

Senator SUNUNU. And you maintain that if you eliminated all of the long-distance train routes, you would only cut your operating loss in half.

Mr. GUNN. Yes, basically. That's correct. You'd—but you'd cut another 50 million on it out of the capital. Now, maybe over an extended period of time, you'd improve that, but initially you'd have to pony up the C–2 labor protection, which would be over—if you did what we're talking about, would be over a billion dollars. And you would have—you would offset that with savings, after you took the trains off and you had furloughed the people, of about 300.

Senator SUNUNU. Anybody know what the discounted value of $300 million is, in perpetuity?

Mr. GUNN. It depends on the—your—the rate you use.

Senator SUNUNU. Probably quite a bit.

I have one more question, Mr. Chairman, if I may.

Mr. Rosen, you mentioned the subsidy—the overall average subsidy level for the long-distance trains. Did you say it was $218 per passenger? I think that was the fully allocated——

Mr. ROSEN. That sounds right. I can double-check the number I was giving you. It was actually out of my written testimony.

Mr. GUNN. Can I just make a comment?

Mr. ROSEN. $214.

Senator SUNUNU. Yes.

Mr. GUNN. Just a factual comment. We talk about subsidy per passenger. And what happens when we make these calculations is, people tend to divide the number of Amtrak passengers into the subsidy. In fact, there are hundreds of thousands of other daily passengers who are on Amtrak track and under our wire, using our signals, that are involved, as well. So, you've got to be a little careful with just dividing Amtrak passengers into subsidies——

Senator SUNUNU. I'm not sure I understand——

Mr. GUNN.—unless you segregate into——

Senator SUNUNU.—that.

Mr. GUNN. Pardon?

Senator SUNUNU. I didn't understand that. We're talking about the long-distance trains that——

Mr. GUNN. Oh, OK.

Senator SUNUNU.—the 15——

Mr. GUNN. You're talking about intercity? I'm just—then that's probably a good——

Senator SUNUNU. And I wasn't talking about the Northeast Corridor.

Mr. GUNN. I just wanted to point out that there are an awful lot of passengers on our facilities that use Amtrak, in one way or another, that are not Amtrak passengers. In fact, there are probably four times the Amtrak passenger count for these other passengers.

Senator SUNUNU. So, you're talking about the mass transit, say, the——

Mr. GUNN. I'm talking about——

Senator SUNUNU.—MBTA in Massachusetts and——

Mr. GUNN. No, I'm talking about—the MBTA is the Attleboro line. There's a small number. But there's a—there are large numbers on Jersey Transit, large numbers on SEPTA, in Philadelphia, and large numbers on the MARC service, between Baltimore and Washington.

Senator SUNUNU. My question, Mr. Rosen, is, is there a comparative number, either per mile or per passenger, for the Northeast Corridor, relative to the long-distance train?

Mr. ROSEN. There is. And while I don't have it at my fingertips, it's roughly a breakeven-type number.

Senator SUNUNU. You're saying it's roughly zero.

Mr. ROSEN. Yes.

Mr. MEAD. Yes, but there's a big caveat there. An enormous amount of money—billions—have been poured into the Northeast Corridor over the years in capital. In your state, that's not so. We're talking operating loss——

Senator SUNUNU. Well, actually, about 65 million, I think, was what was put into the corridor.

Mr. GUNN. And that was Maine's money.

Senator SUNUNU. Well, no, actually it was Federal taxpayer money.

Mr. MEAD. My point is that——

Senator SUNUNU. I think if the State of Maine had had to put the money in, we wouldn't be talking about the——

Mr. MEAD. The only point I was trying to make is, when you're looking at this system, you're coming up with these losses per passenger. When you look at the Northeast Corridor, it is true that, in terms of operating expenses, they are roughly breaking even. When you throw in the huge capital contribution that the government's made over the years, that figure changes fairly dramatically, and you'll find some of those Northeast Corridor passengers are riding on the taxpayer's back, as well.

Senator LOTT. Senator Sununu——

Senator SUNUNU. Thank you, Mr. Chairman. Thank you, you've been very generous.

Senator LOTT. Well, thank you very much. I look forward to working with this panel and others that are very much interested. I hope we can come up with an appropriate solution for the needs of the American people.

Thank you.

[Whereupon, at 11:58, the hearing was adjourned.]

APPENDIX

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

Thank you, Mr. Chairman for holding this hearing today to help Members of the Subcommittee get a handle on the various proposals to reform America's passenger rail system, Amtrak.

While both the House and the Administration have recently put forth their ideas for reforming our struggling National Passenger Rail Corporation, my colleagues and I here in the Senate continue to discuss the very complex issues that confront Amtrak.

I must admit, I am disappointed that the Administration continues to attempt to eliminate Amtrak. Under the guise of reform, it seems that the Administration has provided us with a blueprint to break up Amtrak and leave the pieces in the hands of the states and private corporations. This is not the sort of reform that Amtrak needs. It certainly has its flaws, but maintaining a national passenger rail system is in America's national interest. It reduces congestion, it betters environmental quality, and places fewer automobiles on the road. I do not advocate blindly throwing money at Amtrak, but efforts must be made to not only maintain the existing assets but deliberately and carefully expand this service.

Obviously, as a Senator from Maine, I have a great deal of interest in the viability of the Northeast Corridor. Not only its continued operation, but augmenting and improving the Corridor. A significant part of the augmentation of the Corridor is having the power to make capital improvements. Without this power, the safety of our commuters is at risk. According to Amtrak's numbers, the Corridor moved over 14 million passengers last year, easily the most traveled rail corridor in America, including freight lines. I do not feel that we can neglect Amtrak's ability to make these safety improvements, and urge my colleagues to take this into account as we formulate a comprehensive reform package.

In my state, we have an Amtrak route known as the Downeaster. It travels from Boston to Portland, and moves over a quarter of a million people annually. This has been a significant success in Maine, but our route is not financed through the yearly appropriations fight we undertake on behalf of Amtrak. Instead, it uses a Federal Highway Program entitled CMAQ (*see-mack*), which is intended to relieve congestion and improve air quality. It seems clear to me that passenger rail does both of these things as good or better than any other mode of surface transportation. One thing I would like the panelists to speak to is how to fund passenger rail in nontraditional ways, rather than leaning on the General Fund and potentially exacerbate our already ballooning national debt.

Lastly, the security of rail, both passenger and freight, is an often overlooked but very real concern in our everyday lives. I took the step of requesting that the General Accounting Office examine the adequacy of our rail security in relation to international standards throughout Europe and Asia. They are due to complete this study in a few short months. I look forward to hearing from the panelists to what extent rail security has been taken into account in the various ideas that have been offered to initiate these reforms.

The future of passenger rail is important, not only to the Northeast but, as gas prices climb and energy costs soar, throughout the country. If we can develop a template for successful passenger rail here in this Subcommittee, it could provide an avenue to improve our Nation's infrastructure and make our economy more efficient. I am hopeful we can begin to accomplish that today.

Thank you, Mr. Chairman.

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

Thank you Mr. Chairman. I appreciate your holding this hearing and I welcome our witnesses from Amtrak and the Department of Transportation.

Although a vast majority of individuals travel by car or plane as their primary means of transportation, still each year millions of travelers choose, or depend on, intercity passenger rail for such purposes.

Amtrak provides a valuable service for Oregonians who rely on passenger rail for traveling across the state and up and down the west coast. Amtrak operates one short-distance service in Oregon (The Cascades), and two long-distance services, (The Coast Starlight and The Empire Builder). Of Amtrak's total annual ridership of 25 million, ridership in Oregon is nearly 700,000 passengers per year.

In addition. the State of Oregon is one of 13 states currently providing funds to support and maintain Amtrak's rail service. Specifically, the State of Oregon spends $4.5 million per year on The Cascades train line that runs from Eugene to Vancouver, BC. These annual state expenditures have greatly contributed toward the success of operating Amtrak rail service in my State of Oregon. It is my belief that in order for Amtrak to be successful, a system needs to be developed whereby all states with intercity passenger rail service make a fair contribution to support its operations.

As we all well know, funding for Amtrak has been an issue the Congress wrestles with annually and Amtrak has continued to limp along year-to-year with just enough funding to maintain its operations.

In the United States Senate, I have supported funding for Amtrak and believe intercity passenger rail can and should continue as a viable mode of travel for our citizens.

However. Amtrak's financial house is in a shambles, now reaching losses exceeding $1 billion per year. This can no longer continue. Amtrak's operations need to be assessed and reforms implemented in order to sustain the long-term viability of intercity passenger train service.

Reform of Amtrak is much needed and I welcome a constructive and candid discussion of the issues so that, moving forward, passenger rail will be a more efficient mode of providing transportation for our citizens.

I look forward to hearing today's testimony from representatives of Amtrak and the Department of Transportation and their proposals to address the state of Amtrak's passenger rail service.

Thank you Mr. Chairman.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. OLYMPIA J. SNOWE TO HON. KENNETH M. MEAD

CMAQ Funding for the Downeaster:

Background:

I wanted to ask some questions about the Administration funding priorities for passenger rail. As a Northeasterner, the operations on the Northeast Corridor are vital to high-density passenger rail network that operates along the East Coast. In my home State of Maine, our route from Portland to Boston, known as the Downeaster, has been a hard-earned success. However, unlike traditional Amtrak programs, it is not funded through the typical Amtrak revenue streams.

Through the efforts of the Maine delegation, we have been able to achieve funding via the Highway Trust Fund for operation of the Downeaster. More precisely, the CMAQ (see-mack) program, which as you know is used to alleviate congestion and improve air quality, has been used as a funding source for our Amtrak service. As I mentioned in my statement, the Downeaster transports over a quarter of a million people a year, and it has been a resounding success for commuters traveling to and from metropolitan Boston. Yet every couple of years, we have to fight the Federal Highway Administration for a two-year waiver.

Question 1. Rather than constantly fight for a waiver from the Federal Highway Administration on an annual basis, I would prefer that Maine be permitted to use CMAQ funds to achieve precisely what they were intended to do; relieve congestion. What is your feeling regarding the utilization of CMAQ funds to operate passenger rail and mass transit service?

Answer. CMAQ is an $8.1 billion program under TEA–21 intended to help fund capital investments in new projects and programs located in air quality nonattainment and maintenance areas which reduce transportation-related emissions. Rail projects qualify for these funds as long as funds are used in or in close proximity to air quality nonattainment and maintenance areas. We are aware that Maine launched its Downeaster service with $51.7 million in CMAQ funds (along with state bonds and Taxpayer Relief Act Funds) for capital improvements to track and signals and stations. CMAQ funds have been used by other states for a variety of freight and passenger rail services. New York State has spent $100 million or more in CMAQ funds on rail improvements to support passenger service on the Empire Corridor between NYC and Schenectady.

CMAQ funds can be used for up to 3 years to cover operating losses during a system startup period, after which other sources of funding must be used if the service is to be continued. Thus the program, as currently defined, is not intended to provide long-term state support for operating losses on passenger rail service. CMAQ annual appropriations since FY 2002 averaged $1.4 billion a year. The operating subsidy requirements for transit and intercity passenger rail far exceed this level of funding, and, if used to fund operating losses would leave nothing for capital projects. Operating subsidy requirements might better be addressed in new legislation that explicitly recognizes Federal and State agreements on funding rail operating subsidies, such as we have suggested in our testimony.

Alternative Funding Sources for Retaining Amtrak

Background:

While no one here looks forward to another fight with the Appropriations Committee about funding for Amtrak, it strikes me that the most recent proposals to restructure Amtrak revolve around continued utilization of the appropriations process, which seems to me to be spinning one's wheels. Maine uses a unique but effective way of funding its operations for our Amtrak route, and I wonder that relegating the survival of Amtrak to congressional appropriators, and farther down the line to states, seems to deflect the problem rather than attempt to solve it.

There must be at least a few suggestions to creatively finance the passenger rail sector, and Amtrak in particular.

Question 2. Does the panel have any ideas on using alternative or nontraditional sources of funding for passenger rail? Has their been any examination of developing financing outside the realm of receiving a check from the Federal Government every year?

Answer. Since 2001, both the House and the Senate have proposed legislation that would establish a long-term funding source for intercity passenger rail development. Funding recommendations in these proposals have centered on the issuance of tax-credit and tax-exempt bonds as a long-term funding source for corridor development. These proposals have not been enacted primarily because of the resistance to increasing U.S. debt financing and the negative impacts on the budget. Previous proposals focused on the use of highway trust fund monies and a ½-cent gas tax which also failed to generate sufficient support.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. OLYMPIA J. SNOWE TO DAVID L. GUNN

Question 1. Rather than constantly fight for a waiver from the Federal Highway Administration on an annual basis, I would prefer that Maine be permitted to use CMAQ funds to achieve precisely what they were intended to do: relieve congestion. What is your feeling regarding the utilization of CMAQ funds to operate passenger rail and mass transit service?

Answer. Amtrak believes that states should have the flexibility to utilize their Federal highway funds for whichever mode of transportation, including intercity passenger rail, best meets the states' transportation needs and other policy objectives, such as congestion mitigation and improving air quality. The *Downeaster* service to Maine—which operates parallel to the congested Maine and New Hampshire Turnpikes, and has carried nearly one million passengers since its inception in December 2001—illustrates how new state-initiated intercity passenger rail services can provide modal alternatives in congested highway corridors.

Question 2. Does the panel have any ideas on using alternative or non-traditional sources of funding for passenger rail? Has there been any examination of developing financing outside the realm of receiving a check from the Federal Government every year?

Answer. While intercity passenger rail service cannot be provided without government funding, Amtrak believes that new funding mechanisms—including private investment—are necessary if intercity passenger rail is to fulfill its potential. Indeed, the lack of a reliable, predictable Federal funding source like other modes is a major impediment to attracting non-Federal matching funds. Private investors, states and local governments are reluctant to commit their funds to support intercity passenger rail when the level of Federal funding it will receive next year—and, for that matter, whether it will continue to exist—is so uncertain. Thus, it is critical that a Federal funding program for intercity passenger rail, like the programs that fund other modes, provide a long term and predictable level of funding.

Amtrak, and the states who will be the ultimate purchasers of intercity passenger rail services under Amtrak's Strategic Reform Initiatives, would be open to innovative approaches that could help meet some of the funding needs of intercity passenger rail, particularly with regard to corridor development and the acquisition of new equipment. Such approaches might include bond financing, a multi-modal user fee, and the creation of a special purpose entity to acquire and finance new equipment. Amtrak looks forward to working with Congress, the Administration, and the states to advance such initiatives.

Question 3. Who determines the extent of the inspections of the Acela Trains, and the Amtrak fleet in general? Do you feel that the inspections are lacking in thoroughness? Is this part of a pattern of overlooking or simply missing mechanical problems in Amtrak's fleet? How can you reassure the public that these oversights will not continue?

Answer. Every maintenance inspection performed on all equipment owned by Amtrak including the Acela is developed to comply with the Federal Railroad Administration's regulations in Volume 49 of the Code of Federal Regulation. The Consortium of Bombardier Transportation of Canada and Alstom of France through a subsidiary company—the Northeast Corridor Maintenance Services Company (NECMSC)—are responsible for inspecting and maintaining the Acela trainsets in accordance with Federal Regulations and the original equipment manufacturer's recommended practices. The Federal regulation is quite extensive in encompassing every major component on both passenger cars and locomotives to ensure the highest degree of safety for the traveling public. Amtrak's philosophy has always been where possible to increase the safety margin in our inspection process above that which is outlined by regulatory requirements.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. GORDON H. SMITH TO DAVID L. GUNN

Question 1. What steps are you taking in order to improve operational efficiencies at Amtrak?

Answer. Amtrak is undertaking and has initiated a number of efforts to improve operational efficiencies. We have taken advantage of technological improvements in our reservations system, closed down one of our reservation call centers, exited the mail and express business and as a result eliminated or truncated four routes. In addition, we are streamlining procurement of long lead time material for our fleets, outsourcing component renewal and remanufacture where practical, increasing utilization of employee resources as well as eliminating unnecessary fleet configurations. We are also continuing our current initiative to standardize our maintenance inspection procedures across fleet types. This effort will reduce our out of service time for planned maintenance activities while increasing system reliability and overall fleet availability.

Question 2. What are your plans for the routes that are the biggest financial drain on your organization? Would you consider reintroducing routes, such as the Pioneer Line, that have been previously discontinued if these routes are deemed to provide more benefit to consumers and businesses than existing routes?

Answer. The proposals and planned actions in Amtrak's Strategic Reform Initiatives include:

- requiring all users of the Amtrak-owned Northeast Corridor, whose infrastructure requirements are the largest component of Amtrak's capital budget request, to pay their full proportionate share of the Corridor's operating and capital costs;
- establishing performance thresholds for long distance trains, and discontinuing trains not meeting these thresholds absent state (or additional Federal) support; and
- a variety of actions to improve the financial performance of all routes, including changes in food service, selective outsourcing, and limited changes in certain statutory provisions that impose higher costs on Amtrak than on its competitors.

The initiation of new routes is a major corporate decision that requires action by Amtrak's Board and approval by the Secretary of Transportation. This issue is addressed in Mr. Laney's response to the similar question you have posed to him.

Question 3. Budgets at both the Federal and State levels are being stretched in all directions. Are you supportive of having all states with Amtrak service shoulder a fair and equitable share of their operational and capital costs?

Answer. As indicated in its Strategic Reform Initiatives, Amtrak believes that all states should provide a fair and comparable share of the operating and capital costs associated with the short distance corridor trains that serve them. Amtrak plans to transition all corridor routes to state coverage of fully allocated operating losses (excluding interest and depreciation), and equitable charges for usage of Amtrak-owned equipment, over a four year period beginning in FY 2008. Critical to accomplishing this transition, however, is the enactment, prior to the start of that transition, of a Federal matching grant program under which all states will be able to leverage their capital investments in intercity passenger rail on a basis comparable to the Federal match that is provided for other modes.

Question 4. In 2010, the Olympics will be held in Vancouver, BC. The Olympics will draw scores of people to the region during that time. As a result, I anticipate this will cause much traffic congestion, especially on I–5. Are you willing to make the *Cascades* a priority so that adequate rail infrastructure exists in anticipation of the 2010 Olympics?

Answer. The *Cascades* service to Vancouver, BC is supported by the State of Washington, and Oregon provides funding for the portion of the *Cascades* route between Eugene and Portland. The rail infrastructure over which it operates is owned by private freight railroads.

Decisions about infrastructure investments on state supported corridor routes are made by the states involved. Currently, the states are also the primary—and in many cases exclusive—funding source for investments in corridor infrastructure.

Because there is no Federal matching program in place to match state capital investments in intercity passenger rail, the States of Oregon and Washington have funded the vast majority of the expenditures to date to upgrade the *Cascades* corridor and extend service to Eugene and Vancouver, BC. In its 2004 Strategic Plan, Amtrak designated the *Cascades* corridor as a "Tier I" corridor based upon the readiness of the states of Oregon and Washington to make additional investments in corridor development as soon as a Federal matching program for intercity passenger rail is enacted. An important underpinning of Amtrak's plan to transition states to full operational cost responsibility for and control of all corridor services is the enactment of such a program prior to FY 2008.

That said, we have been contacted by some local communities in the Pacific Northwest who would like to work with us to provide adequate mobility to and from the Olympics. We intend to work with these groups and are open to their suggestions and ideas on how we can improve and expand service during the Olympics.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. GORDON H. SMITH TO DAVID M. LANEY, ESQ.

Question. My understanding is that under Amtrak's proposal, states will be responsible for filling funding gaps for long distance routes such as the *Empire Builder* that operates in Oregon. How will each state's financial obligation be calculated? Will you consider and analyze the possibility of reintroducing previously discontinued routes such as the Pioneer Line if they prove to have a more favorable revenue-to-cost ratio than some existing intercity passenger rail lines?

Answer. Under Amtrak's proposal, states will be required to provide operating funding for long distance trains only if a particular train fails to meet the minimum performance thresholds that Amtrak is in the process of establishing. In that case, state funding would be required to cover the "gap" between the minimum performance threshold and the train's actual operating losses. Whether to provide funding, and how much of the required funding would be provided by each participating state, would be up to the individual states involved.

Amtrak intends to operate a long distance train network that optimizes cost efficiency and public benefits within the limits of available Federal funding and equipment. Consistent with these objectives and applicable law, Amtrak would consider operating long distance trains on new or different routes if:

(i) a market analysis indicates that a new route would meet minimum performance thresholds (with state financial support if necessary), in which case a more detailed study of comparative revenues and operating costs, route termination/

start up costs and availability of equipment, would be the next step in the analysis; and

(ii) the new route has adequate infrastructure—particularly rail line capacity—to enable Amtrak to provide reliable service (or a state or group of states is prepared to fund the necessary infrastructure improvements, utilizing the available Federal match if appropriate).

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. DANIEL K. INOUYE TO DAVID L. GUNN

Question 1. Do you fully support the plan developed by the Board? Are there areas that need further improvement or refinement?

Answer. I fully support the Board's plan.

The Strategic Reform Initiatives that Amtrak has laid out are merely the first step in a multi-year planning and implementation process. A large number of refinements will be required as we develop the more comprehensive strategic plan that we expect to issue in early Fall, and as we begin to take actions to implement the initiatives we have proposed. The involvement of other stakeholders is particularly critical as the proposals that we have sketched out in the Strategic Reform Initiatives are refined, fleshed out and revised.

Amtrak management and the Board put a lot of work into the plan and we believe it is a serious proposal and answers the call from the Administration and others about what shape reform of Amtrak should take.

Question 2. What is the single most important tool Amtrak needs to be successful in the future?

Answer. Adequate, predictable funding. Funding of state of good repair needs can no longer be deferred, and a Federal match, comparable to that for other modes, of state funded corridor development projects is essential for intercity rail passenger service to begin to fulfill its potential.

Question 3. Do you believe outsourcing certain functions will significantly lower operating costs? What have been your experiences with outsourcing so far?

Answer. To an extent outsourcing can reduce our costs and where applicable we will explore those opportunities. Amtrak has outsourced selected activities on many occasions with mixed results. While cost is certainly an important consideration care must be taken to acknowledge the other aspects associated with an outsourcing venture; specifications, oversight, Federal procurement requirements and the like which restrict and occasionally eliminate the most viable candidate leaving you with an alternative less capable than existing internal resources.

Question 4. Is Amtrak's security funding needs incorporated into the Board's proposal? Does the $1.8 billion requested for this year include any significant funding for security?

Answer. Security funding in the amount of $13.3 million is included in Amtrak's $1.8 billion requested for FY06. In addition, the Police & Security Department's FY06 operating budget is projected at about $35 million.

Question 5. Amtrak is facing significant on-time performance challenges, especially for long distance trains. What is the major cause of delay for these trains? How do we address this delay? For long distance trains to become better performers economically, as the Board's plan suggests it hopes to accomplish, won't service reliability and on-time performance have to be improved?

Answer. Amtrak long distance trains operate beyond the Amtrak-owned Northeast Corridor using tracks owned by other, "host" railroads. Most delays to Amtrak trains operating off Amtrak-owned tracks are attributable to host railroads. Each minute of delay to an Amtrak train is assigned a cause, and each cause is the responsibility of either Amtrak, the host railroad, or third parties. On non-Amtrak owned lines during the first half of Fiscal Year 2005, host railroad-responsible delays accounted for 78 percent of all delays, followed by Amtrak-responsible delays at 16 percent and third party delays at 6 percent. Of delays caused by host railroads, Freight Train Interference accounted for 29 percent of total delays to Amtrak trains; temporary speed restrictions ("Slow Orders") accounted for 16 percent; Signal-related Delays 11 percent; Passenger Train Interference 10 percent; Routing 6 percent; Maintenance of Way 3 percent; Commuter Train Interference 3 percent.

Amtrak is addressing these delays using several approaches: (1) Amtrak operating personnel work continuously on a real-time basis with host railroads to keep trains moving; (2) Amtrak funds personnel located in the dispatching centers of major host railroads to monitor and improve Amtrak train performance; (3) Amtrak offers the host railroads financial incentives for good performance and penalties for poor performance; and (4) Amtrak is offering a new program of funds to match host railroad and state investments in small, targeted infrastructure projects to remove bottlenecks and improve performance. Amtrak also supports Federal efforts to fund rail infrastructure. The primary requirement for improving on-time performance is capital investment in rail infrastructure to match rail capacity with demand for freight and passenger traffic.

On time performance is one of the primary drivers of Amtrak customer satisfaction. Therefore, improvements in service reliability and on-time performance are key contributors to revenue growth and improved economic performance.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. DANIEL K. INOUYE TO DAVID M. LANEY, ESQ.

Question 1. What are the main differences between your plan and the Administration's plan?

Answer. The Administration's plan would terminate Federal operating funding for Amtrak's 15 long distance trains. Amtrak's plan proposes to establish performance thresholds that each long distance train would have to meet by the end of a transition period, during which time various actions would be taken to improve financial performance. At the end of this period, long distance trains that fall short of these performance thresholds would be discontinued unless states or Congress decided to fund the "gap" between individual trains' operating losses and the minimum performance threshold.

The Administration's plan proposes to turn over the Northeast Corridor ("NEC") infrastructure to a compact of eight states and the District of Columbia. Amtrak's plan would not, at least at this point, separate NEC assets from NEC operations. (We do propose—and have already begun—to separate NEC infrastructure management and NEC operations for planning, accounting, and financial reporting and analysis purposes.)

The Administration's plan contemplates that the Federal match for state capital investments in intercity passenger rail would be no greater than 50 percent. Amtrak's plan contemplates a Federal matching program for state investments that provide a stimulus comparable to that provided for other transportation modes at this stage in their development (e.g., 80/20).

The Administration's plan is silent in its proposal as to what level of funding would be provided for continued intercity passenger rail operations and capital needs or for bringing the Northeast Corridor to a state of good repair, authorizing only "such sums as may be necessary." Amtrak's plan spells out in detail the level of funding that Amtrak believes is required for these purposes.

Both the Administration's and Amtrak's plans contemplate competition in the provision of intercity passenger rail services to reduce costs and improve service quality. However, the Administration's plan does not address fundamental issues necessary to position Amtrak on an equal footing with all other operators/service providers in certain respects, or provide intercity passenger rail operators with the labor flexibility that other industries have. To address these issues, Amtrak has proposed that all new intercity passenger rail employees be covered by Social Security rather than by the Railroad Retirement system, and that labor agreements terminate when they expire.

Question 2. An essential element of your plan is dedicated, multi-year federal capital match program. Is the Board's plan possible without this capital match program?

Answer. No. The vision of intercity passenger rail's future underlying Amtrak's plan—and in the proposals advanced by the Administration and various members of Congress—requires an adequate federal capital match program. Many of the critical elements in the Amtrak's plan—state assumption of the full operating losses of all corridor trains by 2011, corridor development, and increasing the public benefits from (and therefore public support for) intercity passenger rail—depend upon the availability to states of federal matched funding by which they can leverage their investment in intercity passenger rail as they do with other modes. A match program would also allow a leveraging of federal investment in intercity passenger rail with new state funds.

Question 3. Will the metrics established to judge long distance trains include both economic and societal and mobility benefits?

Answer. The metrics for long distance trains that the Board will establish have not yet been finalized. Based on the Board's discussions to date, I anticipate that financial performance will be the primary criterion, but that other factors relating to public and transportation benefits will also be taken into account.

Question 4. What sort of state operating support do you anticipate the long distance trains will require? Are you proposing that Amtrak should cover some maximum loss per train and that the states will have to pick up the rest for operations that lose more than that maximum amount?

Answer. Amtrak proposes that the Federal Government continue to cover the operating losses of long distance trains that meet performance metric thresholds. For trains that do not meet these thresholds, states (or Congress, if it chooses) would have the option of covering the "gap" between the minimum performance threshold and actual operating losses. If such coverage is not provided, the trains will be discontinued.

Question 5. Can the Corporation survive on a funding level of $1.2 billion?

Answer. As stated in the Amtrak Strategic Reform Initiatives and FY06 Grant Request, "Amtrak cannot continue to operate at the current funding level of $1.2 billion in FY06." From a $1.2 billion funding level, Amtrak would first need to reserve $278 million for debt service on its legacy debt. Second, $560 million is needed as operating support for the current base of operations. This leaves a balance of $362 million for all capital programs. The FY06 requirement for capital needs which represent ongoing state-of-good-repair primarily for equipment and infrastructure totals $959 million. Of this $172 million is planned to be supported by non-Federal funding including from states and transit agencies with the balance of $787 million required from federal funding. It is not possible to keep both equipment and infrastructure in a state of good repair with less than half the funding required, $362 million.

Question 6. You mentioned a desire to change the laws governing contract negotiations and retirement plans for Amtrak employees. What types of changes are you looking for? Are you suggesting that these laws should be changed for the entire railroad industry or just Amtrak? If just for Amtrak, why should Amtrak be treated differently than other freight or commuter railroads?

Answer. With regard to contract negotiations, the change we are looking for is to amend the Railway Labor Act ("RLA") to provide that the termination date of an agreement is the date that Amtrak can impose new agreement terms or the union may engage in self-help. Without this the terms of an agreement without a negotiated change continue in effect "forever." We are also seeking to make new intercity passenger rail employees subject to Social Security rather than the Railroad Retirement Tax Act ("RRTA"); current employees would continue to be covered by the RRTA.

These changes should be limited to intercity passenger rail operators and their labor unions only. The Alaska Railroad—the other current operator of intercity passenger rail service in the United States—is not subject to the RLA or the RRTA, and new passenger rail operators who compete for contracts to operate intrastate corridor services currently operated by Amtrak would likely not be subject to these statutes either. Commuter railroads are governed by provisions of the RLA regarding the contract negotiating process. These differ from the provisions applicable to freight railroads that also currently apply to Amtrak.

There is no reason why Amtrak, which is subject to statutory, congressional and administration mandates to reform its operations and reduce its costs, should be subject to all of the statutory provisions applicable to privately owned freight railroads. Amtrak's proposals would create a "level playing field" in which all operators of intercity passenger rail service operators would be subject to the same laws.

Question 7. The Board is advocating very robust competition for the services it now solely provides. I can't think of many other private companies that are asking for competition in their marketplace. Does this call for competition conflict with your fiduciary responsibilities to the Corporation?

Answer. Amtrak is not sustainable as currently funded. The company cannot continue to operate the way it does today with the current level of Federal financial support, which in FY 2005 is approximately $200 million less than projected losses (a gap we are closing with working capital that will soon be depleted). For Amtrak to avoid insolvency, support for Amtrak's funding needs must be obtained from those who have advocated significant reforms in the provision of intercity passenger rail services, including the Administration and many Members of Congress. The Board believes that the introduction and development of competition is one of the steps necessary to achieve this objective. Competition introduces market incentives for operating efficiencies and service quality that are not as pronounced as long as Amtrak is the sole provider. Competition should enhance Amtrak's performance at virtually all levels. It also represents an essential component of proposals from Congress and the Administration and a key to funding levels that will enable Amtrak to continue its operations.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. FRANK R. LAUTENBERG TO DAVID M. LANEY, ESQ.

Question 1. Has the Board considered taking any actions to cut routes to save money immediately? If so, how much money could be saved?

Answer. The Board continues to evaluate many cost saving actions including cutting routes. In fact, for FY05 the Board approved the shut down of the *Three Rivers* route and the truncation of the *Palmetto* route. However, meaningful reductions in operating expense would require widespread route and service actions related to long distance service requiring notice, an orderly shut down and supplemental funding for the significant restructuring costs. Restructuring costs include those related to contractual labor and financing agreements. Instead the Board supports a longer term evaluation process with a set of benefit performance metrics to be used to evaluate and determine the future of each long distance train. This process includes working to improve performance including state contribution where required to achieve performance thresholds or termination beginning in FY08 for routes that continue to fall short.

Question 2. How do you believe that proposing additional competition will aid the bottom line of the company to which you owe a fiduciary duty as Board Chairman?

Answer. Amtrak is not sustainable as currently funded. The company cannot continue to operate the way it does today with the current level of Federal financial support, which in FY 2005 is approximately $200 million less than projected losses (a gap we are closing with working capital that will soon be depleted). For Amtrak to avoid insolvency, support for Amtrak's funding needs must be obtained from those who have advocated significant reforms in the provision of intercity passenger rail services, including the Administration and many Members of Congress. The Board believes that the introduction and development of competition is one of the steps necessary to achieve this objective. Competition introduces market incentives for operating efficiencies and service quality that are not as pronounced as long as Amtrak is the sole provider. Competition should enhance Amtrak's performance at virtually all levels. It also represents an essential component of proposals from Congress and the Administration and a key to funding levels that will enable Amtrak to continue its operations.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. FRANK R. LAUTENBERG TO DAVID L. GUNN

Question. Has the Board considered taking any actions to cut routes to save money immediately? If so, how much money could be saved?

Answer. The Board continues to evaluate many cost saving actions including cutting routes. In fact, for FY05 the Board approved the shut down of the *Three Rivers* route and the truncation of the *Palmetto* route. However, meaningful reductions in operating expense would require widespread route and service actions related to long distance service requiring notice, an orderly shut down and supplemental funding for the significant restructuring costs. Restructuring costs include those related to contractual labor and financing agreements. Instead the Board supports a longer term evaluation process with a set of benefit performance metrics to be used to evaluate and determine the future of each long distance train. This process includes working to improve performance including state contribution where required to achieve performance thresholds or termination beginning in FY08 for routes that continue to fall short.

Responses to the remaining questions were not available at the time this hearing went to press.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. DANIEL K. INOUYE TO HON. KENNETH M. MEAD

Question 1. In your testimony, you note that the freight railroads have expressed considerable concerns about the concept of extending Amtrak's statutory access to other railroads and to new operators. Have you considered any alternative approaches such as having Amtrak manage the operations with the freight railroads and provide operating employees to other service providers on a contract basis, similar to what Amtrak currently provides for private trains or the service that the Alaska Railroad provides for some of the cruise operations in that state?

Question 2. Your testimony suggests crating non-matching formula grants to serve as baseline Federal support for the states to cover long distance and corridor train operating losses and capital costs. If passenger rail funding needs exceed any state's apportionment of formula funds, as it likely would be the funding levels decrease over time per your recommendation, then a state would have to pay for the difference.

Do you support allowing states to use some of their other Federal transportation funds, perhaps provided through the Congestions Mitigation and Air Quality program (CMAQ), the surface transportation program, or the 5311(f) intercity bus program to help cover those additional costs?

Question 3. Can you discuss some of the costs that might be associated with trying to restructure Amtrak through bankruptcy?

Question 4. Do you have examples of other Federal transportation programs that require states to collectively provide matching funds to cover operating costs? What are the challenges associated with this approach?

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. DANIEL K. INOUYE TO HON. JEFFREY L. ROSEN

Question 1. Does the Administration still support restructuring Amtrak through bankruptcy?

Question 2. You've said that the Administration will only support Amtrak funding if it's accompanied by "significant" reform. Given the busy schedule for this year, it is possible, even likely, that final passage of an Amtrak reauthorization bill could occur after we have to approve funding for Amtrak for FY 2006.

Will the Administration support funding to maintain Amtrak while Congress completes its work on Amtrak reauthorization?

Question 3. Greyhound has recently withdrawn significant services in the West and Southwest, while many airlines have cut or eliminated service to many smaller cities and airports. Some of these regions and communities are served by our long distance trains, which Secretary Mineta has described as "trains nobody rides between cities nobody wants to travel between."

If we eliminate the train in these areas, what are people with mobility needs to do in these communities who can't or don't drive?

Question 4. Do you generally agree with the DOT IG's assessment of Amtrak's condition and financial needs?

Question 5. How many Amtrak Board meetings has the Secretary attended during his tenure?

Question 6. In your testimony, you say that Federal funds don't support transit operations, but that is incorrect. The Federal transit program does support operating costs for smaller transit properties and other programs including intercity buses. Why is providing operational support for transit acceptable, but not passenger rail?

Question 7. Do you believe that we should measure the success of transit operations and intercity passenger rail by the same yardstick? Does Amtrak's fare box recovery figures compare favorably with the average rail transit property figures? Is Amtrak not public transit?

Question 8. The Administration, through its SAFETEA proposal supports and has actually proposed strengthening the 5311(f) program, which provides both operating and capital support for intercity bus operations? Why has the Administration not proposed a similar program for passenger rail?

Question 9. I understand that under the 5311(f) program, many states can't even come up with the 50 percent match required to subsidize intercity bus service. Isn't it likely that very few states could then provide a 100 percent match as you propose, requiring for intercity rail operations?

Question 10. Every major Federal capital grant transportation program features some sort of dedicated, multi-year nature of capital projects. Why doesn't the Administration support this approach for passenger rail?

Question 11. In your testimony, you note that Amtrak consumes 9 percent of discretionary transportation spending. But, isn't most of our Federal transportation spending non-discretionary? What percentage of all transportation funding does the Federal Government spend on Amtrak annually?

Question 12. Is it true that the Department of Transportation's FY 2006 budget proposal to the Office of Management and Budget for Amtrak was $1.4 billion?

Question 13. Secretary Mineta has been quoted as saying that if states won't pay for service, then trains shouldn't open their doors while traveling though that state. We currently have an example of this with the State of New Hampshire, where it doesn't contribute to the successful Downeaster Service provided by the State of Maine. Does the Secretary support eliminating all stops in New Hampshire even though doing so would be significantly impact the ridership and financial performance of the service?

Question 14. The Administration has proposed no funding for the Next Generation High Speed Rail program. Does the Administration believe that highspeed rail projects are no longer viable?

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. FRANK R. LAUTENBERG TO HON. JEFFREY A. ROSEN

Question 1. You stated you believe it is not inconsistent for the Administration to provide Federal operating assistance for intercity buses because smaller amounts (than Amtrak's Federal operating assistance grant) are involved. Why does the Administration believe in principle that federal operating assistance for intercity transportation is warranted in some cases and not others?

Question 2. Has the Administration examined the safety impacts of separating infrastructure responsibility from operations over a major corridor? What analysis did the Department perform? Did the Department consult America's freight railroads before making such a proposal? What advice did they provide?

Question 3. Did the Administration study the effect of not having intercity passenger rail service in congested areas like New Jersey before the President proposed the potential bankruptcy of Amtrak?

Question 4. You serve as the Secretary's representative to the Amtrak board. Has the Board considered taking any actions to cut routes to save money immediately? If so, how much money could be saved?

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. FRANK R. LAUTENBERG TO HON. KENNETH M. MEAD

Question 1. You testified before this Committee in the last Congress that a very similar proposal to the Administration's would cost around a billion and a half dollars a year. Is this still accurate?

Question 2. Would the President's proposal likely lead to the reduction of Federal spending on intercity passenger rail service?