UNDERSTANDING THE COST DRIVERS OF PASSENGER RAIL

(113–17)

HEARING

BEFORE THE

SUBCOMMITTEE ON
RAILROADS, PIPELINES, AND
HAZARDOUS MATERIALS

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

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Ranking Member

May 17, 2013

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SUMMARY OF SUBJECT MATTER

TO:	Members, Subcommittee on Railroads, Pipelines, and Hazardous Materials
FROM:	Staff, Subcommittee on Railroads, Pipelines, and Hazardous Materials
RE:	Subcommittee Hearing on "Understanding the Cost Drivers of Passenger Rail"

PURPOSE

The Subcommittee on Railroads, Pipelines, and Hazardous Materials will meet on Tuesday, May 21, 2013, at 1:00 p.m. in 2167 Rayburn House Office Building to receive testimony related to the major cost drivers of providing intercity passenger rail service. The hearing will cover Amtrak's recent financial performance by service type and overall trends in labor, fuel, and operational costs. The Subcommittee will hear from Joseph H. Boardman, President and CEO of Amtrak; Robert Puentes, Senior Fellow at the Brookings Institution; David Kutrosky, Managing Director of Capital Corridor; and Ross Capon, Executive Director of the National Association of Railroad Passengers.

BACKGROUND

Beginning service on May 1, 1971, Amtrak today serves more than 500 destinations in 46 states and three Canadian provinces on more than 21,200 miles of routes, with the help of more than 19,000 employees. In addition to passengers on 300 daily Amtrak trains, an average of 850,000 people travel over Amtrak infrastructure or on commuter trains operated under contract every weekday.

Originally intended to become self-sufficient, Amtrak has relied on federal subsidies for capital and operating activities since its creation. After nearly going bankrupt in 2002, Amtrak has recently sustained record ridership and revenue. Amtrak's revenues now cover approximately 80 percent of its operating costs, a relatively high level as compared to other mass transit and commuter rail systems. However, federal operating subsidies are still required to cover the operating gap and Amtrak still relies on federal capital grants to maintain its infrastructure and equipment. In Fiscal Year 2013, these subsidies totaled $1.3 billion: $904 million for capital and debt service and $440 million for operating losses.

V

The Passenger Rail Investment and Improvement Act of 2008 (PRIIA) included a number of provisions to help move Amtrak onto a more sound financial footing. These included new cost allocation frameworks between Amtrak and the states for the Northeast Corridor (NEC) and State-Supported Routes, mandated studies of individual Long Distance Routes, and provisions to realize efficiencies in procurement, planning, and other activities

Since the enactment of PRIIA, Amtrak has made progress in achieving a more stable financial condition, and with full implementation of key PRIIA provisions, the corporation's financials will be further strengthened. However, this overall improvement is highly concentrated within the NEC and State-Supported Routes lines of business; losses on the Long Distance Routes have not been improved, and in some cases, have worsened.

Northeast Corridor

The NEC runs for 457 miles between Washington Union Station and Boston South Station, of which Amtrak itself owns 363 miles. Amtrak operates 153 daily trains on the corridor, including the Northeast Regional and Acela services, alongside 1,800 daily commuter trains and roughly 70 daily freight trains.

In 2012, a record 11.4 million passengers rode Amtrak trains on the NEC, more than any other Amtrak line in the United States. In 2001, Amtrak introduced its Acela Express service, and since then Amtrak has seen its Washington-to-New York air-rail market share soar from 45 percent in 2001 to 76 percent in 2012. Consistent with the ridership trends, Amtrak has seen NEC revenue rise rapidly: from $580 million in 2003 to $1.05 billion in 2012. This is the only portion of the Amtrak system that earns an "above the rails" operating surplus.

PRIIA recognized the unique structure and complexity of the NEC, and sought to improve governance through the creation of the Northeast Corridor Commission. One of the critical tasks with which the Commission is charged is the creation of a standardized framework for allocating costs between commuter and intercity trains. This cost allocation framework is needed to ensure that all corridor users pay their fair share for their use of infrastructure. For the majority of the NEC, commuter railroads will be required to pay access fees to Amtrak, to maintain the NEC infrastructure. The Northeast Corridor Commission is still working with the states and Amtrak to finalize the cost methodology, and significant issues have been raised by the states concerning governance changes they would like to see before paying new access fees.

State-Supported Routes

Amtrak operates 21 State-Supported Routes in 15 states, under which the states contribute funding to Amtrak to provide additional passenger rail services. These corridors of less than 750 miles, primarily located in the Northeast, Midwest, and Pacific Coast, connect major metropolitan areas and have seen substantial ridership growth over the past decade. In 2012, State-Supported Routes served 15.1 million passengers, a record year, and up 2.1 percent from 2011. Revenue totaled $458 million, up 7.3 percent from 2011.

Top 5 State Supported Routes
Fiscal Year 2012

	Revenue	Cost	Loss	Ridership	Loss Per Rider
Pacific Surfliner (CA)	$ 91.1	118.4	$ (27.3)	2,640,342	$ (10.3)
San Joaquin (CA)	$ 69.9	87.2	$ (17.3)	1,144,616	$ (15.1)
Capitol Corridor (CA)	$ 60.3	75.8	$ (15.5)	1,746,397	$ (8.9)
Empire Service (NY)	$ 44.8	66.4	$ (21.6)	1,062,715	$ (20.3)
Keystone (PA)	$ 42.2	47.8	$ (5.6)	1,420,392	$ (3.9)

*All numbers are in millions, except for ridership and loss per rider figures.

Section 209 of PRIIA required Amtrak to work with the states to develop and implement a single, nationwide standardized methodology for establishing and allocating the operating and capital costs of providing intercity rail service on corridors less than 750 miles in length. This section recognized that over time a patchwork of arrangements had developed between Amtrak and the states—some states were contributing funding for additional rail service, while others were not.

Amtrak and the states have agreed to a common methodology, and beginning on October 1, 2013, most will be required to start contributing additional funding to maintain those services. Amtrak has estimated that this will improve its bottom line by approximately $85 million, contingent on all states agreeing to the amounts. Once in place, approximately 88 percent of the cost of State-Supported Routes will be offset by revenue and state payments.

Long Distance Routes

Amtrak operates 15 long distance trains over an 18,500 mile network serving 39 states, utilizing privately-owned freight rail track. These trains, some of which only run once a week, are the worst performers in terms of ridership, cost-recovery, and on-time performance. In FY 2012, long distance routes cumulatively incurred a total loss of $575 million, roughly equal to the total loss in FY 2011.

FY 2012 Long Distance Route Financial Performance

	Revenue	Cost	Loss	Ridership	Percentage of Costs Recovered	Loss Per Passenger
Auto Train	$74.1	$106.5	($32.4)	264,096	69.5%	($122.6)
California Zephyr	$53.2	$121.9	($68.7)	376,459	43.6%	($182.4)
Capitol Limited	$22.6	$46.2	($23.6)	226,884	48.9%	($104.0)
Cardinal	$8.4	$25.3	($16.9)	116,373	33.2%	($145.2)
City of New Orleans	$22.0	$42.6	($20.6)	253,170	51.6%	($81.3)
Coast Starlight	$45.3	$99.1	($53.8)	454,443	45.7%	($118.3)
Crescent	$34.9	$75.5	($40.6)	304,266	46.2%	($133.4)
Empire Builder	$72.2	$128.2	($56.0)	543,072	56.3%	($103.1)
Lake Shore Limited	$35.0	$66.6	($31.6)	403,700	52.5%	($78.2)
Palmetto	$18.4	$29.3	($10.9)	198,260	62.7%	($54.9)
Silver Meteor	$42.6	$79.5	($36.9)	375,164	53.5%	($98.3)
Silver Star	$38.7	$82.8	($44.1)	425,794	46.7%	($103.5)
Southwest Chief	$48.2	$113.3	($65.2)	355,316	42.5%	($183.4)
Sunset Limited East	$13.0	$53.9	($40.9)	101,217	24.1%	($404.0)
Texas Eagle	$28.5	$61.6	($33.1)	337973	46.2%	($97.9)
	$557.1	**$1,132.2**	**($575.1)**	**47,36,187**	**49.2%**	

*All numbers are in millions except ridership, percentage of costs recovered, and loss per passenger

Amtrak's long distance routes have consistently operated at a loss, and Amtrak has repeatedly taken the stance that these services are provided at the direction of Congress. PRIIA included several provisions to try to reduce the costs of these services. PRIIA required Amtrak to annually report the financial results of each line, and develop individual performance improvement plans. The Federal Railroad Administration (FRA) was charged with evaluating these plans and their implementation, and if FRA found Amtrak was not making progress on the plans, the agency could withhold appropriated funds for a route. To date, FRA has not exercised this authority.

Unlike State-Supported Routes and the NEC, the PRIIA provisions for long distance routes did not lead to an improvement in financial performance of long distance services. The Committee will explore options for reducing the costs of long distance routes in the hearing, including seeking efficiencies within the current service structure, and more radical proposals dealing with route changes, cost-sharing, and other alternatives.

Company-Wide Costs

Another way to assess the costs of intercity passenger rail services is at the company-wide level. The chart below shows the top five business expenses (excluding depreciation of assets) reported by Amtrak for Fiscal Year (FY) 2012:

Top 5 Amtrak Business Expenses $ in Millions		
		FY 2012
Salaries, Wages, and Benefits	$	2,030.5
Fuel, Power, and Utilities	$	355.9
Other Expenses	$	347.2
Train Operations	$	245.7
Materials	$	206.2

Labor Costs

Far and away Amtrak's largest business expense is for "Salaries, Wages, and Benefits," which amounted to $2.03 billion in 2012. Amtrak had projected a budget of $1.91 billion for 2012 and was therefore over-budget by $121.8 million due to higher operating agreement headcount, overtime, and increased health costs.

The total Amtrak workforce in FY12 was 19,871, of which about 17,000 were unionized labor, meaning wages and benefits are established through collective bargaining agreements between Amtrak and labor. There are 13 labor unions with 24 labor agreements, depending on craft and class; and, like other railroads, Amtrak's management-labor negotiations are subject to the Railway Labor Act (RLA), which outlines the collective bargaining process for such disputes.

In late 1999, Amtrak and its unions were unable to resolve differences regarding rates of pay, work rules, and work conditions. Pursuant to the RLA, applications for mediation through the National Mediation Board (NMB) were filed by the unions at varying points from April 2000 through December 2006. The parties did not reach a resolution through mediation; and in November 2007, the President issued an executive order establishing a Presidential Emergency Board (PEB) to investigate the dispute and report recommendations to resolve it. The PEB did so, and released its report December 30, 2007, essentially siding with the unions' demands. In January 2008, the unions and Amtrak reached new agreements modeled on the PEB recommendations that included: (1) retroactive pay at Class I freight levels for FYs 2002-2007 (totaling $262 million); (2) wage increases of 4 percent in 2008 ($51.6 million) and 4.5 percent in 2009 ($117.4 million); (3) employee contributions of 15 percent to health benefits plan; and (4) no work rule changes.

Since the expiration of that collective bargaining agreement, Amtrak and the unions have been negotiating new collective bargaining agreements to cover 2010 through 2015. While the majority of the unions have ratified their agreements with Amtrak, including an approximate 15 percent compounded wage increase over the term of the agreement, two unions are still holding out for wage increases similar to the freight railroads' agreements, meaning a 20 percent compounded wage increase over the term of the agreement.

Under the RLA, the NMB would have to release the parties from negotiations before a new PEB would need to be established by the President to resolve the dispute. If the two unions received the 20 percent compounded wage increase, all the other unions have a "me-too provision," meaning those unions who have already ratified their agreements with Amtrak would also receive that increase. In sum, Amtrak's highest expense is its workforce, and depending upon the outcome of its current labor negotiations, that expense will increase by at least 15 percent compounded through 2015.

INVITED WITNESSES

Robert Puentes
Senior Fellow
Brookings Institution

The Honorable Joseph H. Boardman
President and Chief Executive Officer
Amtrak

David Kutrosky
Managing Director
Capital Corridor

Ross Capon
President and Chief Executive Officer
National Association of Railroad Passengers

UNDERSTANDING THE COST DRIVERS OF PASSENGER RAIL

TUESDAY, MAY 21, 2013

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON RAILROADS, PIPELINES, AND HAZARDOUS MATERIALS,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:17 p.m., in Room 2167, Rayburn House Office Building, Hon. Jeff Denham (Chairman of the subcommittee) presiding.

Mr. DENHAM. The subcommittee will come to order. First let me welcome our distinguished witnesses and thank them for their testimony today. Some frequent attendees.

This hearing is another step towards the committee's bipartisan efforts to complete a Rail Reauthorization bill this year.

One of the key goals of the current Passenger Rail Investment and Improvement Act was to seek cost efficiencies and savings in Amtrak's operations. Since the enactment of PRIIA in 2008, Amtrak has achieved notable improvements in its financial condition.

On the Northeast Corridor, Amtrak earns a substantial "above the rail" operating profit, and with the introduction of the Acela, Amtrak has captured 75 percent of the Washington to New York rail to air market. Amtrak has also seen significant ridership increases on its State-supported routes, which connect metropolitan areas less than 750 miles apart. In many ways, these are the routes where rail makes sense—connecting densely populated areas where rail trip times are competitive with air and automobile options.

PRIIA included an important change to this part of Amtrak's business by requiring the States to contribute more to maintain services. We look forward to hearing how that process is going with our witnesses today.

The one area that PRIIA, and indeed multiple rail bills, have not seen success is improving the financial performance of the long-distance routes. Year after year these routes lose money. In 2012, they lost a combined $600 million. We simply cannot afford to continue these levels of subsidized losses year after year.

PRIIA requires Amtrak to develop and post on its Web site performance improvement plans for its long-distance passenger routes and implement those plans for its worst performing routes. This all was supposed to be done by 2012. However, as we all know, long distance has been losing more and more since PRIIA became law.

To illustrate, since PRIIA became law the NEC has increased its profits by 143 percent, State-supported routes have reduced their losses by 24 percent, while long-distance routes have increased their losses by 11 percent. It is clear that FRA and Amtrak did not follow PRIIA's intent to reduce long-distance costs, so it is up to us on this committee to find better solutions.

Finally, Amtrak's labor force is by far the largest component of the company's overall cost, and Amtrak is currently negotiating collective bargaining agreements through 2015. It is important for this committee to understand how Amtrak management and personnel decisions affect the full cost of rail service and if any efficiencies can be found to reduce the overall cost for providing passenger rail service across the country.

Again, I want to thank the witnesses for being here today. We are open to all suggestions, and look forward to hearing from your testimony today.

I would now like to recognize the ranking member, Corinne Brown from Florida, for 5 minutes to make any opening statement she may have.

Ms. BROWN. Well, thank you, Mr. Chairman, for holding this hearing. As the committee prepares for reauthorization of the Passenger Rail Investment and Improvement Act, I think it is important that we take time to better understand Amtrak and how it operates.

As our Nation's transportation infrastructure falls further and further into disrepair, we are focused on terminating our country's national rail system while cutting off the only public transportation system available to many Americans.

Without Amtrak's long-distance service, 23 States and 223 communities—that is about 4.7 million people, including some in my home State of Florida—would have no access to intercity passenger rail, many of which are not served by air or bus service as we speak. As some Members advocate for dismantling long-distance rail service, I think it is critical that we put Amtrak service and the subsidies it receives into perspective.

Amtrak, like many companies, has room for improvement. But it has made great progress in improving its business model and service. For example, Amtrak has:

Increased ridership in 9 of the last 10 years;

Reduced its requests for Federal operating subsidies;

Reduced its debt to less than 1.7 in 2012; increased its revenue by 42 percent, from $1.9 billion to $2.7 billion in 2012, including an operating profit in the Northeast Corridor of $288 million;

Increased its shares in the travel market in the Northeast Corridor by 77 percent, Washington, DC, and New York by 54 percent, and between New York City and Boston;

Improved—this is really interesting—its credit rating in the last 2 years to the equivalent of A-plus, the highest rating by Moody's in the history of the company—that is an A;

Received clear audit opinions in each of the past 10 years;

Began procurement of new cars and locomotives, which are being built—built—in America by American workers in New York, California, Georgia, and Ohio. I wish it was Florida.

The Federal Government subsidizes all forms of transportation. Let me just say this again. The Federal Government subsidizes all forms of transportation. But our Transportation and Infrastructure Committee only wants to focus and criticize Amtrak.

If not for the strong support of the Federal Government, the airline industry would not be making a profit. Repeat: Airports and air control towers are subsidized. TSA service—subsidized. Essential air service—subsidized. And airlines are paying for part of the Reserve Air Fleet. Moreover, all Federal travel must be on U.S. airlines, and airlines are protected from all foreign competition, while Amtrak bears subsidized foreign competition regularly.

Even the Highway Trust Fund has been subsidized by $54 billion in general revenue over the last several years, and no new funding sources have been identified as we begin to look at reauthorization.

I will make additional comments during my questioning period. But I think every American taxpayer should be concerned about the fact that we spent $60 billion in reconstructing Iraq alone. It is just inconceivable that we do not want to invest our tax dollars, American tax dollars, into making sure that we can move our people, goods, and services so we can be competitive with the rest of the world.

With that, Mr. Chairman, I yield back the balance of my time.

Mr. DENHAM. Thank you. I now recognize the previous full committee chairman, Mr. Mica, for a brief opening statement.

Mr. MICA. Thank you so much.

Ms. BROWN. Mr. Chairman? Mr. Chairman, I object.

Mr. MICA. Thank you.

Mr. DENHAM. Mr. Mica.

Mr. MICA. Thank you so much. Mr. Chairman——

Ms. BROWN. Mr. Chairman? Are we operating on different rules? My understanding of Rule 6 of this committee is that unless you have the concurrence of the ranking member, no Member can speak unless prior approval, based on Rule 6. Has something changed? Why is the Transportation Committee——

Mr. MICA. To the point, Mr. Chairman, it has been the custom afforded in this committee that always extended to the previous chairman when the previous chairman attended a hearing, whether it was Mr. Oberstar or Mr. Young, we always extended the courtesy to that former chair to have, if they wished, the courtesy of allowing them a statement.

Ms. BROWN. On the point, Mr. Chairman, this rule was adopted in this Congress as a request of the chairman, Mr. Shuster. There was lengthy discussions between Chairman Shuster and Ranking Member Rahall and the staff.

At no time did anyone indicate that this committee would act any different from the rest of the subcommittees. At my understanding, and maybe you had better call in one of your attorneys, unless I concur, it cannot happen.

Mr. DENHAM. Thank you, Ms. Brown. I do not think we will be going to court over this issue. But point well taken. We will address Mr. Mica during the full committee statements.

Ms. BROWN. Thank you, Mr. Chairman.

Mr. DENHAM. I would like to again thank our witnesses for being here today. First on our panel, Mr. Robert Puentes, senior fellow at the Brookings Institution; the Honorable Joseph Boardman, president and CEO of Amtrak; David Kutrosky, managing director of the Capital Corridor; and Ross Capon, president and chief executive officer of the National Association of Railroad Passengers.

I ask unanimous consent that our witnesses' full statements be included in the record. Without objection, so ordered.

Since your written testimony has been made part of the record, the subcommittee would request your oral testimony limited to 5 minutes. Mr. Puentes, you may proceed.

TESTIMONY OF ROBERT PUENTES, SENIOR FELLOW AND DIRECTOR OF THE METROPOLITAN POLICY PROGRAM, BROOKINGS INSTITUTION; HON. JOSEPH H. BOARDMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMTRAK; DAVID B. KUTROSKY, MANAGING DIRECTOR, CAPITOL CORRIDOR JOINT POWERS AUTHORITY; AND ROSS B. CAPON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL ASSOCIATION OF RAILROAD PASSENGERS

Mr. PUENTES. Thank you very much. Good afternoon, Chairman Denham, Ranking Member Brown, and members of the committee. I appreciate the invitation to appear before you this afternoon.

The purpose of my testimony is to discuss Amtrak's financial and operational performance. I am going to underscore the new and emerging partnerships that are emerging between the Federal Government, Amtrak, and the States, and describe an approach for sharing operating costs for the long-distance routes.

As you know, it is an opportune time for this hearing, given the expiration of the Passenger Rail Investment and Improvement Act this September. Among other things, that law laid out a bold new vision for passenger rail that emphasized better performance, both financial and operational, and set the framework for a new kind of commitment for Amtrak's State partners.

States now share operating costs for most short-distance rail corridors which stretch 750 miles from end to end. Today these routes are Amtrak's high performers, carrying about 85 percent of travelers, the vast of which between our Nation's largest 100 largest metropolitan areas, the engines of our national economy.

Spurred on by Federal action and recognizing the value that passenger rail provides in supporting these major metros, States have stepped up and identified their own solutions to support Amtrak both within and beyond their borders.

For example, New York State recently assigned $44 million in its current budget to support its obligation for the Empire Corridor. Virginia's new transportation package includes over $50 million in dedicated revenue for capital and operating costs.

Pennsylvania recently agreed to contribute $4 million per year to support the Pennsylvanian, keeping service uninterrupted in the western part of that State. Vermont is budgeting an additional $3 million for its share of the Vermonter, and California's revised budget proposal now includes an additional $19 million to cover the operating requirements for the Pacific Surfliner.

Other States like Michigan support passenger rail through non-dedicated allocation of revenue from their transportation fund, or in the case of Wisconsin and Missouri, its general fund. Oregon uses a dedicated portion of revenue from their personal license plate fees to support its service; and Washington State taps motor vehicle sales taxes and car rental fees.

My point here is that a new 21st-century federalism model is emerging that challenges our States and metropolitan areas to develop deep and innovative approaches to solve the Nation's most pressing transportation problems.

However, we think more needs to be done. Ensuring an efficient and effective passenger rail network in a constrained fiscal environment will require building on the Federal/State partnership initiated by PRIIA and applying it broadly across the transportation network. In this way it should be a top priority to expand the requirement for State operating support to include the long-distance routes.

The 15 long-distance routes carry a small share of national ridership, 15 percent, and largely responsible for the ongoing operating deficit. They do, however, provide extensive service to isolated rural areas and support national connectivity.

The goal of expanding the requirement for State support should not be to eliminate the routes or to simply offload responsibility from the Federal Government to the States, but to strengthen the partnership, to build off the innovation, and reaffirm the commitment of States to long-distance routes over time.

State and Federal stakeholders have undertaken a rigorous and complicated exercise to establish standard pricing policies and cost methodology for short-distance routes in accordance with Federal law. It is reasonable to apply the lessons from this exercise to long-distance routes as well through careful and collaborative work with State leaders and the freight rail companies.

Of course, I recognize that the long-distance routes are much more complex for several reasons, including their length and the fact that they operate in more than one State. Therefore, a negotiated approach should recognize that long-distance routes do not provide the same service to all States along their route, nor do they serve the same function as short-distance routes.

For example, the Lakeshore Limited between Boston and Chicago only travels through Ohio during low ridership overnight hours, but it serves other States during typical travel times.

Now, in exchange for greater responsibility from Washington, States should have added flexibility to design and allocate what are likely to be shrinking levels of resources. As you know, current Federal law allows States to use Congestion Mitigation and Air Quality program dollars for rail operations, but it is limited to only 3 years.

As AASHTO and others have encouraged, that cap should be removed. Doing so does not change the distribution of funds, nor does it mandate the use of CMAQ funds for passenger rail. It simply gives States and groups of States the flexibility envisioned in Federal law, and empowers them to devise their own solutions.

Mr. Chairman, I firmly believe that scrutiny should be applied evenly to the entire transportation network and not just to Amtrak alone. Much attention is given to the fact that other nonprivate transportation passenger modes are not profitable, nor do they concern themselves with being so.

Yet while Amtrak has done a lot to remake itself in recent years, States need to continue to reaffirm their commitment for the model to be sustainable. The upcoming reauthorization and the finalization of the National Rail Plan, coupled with increased attention on the role of passenger rail in States, make this the right time to focus on the future of Amtrak despite these fiscally constrained times.

Thank you again for the invitation to appear before you this afternoon.

Mr. DENHAM. Thank you, Mr. Puentes.

Mr. Boardman, you may proceed.

Mr. BOARDMAN. Mr. Chairman, Ms. Brown, and Members, over the last 10 years our ridership has been rising consistently, particularly on our national system, which is also known as the long-distance trains. We are, on average, as full at peak as our Acela trains on the Northeast Corridor. This has helped us raise revenues, which have improved our recovery to nearly 88 percent.

The operation of the national system is a core Federal responsibility since 1971, and if we are going to offer train service, a Federal-funded national system is the best way to keep costs low, provide the customer choices that build ridership, and develop economies of scale.

I spent the last week and a half riding the Zephyr to and from the west coast to celebrate both the National Train Day and the unveiling of the 70 new Siemens locomotives built in California. I think the Zephyr is a good case study in some of the challenges along the long-distance trains.

Each train can carry and accommodate 365 passengers at a time. The average number of passengers carried per trip in 2012 was 512. And while the peak load is lower, we come close to filing each seat twice during the course of the 2,438-mile trip.

We can have up to six separate trains labeled the California Zephyr out on the road simultaneously. And we have six different crew bases because of the mandated Hours of Service Act, and we have got onboard staff that stays with the train for the whole trip, providing customer service. So it takes 254 crewmembers to maintain a daily schedule for the Zephyr.

We have invested approximately $54 million in stations and facilities on the Zephyr route since 2006. That pales, though, in comparison to the $6.5 billion investment being made in Denver that will include commuter rail, bus rapid transit, light rail service with major investment from the FTA, an investment that would likely have happened if Congress had not required a national system to be preserved.

We cannot ignore the economic development that is being supported in every city, village, or town that Amtrak operates in the 35 stations on this route. Even Salt Lake City—5 years ago, Utah started the FrontRunner Commuter Rail, and is investing in a comprehensive network of public transit options for their residents, again with major Federal investment from the FTA. Amtrak ridership at Salt Lake City has grown over 50 percent in the last 5 years, and that is in the middle of the night.

Seventeen of the thirty-five stations on the Zephyr route provide mass transit connectivity to the communities we serve. Forty-three percent of the riders who come into Chicago connect with another Amtrak train. And while I was in California, I was at Sacramento for the National Train Day. Sacramento, our seventh busiest station on the Amtrak national system with over a million riders, is making major investments for connectivity that will soon drive ridership, mobility, and economic development even higher.

Amtrak's labor cost is not unique to the service industry. Some service industries can consume 70 percent of their operating expenses on labor cost. It is our largest single cost. Labor is the primary cost driver for most American businesses today. According to KPMG, labor is typically 30 percent of total manufacturing cost in developing markets, and it is 55 percent of the manufacturing expenses in New York, and one of the reasons that offshoring has occurred with manufacturing.

The numbers are correct in the above table, which came from the memo that the committee put out. They are correct, but they are not complete. The total, if added, would be $3,184,000,000, and would show labor at 63 percent of the cost. Instead, the number from the financial audit that Amtrak has is $4,035,000,000. Amtrak spent 50 percent on labor in fiscal year 2012. It is a number that is comparable to mfg.

Long-distance trains are a core public service provided by the United States for national connectivity and mobility, and it is clear they are doing more than that. These trains cross State lines in interstate commerce, clearly a Federal responsibility.

Amtrak has a clear Federal mandate to run these services. Between 1971 and 1997, we were required to operate a DOT-designated basic system that included long-distance routes. Today the Rail Passenger Services Act, as amended by PRIIA, requires us to operate a national passenger rail system that includes long-distance routes. That legislation included a "sense of Congress" statement asserting that, "Long-distance passenger rail is a vital and necessary part of our national transportation system and economy."

Should Congress again decide in the next reauthorization to continue a national system, Amtrak is dedicated to ensuring that long-distance trains are sustained and that they are run as efficiently and effectively as possible.

Thank you.

Mr. DENHAM. Thank you, Mr. Boardman.

Mr. Kutrosky?

Mr. KUTROSKY. Thank you, Chair Denham and Ranking Member Brown and committee members. I am here to provide insight on the tools that States can use to manage their State-supported services.

On the Capitol Corridor, for which I am the managing director, it is the third-busiest corridor in the Amtrak system, connecting Sacramento, San Francisco Bay area, and San Jose/Silicon Valley. Throughout its inception, the State of California has provided 100 percent of the operating support for these trains.

Over the last 3 years, we have noticed the main cost drivers for the service include fuel, which is rising at about 6 percent per year; direct route costs, approximately 2 percent a year; and shared costs, approximately 2.3 percent a year.

Over the last 15 years, the Capitol Corridor Joint Powers Authority has been working with its local Amtrak team to control operating expenses while maximizing revenues, yet making sure we employ those amenities which will improve the customer's experience.

With fuel as a cost driver, what we do with Amtrak as they purchase the fuel is to develop conservative cost estimates to make sure that fuel spikes do not negatively impact our budget. And we also opt into the fuel hedging program. And while hedging does not guarantee a reduction in costs, it does help provide a moderating factor. It levels out the potential for large spikes in fuel prices.

One of the other areas that we use to control operating costs is to optimize the service performance. We recently did that in August 2012, and we were able to drop our operating expense by $2½ million, approximately 4 percent of our operating budget.

So as you can see, the ability to control operating costs while maintaining a solid, consistent performance and keeping the passengers happy, requires that strong relationship between the manager and the operator of these State-supported trains.

I would like to transition to PRIIA Section 209 policy, where States now begin to have a better idea and better way of understanding and controlling their operating costs. Section 209 provides a policy for which States will now be able to engage with Amtrak on the allocation of operating costs and equipment capital costs with a policy that is fair, equitable, and transparent.

States have been working cooperatively with Amtrak over the last 2 years, and we have seen significant progress in the policy. We have developed a menu of 15 items from which States can select those services for Amtrak to provide these services, and also help develop cost-effective budgets.

Most recently, on April 18, the States received their fiscal year 2014 projections, and we have been working with the 27 routes. We pulled them all together and made one worksheet so that we can do a comparison. We met with Amtrak yesterday in an all-day meeting. It was a very productive meeting, where we are lining up those costs to make sure they adhere to the Section 209 policy. And we will be continuing to meet with Amtrak over the next 2 months.

Just to give you an example of what we are seeing as States, in fiscal year 2013 the estimated contribution by States for these State-supported routes is $193 million. That number increases to $317 million in fiscal year 2014. That is an increase of $119 million, or 60-percent increase, a lump sum payment.

Now, having said that, the States have been working with their legislative houses and Governors' offices to increase their share of support for these services. And now, as I said, we are doing this side-by-side comparison with Amtrak. We are making sure that these forecasts can line up with the policy, and also that these States can absorb these costs in their fiscal year 2014 budgets.

So upon closer evaluation, we are starting to see that the States and Amtrak will have to form a stronger, more transparent bonding together to make sure that these costs are transparent, equitable, and fair. We have a menu of items from which States to select Amtrak for those particular services in that menu.

We are all driven to make sure the service performance and ridership and revenue meet the goals of each State budget. And one of the things we were working as well besides costs is also revenues. So we want to make sure that we maximize revenues as best as possible.

So in closing, the Section 209 policy allows State intercity passenger rail agencies to acquire the tools to understand and control those cost drivers in their State-supported services. These tools can help States make business-based decisions in the delivery of their intercity passenger rail services that meet the needs of the traveling public while also ensuring these services are cost-effective and efficient.

Thank you for the opportunity to present my testimony.

Mr. DENHAM. Thank you.

Mr. Capon?

Mr. CAPON. Thank you, Mr. Chairman.

Broadly speaking, the major drivers of net costs of Amtrak service are Northeast Corridor capital costs and long-distance train operations. The Northeast Corridor requires considerable capital just to maintain its current condition.

Our two major concerns about the Northeast Corridor are: Because it is at or near capacity, fares continually rise, and the proportion of the population that can afford to ride falls; and public discourse has overemphasized the difference between capital and operating costs.

The latter point has caused many people to believe that the Northeast Corridor is profitable in a private sector sense. The reality, of course, is that without Federal capital support, the Northeast Corridor's downward drift would become a death spiral. And without the rest of the system, a sizable chunk of the fully allocated costs of the long-distance trains would not go away, but would be reassigned to the Northeast Corridor.

Amtrak's individual routes are part of an interactive and interdependent system. The impact of eliminating any route or group of routes involves assumptions about what would happen to revenues from passengers connecting with surviving trains, and distinguishing between costs that would be eliminated and those that would be shifted to surviving trains. Fully allocated cost figures vastly overstate what could be saved by eliminating any one service.

The long-distance trains are heavily used by people who get on and off at intermediate points, and accounted in fiscal year 2012 for 43 percent of all Amtrak intercity passenger-miles, and provided the only Amtrak service in 23 States.

Our view is that we should be increasing the service, lengthening trains; filing gaps in the national network; making track, signal, and station improvements, many of which are going forward, and procuring high-performance modern equipment.

Amtrak's network is so skeletal that attempts to eliminate individual routes would seriously weaken the system's credibility, and also likely lead to wasting a lot of energy, Amtrak staff time, Capitol Hill staff time, and a lot of others. There is scant evidence that elimination of routes in the past has resulted in meaningful improvements to Amtrak's bottom line.

The report that Rob Puentes authored well outlines how growth on Amtrak has outstripped the population growth, the real GDP, and growth in use of other modes of travel. At the same time, airline and intercity bus services have been reducing their service to small markets to focus on larger markets.

A study released this month by MIT found that in the past 6 years, there was a 14-percent decline in yearly scheduled domestic flights from the U.S. air transportation system, with small hub and medium hub airports disproportionately affected.

There has been some discussion about shifting cost of the long-distance trains to the States. PRIIA, the 2008 law, reaffirmed the long-distance trains as a logical Federal responsibility. These trains could not survive a mandate that they get State support.

For a route to survive, every State along it would have to agree to fund the service and agree on schedules, service amenities, and cost allocations. That means funding service in the middle of the night in most of Nebraska because of the crucial marketing importance of hitting Chicago, Denver, and Bay Area markets at attractive hours.

Any single State not cooperating could torpedo an entire route, and any route dropped from the system would shift some costs to surviving routes. And the revenue impact on surviving routes would mainly be negative due to loss of connecting revenue.

Our members are bemused by the intense focus inside the beltway on subsidies to passenger trains in contrast with highways and aviation. Starting in 2008, $53 billion in general funds have been transferred to the Highway Trust Fund. That is about three times what the Federal Government has spent on Amtrak operating grants over 42 years.

What is worse, once this money is transferred to the Highway Trust Fund, it takes on the same restrictions as if it had been paid by highway users. In general, railroads need not apply. This is but one example of transportation policy out of touch with demand trends, and one reason why we frequently hear that the public is ahead of the politicians. For aviation and highways, subsidies are scattered over many different balance sheets, less concentrated, and less obvious than Amtrak's.

We support the budget requests of the administration and Amtrak, and would point out that Amtrak does reduce costs in other areas by removing passengers from highways, encouraging denser development around many of its stations, adding to the attractiveness and cost-effectiveness of transit systems by serving passengers making connections and by sharing facilities, and running electric locomotives on the Northeast Corridor and fuel-efficient diesels elsewhere.

Thank you very much for your time.

Mr. DENHAM. Mr. Puentes, your report states that top priority of this upcoming reauthorization should be to expand the Federal and State cost-share partnership to Amtrak's long-distance routes to improve their financial performance.

Can you explain what is the justification for why you believe that?

Mr. PUENTES. Thank you, Mr. Chairman. To clarify, it is not just to improve their financial performance, although we think that

that is certainly a big piece of this. The analysis that we conducted looking at the short-distance routes, we included the State revenue sources that were coming in as revenue for these routes in our calculation. We found much more positive balances on the operating side when you include these there. So there is a financial piece to it, as you mentioned.

But in a lot of the work that we are doing, not just for Amtrak but across transportation and other areas in general, when the States have a role to play in this, when the States have skin in the game, and when they participate with the Federal entities for things like Amtrak service, we are seeing much better-run service. We are seeing new innovations, new ideas. And we are seeing better integration of passenger rail within the existing network that they are operating.

Mr. Boardman and others talked already today about some of the interesting things that are happening in I guess it was the California Zephyr, in Colorado, and in Salt Lake City. We are seeing in North Carolina and Maine and a bunch of other places a very different type of service that is much more attuned to the unique traditions and the cultures and just the preferences of these individual States.

So a big piece of it, as you mentioned, is about the financial performance. But we think that having the States be committed to having these services, putting skin in the game, not just results in better financial balances but also results in better service overall.

Mr. DENHAM. Thank you.

Mr. Kutrosky, while we are talking about Section 209, Amtrak recently released its projections for fiscal year 2014 and under 209, which is significantly higher than amounts that were estimated using 2011 and 2012 data.

How confident are you in their estimates? And have they provided you backup that you need to plan your business in the estimates?

Mr. KUTROSKY. Chair Denham, that was exactly what we were talking about in yesterday's meeting. So we are starting to get that information provided to us. We are finding one of the larger increases is the equipment capital charge; it was based on a formula that has changed, and that has caused an increase in the equipment capital charge.

That is the most obvious one that we have seen so far. But we need to get into further details there and find exactly what you are asking.

Mr. DENHAM. In your 15 years of experience with Section 209 State-supported routes, what policies would you change? What is working well? And what are some of the cost drivers that make it a challenge for you to control your business?

Mr. KUTROSKY. Sure. Exactly. Thank you. I would say the cost drivers, as I mentioned, are fuel and direct costs; and the shared costs, most importantly is fuel. As we have all seen when we go to go fill up at the gas pump, that seems to be—or I know that is for us. I'm not sure about the other States, but that seems to be the largest driver.

So hedging helps, and developing an optimized service plan that reduces fuel as best as possible. As far as the labor costs, as Mr.

Boardman, President Boardman brought up, those are matters of their national agreements.

But I will say one of the areas that we are looking at, and this has been part of the Section 209, is the menu of services. So some States can opt to another provider. For example, on the Capitol Corridor, our call center goes to the local transit agency. Those operators who answer the phones are cross-trained so they can handle not only transit-type questions but also questions on the Capitol Corridor.

On the Downeaster, they outsource their food and beverage service to a catering company. And in North Carolina, their State-supported Piedmont route, they have a third party maintain their equipment, which is owned by the State of North Carolina.

So those are just some examples of what is available to help control costs. We still have a very strong partnership on the Capitol Corridor with Amtrak. They provide a safe, reliable product for our passengers, and our passengers have some of the higher customer satisfaction scores thanks to those crews.

Mr. DENHAM. Thank you.

And Mr. Capon, every time we have one of these hearings, a fact always gets thrown out about subsidies for aviation and buses and highway bills and everything else.

Would you want to take the same subsidy as aviation? Would that be an equitable solution?

Mr. CAPON. Well, I think the goal should be to have an efficient system that serves the public. So I think that the financial performance of the long-distance trains and the State-supported transactions are roughly similar if you are just comparing costs and passenger revenues and take out the State payments.

For example, the Essential Air Service program is a $200 million-a-year program, but the nature of the service is very different from a train. Essentially, you serve a particular airport in rural Montana. Say they may have a flight from St. Paul or wherever.

You can decide that that particular airport does not need service and take out that flight, and it does not have a dramatic effect on the rest of the system; whereas if you decide that, say, Grand Junction or Denver is not going to be served on the California Zephyr, you essentially have to take out the entire route because the California Zephyr would not be viable without the ability to serve Denver.

So I would say——

Mr. DENHAM. I will come back to that because I am out of time.

Mr. CAPON. Yes.

Mr. DENHAM. But I just wanted to make the point that aviation per-passenger receives a subsidy of about $4.28, mass transit about 95 cents per passenger, Amtrak $46.33 per passenger. So there is definitely a big discrepancy.

But that is one of the issues that we are going to try to get to in this whole PRIIA reauthorization, is how much subsidy is fair for the American taxpayer? How much should we be subsidizing every ticket? And are there more efficient ways to run this?

Mr. CAPON. Right. Thank you.

Mr. DENHAM. But I will come back to that. I am out of time.

I now yield 5 minutes to the ranking member, Corinne Brown.

Ms. BROWN. Mr. Boardman, first of all I want to thank you for your leadership. You know, I serve in the people's House, and it is just very interesting that the people—I don't know what they think about cost-shifting because basically, the States, they are out of money, and it is whether or not we think it is important to invest in a comprehensive system.

I want to thank you for participating in Train Day. I also have supported Train Day. But the point is, you mentioned Salt Lake City, Utah. You know, they have money that came from Florida. And they developed the system, and the routes are developed, and they are moving their people, goods, and services. Money that was slated for Florida went to Salt Lake City. I rode the train. It goes all up in the mountains, moving the students. And everywhere they built a station, it was economic development.

So as we move forward—and I am so sorry that the House—really, it used to be the leader in coming up a bill that was comprehensive, and the Senate would kind of just take our work. Now we have just got to take the Senate's work because we are not able to do our work.

Can you talk about the importance of having an integrated, comprehensive system? And when you talk about California—I have got to say it—I recently was out there. I am on VA, and I went there, and we have 400 units that were built with Federal Government money that are standing idle because the State of California doesn't have money for operation.

So we are looking at an economic system that we need to kick start. But it has to be a partnership between the State, local, and Federal Government. And I do not know. It is all the same taxpayers' dollars whether it is coming from the Federal Government or whether it is local government. It is not foreign sources.

Would you respond to that?

Mr. BOARDMAN. Yes, I will. And I think you have hit an absolute point, the need for connectivity and network. I think that Brookings identifies that as well. They have a different idea on how that might really work. And my expectation is that the committee really does want to see that happen, have that connectivity and that network.

I was hoping that what you would say is that you would provide the assistance, Mr. Chairman, that is provided to aviation in the 50,000 employees of DOT that provide the air traffic control system, which I do not know if it is included in that subsidy number that you really talked about. But with DOT being a 60,000-person agency and 50,000 of the people being at FAA, that is a pretty significant subsidy, I guess you would call it.

Mr. DENHAM. Mr. Boardman, I would just add that it is included in that number.

Mr. BOARDMAN. Good. Then we have a lot of passengers that it is being applied to.

The idea, though, that you could have a railroad system that operated around this country without having it being connected together of course does not make sense to anybody. It absolutely would be dangling pieces all over the country, and it really would not work.

When Denver had the opportunity to grow its service, the only reason that you really had a station there was because Amtrak had been coming in and out of that location. And there was a lot of stress at that period of time about whether you would maintain a connection further to the west, to the Front Range, because they wanted to build a new sports arena.

And Amtrak and FRA at that time really were able to work together with the transit system out there to make a new system really work. And that is where that $6½ billion investment really came from.

Ms. BROWN. One last thing. You know the Sunset Limited. I want that reinstated. But I have talked to the mayors in all of those cities, from New Orleans to Orlando, and there is energy there. But of course, it was not profit-making.

So a lot of the system is not profit-making. When I think about New Orleans and Katrina, I think we need to think out of the box. We need a system in place that when we have natural disasters or we are being attacked, we can move people out of harm's way.

We have got to think out of the box. I mean, we have got to figure out how we can make sure that we are moving—we used to be the leaders in rail, and now we are the caboose, and we do not use cabooses any more.

Thank you again.

Mr. BOARDMAN. You are welcome.

Ms. BROWN. I yield back the balance of my time.

Mr. DENHAM. Thank you.

Mr. Mica?

Mr. MICA. Thank you, Mr. Chairman. First off, some comments and then one or two questions, since I did not have an opportunity to make them at the beginning.

You have heard a fairly rosy picture painted by some of the current operators and advocates of Amtrak. And let me just take parts of this apart here.

First, the Northeast Corridor—and no one is a bigger fan of coming up with out-of-the-box thinking. In fact, if we privatized the Northeast Corridor, opened it to competition—we will just say opened it to private competition—Amtrak would be put out of business in a nanosecond because it is still a Soviet-style train operation, and as long as you have that, people will not be thinking out of the box till. We truly open competition, that is going to take place.

And then the—I call it "Fantasyland finances" of Amtrak. I will tell you the Northeast Corridor is making money, and only in that Fantasyland financing do you not even amortize over some period of time some of the capital costs because we have been pouring billions into the Northeast Corridor, which is the only stretch of track that they really own of any consequence.

First, the Northeast Corridor lack of progress will continue. It does not make money no matter how you cook the books.

Let's go next quickly to—I worked hard on PRIIA. We passed it, Mr. Oberstar and I, the first reauthorization in 11 years. We came up with performance improvement plans for each of these long-distance money-losing propositions. And we wanted to improve the service.

Mr. Capon and others, are you aware that we are actually losing ground from last year? And I had the staff produce this. Mr. Boardman highlighted the Zephyr. We have gone from the loss per passenger of $165.80 to $182 in a year, from 2011 to 2012.

The Southwest Chief, the Chicago to Los Angeles, $177 was the loss. It is now $183.40. And then the whopper of all the losers, which is the Sunset Limited, and I pointed out a year ago that again—the loss was $375 a ticket, per passenger.

And we looked online, and you could order a limousine from anywhere in New Orleans to the airport, buy the ticket, and go in a few hours to Los Angeles, and then deliver someone to the Los Angeles area, and it would cost less than it costs for Amtrak to operate. We would actually save money. And the loss with the Sunset Limited has increased from $375.10 to $400. This is a great concern because we have tried to do better.

So the losses continue. They are pooh-poohed. It is over a half a billion dollars, as the chairman of the committee has pointed out. And again, $46 and some cents for every ticket. It's so off the charts.

I might remind folks—and when we pass these out, we also have the bus routes which can get you there faster and at lower cost in almost every instance. So there is plenty of service, and you can stem some of the loss and bleeding, and people can get where they want to.

By the way, too, the surface carriers—the Greyhounds, the Megabus, all the dozens of surface carriers—are the largest carriers in the United States, more than aviation, far more than 31 million, which is almost a joke in rail terms in world rail passenger service. But they all make money. They pay taxes. And they are not subsidized. I know that is shocking to folks.

So Amtrak again comes forward with losses. Anything they touch seems to turn to—I will not say it here because it is a public audience, but look at Auto Train losses to Florida. They have grown in a year from $108.90 to $122.60. So we are going south rather than making progress forward.

My final question, Mr. Boardman: How much are the losses—I asked you last time; you were going to provide the committee—on food service to Amtrak, which were in the $80-plus million? I do not have that for 2012. Could you inform the committee today?

Mr. BOARDMAN. Mr. Mica, our food and beverage revenue is about 6 percent of our total revenue, and our costs are typically about 5 percent of that.

Mr. MICA. What was your loss? It was $84 million, $83 million?

Mr. BOARDMAN. I am looking here right this minute. The total revenue is 132. Our net loss was $72 million.

Mr. MICA. $72 million. Thank you.

Mr. DENHAM. Thank you.

Ms. Esty.

Ms. ESTY. Thank you, Mr. Chairman.

Last Friday as I was heading home and looking at the committee's schedule for this week, I was thinking about this hearing, and then I got news about a trail derailment in my State. Worst and with children who ride that line all the time, we were all just incredibly grateful that no one was killed.

You know, it appears now that an eastbound Metro North train on the New Haven line derailed, struck a westbound train causing it to derail, over 70 people injured, several critical, and many are crediting our relatively new railcars, which we have been investing in, for saving lives in that accident, and while the NTSB is continuing to investigate the accident, it is worth noting that the NTSB reports that the eastbound engineer noted a broken rail just the time of the incident.

We are continuing to rebuild the affected track, and it is my understanding at the time of the derailment there were only two operational tracks on the Northeast Corridor at that location, and with the other two lines out of service for major update work.

This work eliminated critical capacity, and on a Friday, the Northeast Corridor was closed. I will note also this is also on a graduation weekend. Considerable traffic, considerable disruption to hundreds of thousands of people, and I have heard from folks across Connecticut that the upgrade work on the line and on these additional operational tracks cannot be accelerated due in part to the fact that Connecticut does not receive funding for this portion of the Northeast Corridor from the funds appropriated to Amtrak for the corridor.

Now, Mr. Puentes, the Brookings Institute in your proposal has been discussed with my folks at the DOT in Connecticut, and they have pointed out to me that in your plan to turn responsibility over to the States, you assume that States would be able to draw on the Highway Trust Fund.

However, we are all very well aware that the Highway Trust Fund with its current obligations and funded by the current gas tax is not sustainable in its present state.

Does the Brookings Institution support raising the gas tax while suggesting that the Trust Fund take on passenger rail infrastructure?

Mr. PUENTES. Thank you very much.

So, first of all, we do not advocate just turning over the routes to the States. We have tried to go to great pains to make the point that we are really talking about a partnership that is not just a Federal operation, particularly for the long-distance routes in certain places, but we are so encouraged and so optimistic by these great examples of partnerships that we are seeing all across the country. And so that is the kind of thing that we are trying to see proliferate around the U.S.

Now, that said, not being naive or ridiculous about it, we certainly know that the States are facing tremendous budgetary challenges all across the board, transportation being one of the key ones. A lot of that is because of challenges with the Federal Highway Trust Fund. We certainly know that, and we do not see that increasing, you know, anytime soon.

But to your question, we do think that it is the flexibility that we should be providing, that the Federal Government should be providing to the States if there is going to be then this deal where the States are picking up more of the responsibility in this greater partnership. That to be coupled with additional flexibility, again, not just for Amtrak, not just transportation, but as we are starting to experiment with these new models for federalism, you know, that has got to be kind of part of it. That has got to be this flexibility.

Ms. ESTY. But no additional money, just greater flexibility in deploying the money from the highways that are falling apart in Connecticut to the rails that are falling apart?

Mr. PUENTES. That is a big piece of it. We certainly think that additional money would be tremendous. I mean, we think the Federal gasoline tax has not be raised in 20-plus years. We all know that. We all know the current condition of the Federal Highway Trust Fund. A gasoline tax is long overdue in this country. I personally would support that.

I think that there is a need to do that. I think that we have seen that we can spend that money much better, and we certainly know that the maintenance needs all across the transportation network are in terrible shape. So we certainly need to do that.

That being said, I just do not see it happening any time soon. If there is not going to be additional money there needs to be flexibility.

Ms. ESTY. I would agree with that.

It is well documented the Northeast Corridor, like much of our infrastructure, has a huge backlog of capital needs. It is estimated under the Master Plan this is a backlog of $8 billion. Very quickly from each one of you, yes or no, do you believe that this backlog in the Northeast Corridor is a Federal responsibility on capital needs?

Mr. BOARDMAN. Yes.

Mr. CAPON. Yes.

Mr. KUTROSKY. Yes.

Mr. PUENTES. Partly.

Ms. ESTY. Partly. All right.

In closing, I would like to note that according to the Connecticut DOD—we like these answers—Connecticut has already spent $5 billion of its own money on the New Haven line, but it is estimated that it is going to take another $4.6 billion on this line for a major part of the Northeast Corridor just to get to the general state of good repair and modernization.

So as we look at these different models, partner States are going to have to rely on each other and deal with the Federal Government to travel on this most used line, and we do need to take into account these capital costs which are significant, and in light of super storm Sandy, where we had the New Haven rail line under water during that storm. So we cannot take into account just operating systems, but the capital costs.

I want to thank the chairman for the hearing and yield back my time.

Mr. DENHAM. Thank you.

Mr. Hanna.

Mr. HANNA. Thank you, Chairman.

Mr. Capon, you mentioned that in some way this Congress or our policies are out of touch with demand. Yet in your own statement—and there is all kinds of demand for all kinds of things—but you say that key stations and overall fleets are near capacity. Fares are continually rising, and the proportion of population who can afford to ride Amtrak continually falls, yet demand goes up.

So I mean it could be possible, but how are both possible? What is wrong with letting supply and demand work when apparently ridership is relatively inflexible to the price? And as you say in your own statement, the demand is easily outstripping the supply and continues to go up.

What is a case for continuing to subsidize ridership that has such inflexibility in its demand?

Mr. CAPON. Well, the ridership, it is a strong market. A lot of people are turning away from highways and from aviation, and Amtrak is compelled to have the highest revenues that they can consistent with reasonable load factors because they are under pressure to keep their operating grant requirement low.

When facilities are at capacity, I mean, the most obvious issue would be the two tracks under the Hudson River, one of which is out of service all weekend for maintenance.

Mr. HANNA. But we are talking about two different types of demand here. I am talking about the apparent inflexibility of demand for the product, for the ride, wherever someone is going.

I guess directly why do we keep fares low when that X/Y axis which one would use if it were a business, you would raise the price to a point where you saw ridership decline?

What is the justification for having it that way?

Mr. CAPON. Well, first of all, we have a taxpayer supported railroad that a lot of people cannot afford to ride on because the fares are so high. It provides——

Mr. HANNA. That is conjecture though. I mean, how do you know that? Do you have studies that can show that fares are so high that a lot of people just choose to go nowhere?

Mr. CAPON. Well, a lot of people are riding BoltBus and Greyhound and crowding the highways, a higher rate of pollution than on the train. There is a lot of anecdotal evidence that——

Mr. HANNA. But that does not speak to your statement which says that they will not use the train; that on the margin, people would continue to decline to use the train if you raise the price.

Clearly, that is not true because you say in your own statement ridership continues to go up regardless of the price, yet you object to the raising of the price.

Mr. CAPON. Well, the biggest percentage growth in Amtrak has actually been outside the Northeast Corridor, partly because of the very aggressive fares that they are forcing——

Mr. HANNA. But they are still at capacity.

Mr. CAPON. It is at capacity, but it is at a ridiculously constrained capacity.

Mr. HANNA. Mr. Boardman?

Mr. BOARDMAN. We have used the same method that the airlines do in terms of managing our prices, and especially on the Northeast Corridor, where we can price higher, and we try to price to an elasticity where we would have the maximum amount of revenue.

Mr. HANNA. And you feel like you're continually doing that, or is there something, as Mr. Capon said, there is some public service involved beyond that justifies the public paying for these subsidies?

Mr. BOARDMAN. We are not seeing that. We do not see it that way as a provider of service. We are trying to maximize the amount of revenue we receive per ticket.

If you really looked at the cost per ticket and you really applied even the service especially on the Northeast Corridor that Member Esty was talking about in terms of the connectivity of the Connecticut service, the tracks that we own, everything along the corridor, you are looking at a subsidy for Amtrak of about $5 per ticket nationwide by applying everything.

Mr. HANNA. Have you done studies to prove Mr. Capon's point that people drop out of the system at some marginal point?

Mr. BOARDMAN. We are looking all the time. We keep an eye on Megabus, for example. What is the profile of the rider? How many riders do they have? What do we potentially think their revenues are?

We look to see that we are maximizing our revenues and filling our trains. So we are really managing the buckets on a regular basis.

Mr. HANNA. You can kind of see the irony though that ridership goes up; the price goes up. Ridership continues to go up.

Mr. BOARDMAN. Yes.

Mr. HANNA. If you and I were in business together, we would look at that and say this is a source of unrealized revenue because demand is so high.

Mr. BOARDMAN. But you can only raise it at certain times. For example, starting at noon on Wednesday, our Acelas at about 11 o'clock in the morning to noon become full going back to New York Wednesday, Thursday and Friday.

Mr. HANNA. Thank you. Thank you both. My time has expired.

Mr. DENHAM. Thank you, Mr. Hanna.

Mr. Webster.

Mr. WEBSTER. Thank you, Mr. Chairman.

I only have one question, and it came from a previous question where four of you were asked would you be for taking the Transportation Trust Fund using that money to subsidize the lack of maintenance on the Northeast Corridor railroads, and three of you answered yes.

My question is: would you still answer yes if you were from a heavy donor State?

Mr. BOARDMAN. I did not answer yes to that question.

Mr. WEBSTER. OK. What did you answer?

Mr. BOARDMAN. I answered yes to the question, sir, that do I think it is a Federal responsibility to fund the backlog, not to where it comes from out of the Federal Government.

Mr. WEBSTER. OK. Thank you.

I yield back.

Mr. DENHAM. Mr. Radel.

Ms. Brown is being very generous in allowing us to ask all of our questions. We are going to try to get through here. We are expecting votes any minute now, and rather than call all of you back again, I would prefer to try to see if we cannot manage our time.

So thank you. Mr. Radel.

Mr. RADEL. Thank you.

Mr. Boardman, you come here and you put up with quite a bit with maybe this side drilling with some questions here. I am a freshman so maybe I have no idea what I am talking about, but here is what I do know.

Just having owned a business in the real world and worked in the private sector all my life, I am just trying to wrap my head around where we are at right now in terms of spending and subsidizing, but also what we do forward. And I will tell you I do believe that I would work with our colleague from Florida in understanding that there is a role that the Federal Government plays in our infrastructure, and yes, it can be right here right now, but just a few kind of real world questions if I may.

We know that we are losing about $400 million, $400 million—even when you just say that number out loud—a year in operations. That is what is subsidized. Are we negotiating pay raises right now with employees?

Mr. BOARDMAN. We have labor contracts that we have on a regular basis, yes.

Mr. RADEL. OK. How do I explain that to people at home who do not have Amtrak in south Florida?

Mr. BOARDMAN. I think certainly it is a very fair question. I think what you have is you have engineers and conductors, maintenance people all that do the same work whether they do it for freights or whether they do it for commuters or whether they do it for Amtrak.

If you look at a long-distance train, for example, the recovery ratio of what we cover in terms of our costs are pretty close to what commuters do. So Amtrak gets dealt with many ways in a sense of a loss rather than a purchase of the services that really are out there for mobility, for connectivity.

If you looked at another model like Britain, it is not that they are losing money the way they are talking about it. It actually is costing the British Government more money now that they have privatized than it used to cost them when they did British Rail, and the way they get around that is they put it out for bid, and then the British Government pays the cost of that bid, and we get rid of this idea of a subsidy because that is the provision of the cost.

It is the same thing that is happening here with 209. They are——

Mr. RADEL. That is OK. How do I justify a pay raise when we are just shelling out money? It is your money, your money, you when you pay taxes.

Mr. BOARDMAN. It is the same for a highway contractor in the States when the Federal Government provides $4 billion to New York State to reconstruct the highway. They pay the contractors because the work is done.

Mr. RADEL. All right. Long-distance routes losing $575 million a year, that is it. We can talk about the semantics of subsidizing and funding, et cetera, but where I think that we as Democrats and Republicans can work together and work with you is what are we doing to reform these. What are we doing to do everything that we can to maximize our dollar and stop bleeding money?

Mr. BOARDMAN. I do not think you are going to be able to cut the cost a substantial amount if you continue to provide a connected system across this country.

Mr. RADEL. Are we looking to ways to even do that?

Mr. BOARDMAN. Actually, you have been taking the excess funds from the Northeast Corridor and putting them into the long-distance trains to reduce the Federal subsidy to the long-distance trains.

Mr. RADEL. In terms of practically speaking, technically speaking, which is way beyond me, but that is why we are here today, are we looking at any other areas physically to reform to make the rail more efficient or more cost effective besides just taking money from one place and putting it into another?

Mr. BOARDMAN. Well, we certainly look to try to provide a better service on a regular basis and keep our costs down, but what you really look at here is that the labor is the labor. The fuel, as David talked about is something that is much more difficult to identify.

The major drivers of cost to provide this service is the same for all of us.

Mr. RADEL. All right. Good. Well, look. I hope moving forward if there is anywhere where we can be of assistance, again, in finding areas that we can cut costs and quit bleeding money, I think that in the most bipartisan way we all will do everything that we can to move forward with that.

Thank you. I appreciate your time. I appreciate you putting up with us.

Mr. BOARDMAN. Yes, sir.

Mr. DENHAM. Thank you.

Mr. Williams.

Mr. WILLIAMS. Yes, thank you, Mr. Chair.

I appreciate you all coming by, and I got here late. I got here late. So I am going to ask a pretty simple question.

I am a business guy. I have been in business in the private sector for 42 years. I have fought every Government regulation you can throw at me, and I am a big private sector guy, and I have been riding on the trains since my mother took me to California on Super Chief in 1953.

But anyway, here is my question, and I sit here as a taxpayer and somebody in Congress. Can you guys ever be profitable? Do you think about profits? Do you think about surplus?

I mean, I know you have got contracts. You have got this and that, but I am going to tell you the private sector has been able to do things they never thought they could do before with the economy we have had since 2009, and they have been able to make it.

You know, basically, we, and you are included, we are your banker, and if you are a banker, I want to know how you are going to get profitable, I mean, because you are talking to a bank that does not have any money.

So when is Amtrak going to start thinking in terms of getting costs in line, giving good service, being competitive? And the question is: could the private sector do it better than you can?

Mr. BOARDMAN. We are the private sector. We operate like the private sector. Our costs are in line when you really look at what our costs are. They are in line.

Mr. WILLIAMS. But in line to whom?

Mr. BOARDMAN. They are in line to what a similar service would be provided by anybody who operated rail.

When you look at what, Congressman, we provide out there today, we provided in 1971 for Congress the ability for the railroads to get rid of a money losing operation, which was passenger rail. Congress decided it was important to have passenger rail in the United States across the country.

It is a lot less expensive today in terms of subsidy to provide that passenger service with Amtrak the way we operate than it was back then. The decision to make that ability for the railroads, which are now considered freight railroads, and they were not freight railroads in 1971; they were railroads. They provided passenger service. They provided freight service.

Now they provide freight, but they were not yet profitable even in 1971. It took the Staggers Act in 1980 to allow them to get rid of some expenses that allowed them then now to become the profit of the world or the envy of the world for the provision of freight movement that they provide.

Mr. WILLIAMS. Do you foresee any time soon being profitable?

Mr. BOARDMAN. Not on the long-distance trains. When you look at covering our operating costs, if you were driving a bus up our railroad and did not have to pay for what is underneath, you would make a profit, and that is how we are talking about we are making a profit on the Northeast Corridor.

Mr. WILLIAMS. Well, I appreciate you being here, but in the private sector world and the business world, if your expenses are more than your income, you are not making a profit. I appreciate your being here.

Mr. BOARDMAN. Yes, sir.

Mr. WILLIAMS. I yield back.

Mr. DENHAM. Thank you.

Ms. Brown.

Ms. BROWN. Thank you.

First of all, Mr. Chairman, I want to thank you for having this hearing, and I am looking forward to the Transportation Committee going on the road to hear from our stakeholders.

Our freight rail is number one in the world, and everywhere I go, people are asking us about the freight rail, but I am asking them about their passenger rail because they move their people, goods and services, and they do not have the congestion that we have on the road. They do not have the pollution that we have, and as I said over and over again, we started the train systems in the world, and now we are the caboose, and they do not use cabooses anymore.

And I would like for you all to respond because constantly we are talking about the long-distance services, and I keep saying we have got to think out of the box. When we had Katrina over 3,000 people died, and the buses went underwater because we were not able to move people.

So it is not just profits. Government is just not in there for the profit. We are in there for service, service, service, and I would like for you to respond to how we can have service because there is no form of public transportation or rail that is not freight that makes a profit in the world, and their freight does not make a profit.

Whether I am in Russia or wherever I am, they are asking me about the freight, but the reason why it does not make a profit is because it is separated, and I would like for you to respond to it because there is a lot of education that needs to go into making sure people in this committee understand what we are talking about.

Mr. BOARDMAN. Well, if I could start, Congresswoman.

Ms. BROWN. Yes.

Mr. BOARDMAN. I would tell you that we have had many foreign railroad executives and others come look at our Northeast Corridor and our vision on the Northeast Corridor, and we stand behind nobody in provision of services and revenues that we generate and the profile of our riders.

Since 2000, the ability for us to really provide more service than any of the airlines put together in the Northeast Corridor was a major turnaround, and when the British and when SNCF and others came over here to look at, and even the Japanese, to look at what we were doing to increase revenues, they were, in fact, saying that our estimates for what we could really provide for the future were probably very conservative, and we were trying to be very conservative in how we would do this for the future.

But the Northeast Corridor with 40 million people living within 40 miles of the corridor is probably a service that does not exist anywhere else just like it in the world because it supports the economy of the Northeast, more so than anybody in Europe could understand. Seventy percent of our ridership are business people on the Acela, and about 40 percent on the regional services. In Europe it is about 40 percent for business people.

Ms. BROWN. And the part that really gets me is Members think that we can go into the Northeast Corridor and say we are going to do it this way, not understanding that there are many communities, many States that have come together, and that is the Northeast Corridor.

I know we think we are the big dog, but we are not the only one in the room.

Mr. BOARDMAN. That is exactly right, and you know, I was going to say earlier we lost $5 million over this weekend in revenue and fares because of this shutdown in Connecticut for service. So just the service between New York and Boston was about $5 million.

Ms. BROWN. Yes, and the others? Anyone else want to respond?

Mr. KUTROSKY. Yes, if I may, Ranking Member Brown.

On the Capitol Corridor, we have developed, talking about service——

Ms. BROWN. Are you talking about California now?

Mr. KUTROSKY. In California, we have developed a public-private partnership with our host railroad, Union Pacific, and what we do is we jointly develop our schedules with theirs. They have——

Ms. BROWN. That is taking the freight off, right, so you all can jointly use it.

Mr. KUTROSKY. Exactly. We use it together with them, and their needs are getting shipments in and out of the Port of Oakland, which our trains just happen to have a station nearby there so there is a lot of joint use and shared use of these tracks.

And through our partnership working with them, we have been able to invest jointly in capitalized maintenance programs, as well as keep our service as one of the highest as far as on-time performance.

Ms. BROWN. How about this positive train control? How is it affecting you all?

Mr. KUTROSKY. It has not affected us yet. There in California the focus right now is in the L.A. Basin, but working with Union Pacific, they said the second they are gone after L.A. is up on the Capitol Corridor because, once again, we have about 30 to 40 freight trains a day mixed in with our 30 trains a day. So it is a positive performance.

The other thing I would like to just hit on really briefly is when we talk about the communities in the Capitol Corridor, our $60 million annual investment comes to the equivalent of about $170 million in economic positive impacts for the communities up and down our corridor. So you have the private sector and then you also have your communities, and we feel as though we are, as President Boardman was talking about, the conductivity, we help to provide that through Northern California.

So thank you very much for allowing me that opportunity.

Ms. BROWN. The last person.

Mr. CAPON. Yes, a couple of points. One is that on the Northeast Corridor, also to Mr. Hanna's point, I believe that one is transit Amtrak operates eight or nine cars, and by European standards that would be short. So I think, you know, Amtrak has put out a vision of a much higher capacity railroad, and that would be the basis, and it would probably have a lower operating loss as well with a much higher volume of passengers.

Also to elaborate on the point about one of the benefits of the long-distance trains keeping the infrastructure in place, Virginia Railway Express, the Tri-Rail commuter rail in Miami, and the Washington-Richmond service that Amtrak operates, all of those are possible because the New York-Florida trains never stopped running. When Amtrak was created, none of those three services I named existed, and the Architect of the Capitol had his eyes on the First Street tunnel to take it away from the railroad.

So one of the benefits of the long-distance trains is keeping that infrastructure in place, and I would also like to emphasize in terms of States and cities working to support long-distance trains, there is a lot that is happening not in terms of the operating cost, but in terms of developing modern intermodal stations. The most famous one is probably in Meridian, Mississippi, which Mayor John Robert Smith championed, but there are many other examples, Champaign, Illinois, of wonderful intermodal stations that have improved the economics of the long-distance trains even though they are not in the sense of Section 209.

Ms. BROWN. Thank you.

Mr. CAPON. Thank you.

Mr. DENHAM. Thank you.

And Mr. Hanna has entered information for the record. Without objection, so ordered.

[The information follows:]

Long Distance Transportation Costs Per Passenger

Route Names	California Zephyr	Southwest Chief	Sunset Limited East
Route	Chicago to San Francisco (Emeryville)	Chicago to Los Angeles	New Orleans to Los Angeles
Loss Per Passenger (2011)	$165.80	$177.50	$375.10
Loss Per Passenger (2012)	$182.40	$183.40	$404.00
Amtrak Price (Reserved Coach Seat)	$250.00	$324.00	$201.00
Travel Time (Train)	52 hr, 10 min	43 hr, 15 min	46 hr, 35 mins
Flight Route	Virgin America ORD-SFO Nonstop	United ORD-LAX Nonstop	Delta MSY-LAX Nonstop
Flight Cost	$196.90	$191.90	$239.90
Travel Time (Air)	4h 40m	4h 18m	4h 9m
Greyhound Bus Price (Standard Fare)	$228.00	$229.00	$214.00
Travel Time (Bus)	50 hrs, 0M	46 hrs, 35M	45 hrs, 5M
Departure Date	July 26, 2013	July 26, 2013	July 27, 2013

Auto Train Losses

	Route	Loss per Passenger (2011)	Loss per Passenger (2012)
Auto Train	Lorton, VA to Sanford, FL	$108.90	$122.60

Mr. DENHAM. Just a couple of followup questions.

Mr. Boardman, following up on Mr. Radel's question about the union negotiations, my understanding, the majority of the unions have entered into an agreement with a 15 percent increase in salary, and there are two unions that are still holding out for a higher increase than that 15 percent. Can you explain if these final two unions are settled at a higher rate what happens to the other agreements?

Mr. BOARDMAN. Sure. What we are really talking about here is a 5-year contract. This is not a 1-year, 15 percent.

Mr. DENHAM. Right.

Mr. BOARDMAN. We have under the Railway Labor Act a situation where we have to continue to allow the National Mediation Board to mediate with these unions until they release them. If they release them, then the decision for this goes to a Presidential Emergency Board so that a decision is not reached if it is not reached by us. It actually gets decided upon by a President's Emergency Board, which is the way much of the past has happened for Amtrak.

Mr. DENHAM. My concern specifically is about the "me, too" provisions. You continuously talk about running as a business and more like a privatized business, but yet this is one of those costs that are outside of your control. If the "me, too" provision goes through, if this is a higher negotiated contract than what the others have already agreed to——

Mr. BOARDMAN. It is a pretty typical thing with all of the unions. We have got 13 different unions, 24 different contracts. They all want that kind of provision. So it kind of goes up all the way through the process. It took a long time to finish off the negotiation with the most recent one that we finished because of that provision.

But that provision then does cost us a substantial amount of money. I do not have what that is right this minute, but that would be decided also by the President's Emergency Board.

Mr. DENHAM. Can you provide this committee the different scenarios that you are look at? I think you have concerns from members of this committee I would say on both sides of the aisle that a 15-percent increase at the time that we are doing furloughs and layoffs and sequestration and cuts, 15 percent is probably——

Mr. BOARDMAN. Well, it has already occurred for all of these unions.

Mr. DENHAM. No, no, no. I understand, over a 5-year period.

Mr. BOARDMAN. Yes, sir.

Mr. DENHAM. But if the two remaining, as I understand it, if the two remaining unions are able to negotiate a much higher level——

Mr. BOARDMAN. They are not going to be able to negotiate a higher level. It will be at the PEB.

Mr. DENHAM. So you are not concerned right now that your costs will go up because of something that is outside your control?

Mr. BOARDMAN. Well, because it is in mediation already. So it is mediation at this point in time. The mediators are working with us on this. If they cannot get this worked out in a way that is acceptable to us and acceptable to the unions, then it goes to the President's Emergency Board.

Mr. DENHAM. But the "me, too" provision does allow that if it goes to the President, if it does——

Mr. BOARDMAN. They can make that decision as well, President's Emergency Board. I am sorry. I do not mean to step ahead of you.

Mr. DENHAM. So there is the potential with the "me, too" provision. Say the President and his administration agrees to a higher amount. That also gets translated to everybody else that has already negotiated terms.

Mr. BOARDMAN. Yes, but it is not just that. They can decide a higher rate on anything or everything or they can decide a lower rate as well.

Mr. DENHAM. OK. Thank you.

We are about out of time. We have called votes already, but I did want to get to a couple of brief final points.

Mr. Boardman, last hearing I know we asked a lot of you. I know that you have come in here several times. It is always good to see you, and we have a number of different issues that we want to address in the future. We will try to do the majority of that through correspondence, but one issue that is still hanging out there, the April 11th hearing that we had we asked you for a number of different questions. We are still waiting to get that information back. That will help us to alleviate future hearings, as well.

Mr. BOARDMAN. I thought they were back. I will check on that immediately.

Mr. DENHAM. Thank you.

And just one final question briefly to each one of you. This kind of gets to the crux of our overall questioning. How big of a subsidy is enough?

So we have got to look at the entire rail passenger network and whether we go to a 209 type process for the long-haul routes. We need to come up with a what is fair for the American public. And so I would ask each one of you: what type of subsidy per passenger would be, in your minds, fair for the American public to absorb to keep these long-distance routes in place?

Mr. Puentes.

Mr. PUENTES. It is tough in the abstract, I think, to come up with a precise number. I would say though that I would love to see the States and the Federal Government work together and decide between them in a negotiated manner how much the States would want to pick up. I think on the Federal level it would probably have to be pretty uniform, but then it is up to the individual States to decide from their own resources how much of the system that they like to subsidize that way.

Mr. DENHAM. Thank you.

Mr. Boardman.

Mr. BOARDMAN. I think that it is difficult to figure that out. I think that is one of the things Congress does really need to help us with. What does Congress want to invest in this connectivity across the country? Because I think it is largely you are talking about the long-distance trains more than anything else, and it is a very tough business model, depending on how many people get carried in that train and a different part of the season.

So I do not have a number for you, but I do understand what you are trying to get at.

Mr. DENHAM. I am trying to get at your biggest cost drivers, the places that are outside of your control that cost you the greatest amount of expense or headache.

Mr. Kutrosky.

Mr. KUTROSKY. Yes, Chair Denham. For us in California, our money is given to us through the Governor's allocation to us, and it has performance standards. So we have to meet those performance standards, and our subsidy is 50 percent.

Having said that, I believe I concur with President Boardman. I think it is up to Congress to help us look at it from a systemwide perspective, maybe on a passenger-mile basis, and I am talking about all modes, to figure out how to level the playing field, so to speak. So I think that is something that everyone can understand if you look at it on a passenger-mile because you are looking at the metric of the person traveling, be it either mode, but I believe that would help understand what the true costs are for each model.

Mr. DENHAM. Mr. Capon.

Mr. CAPON. In terms of total costs, I would say that the Revenue and Policy Study Commission that President Bush appointed came up with a recommendation in the order of $8 billion to $9 billion a year.

In terms of net cost per passenger-mile I would say probably should be less than 40 cents. I would like to have the opportunity to submit some comments for the record in response to some of these statements made today, particularly about the Sunset Limited.

Mr. DENHAM. Thank you.

And I just want to state my personal goal in this is not to eliminate the long-distance routes. It is just to make them more efficient, to lose less money and make sure that we have got a national rail network, but do not do it as an expense. Let us make good decisions. Do we need to make a stop at 2 in the morning somewhere where nobody is getting on? Do we need to subsidize some of these routes $404 per passenger? Should the rest of the people around the Nation have to subsidize that?

Or even in my home State, $182 per passenger for the Zephyr route, and I mean it goes on and on. There are some huge expenses with those subsidies. We have big challenges with infrastructure, with upgrading infrastructure, especially on the Northeast Corridor.

If we are forcing you, if Congress is forcing you to take all of your profits off of the Northeast Corridor and then subsidize the rest of the Nation and do that on top of the subsidy that is coming from Congress, you will never get an opportunity to repair the rail and the bridges that you need to put into.

So we want to work as a partner with you to not only get this new passenger reauthorization bill done, but get it done right and more efficiently, especially in today's huge deficits we are seeing from the Federal Government.

Any final words, Ms. Brown?

Ms. BROWN. Yes. Mr. Chairman, I think you asked a good question. What are fair subsidies? And I would ask what is fair for highway, what is fair for aviation, what is fair, period?

But, Mr. Chairman, I would like to definitely make a written statement concerning long-distance transportation costs per passenger, and I want to make sure I put that in the record because Mr. Mica made comments about the auto train losses and talked about Sanford, which is one of the most profitable routes that we have, moving people off of the highway and providing services.

But I think I got a positive recommendation. I would recommend, as we have done in the past, to have a round table discussion with labor and call them in to discuss the issue that you raised today about, you know, the negotiation, and I think that we could call them in and talk to them about where we are. I mean, I think that sounds like a bipartisan recommendation.

Mr. DENHAM. It sounds bipartisan to me.

The votes have been called. We are going to have to cut today's hearing a little short.

I would ask unanimous consent that the record of today's hearing remain open until such time as our witnesses have provided answers to any questions that have been submitted to them in writing and unanimous consent that the record remain open for 15 days for additional comments and information submitted by Members or witnesses to be included in the record of today's hearing.

Without objection, so ordered.

I would like to thank our witnesses again today for their testimony. If no other Members have anything to add, the subcommittee stands adjourned.

[Whereupon, at 2:43 p.m., the subcommittee was adjourned.]

Strengthening the Federal/State Partnership on Passenger Rail

Congressional Testimony of
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Presented before
Subcommittee on Railroads, Pipelines, and Hazardous Materials
Committee on Transportation and Infrastructure
United States House of Representatives
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Good afternoon Chairman Denham, Ranking Member Brown, and members of the Committee. I very much appreciate the invitation to appear before you this afternoon. The purpose of my testimony is to discuss Amtrak's financial and operational performance, and underscore the new and emerging partnerships between the federal government, Amtrak, and the states.

As you know, it is an opportune time for this hearing given the expiration of the Passenger Rail Investment and Improvement Act (PRIIA) this September. Among other things, the law laid out a new vision for intermetropolitan passenger rail in the U.S. that emphasized better performance—both financially and operationally—and demanded a new kind of commitment from Amtrak's state partners. States now share the operating costs for most short-distance rail corridors that stretch 750 miles or less from end to end. Today, these routes are Amtrak's high-performers, carrying around 85 percent of travelers.

The examination of the costs and performance for passenger rail, then, should pay close attention to these partnerships. In particular, the ways in which states have integrated passenger rail in their overall transportation networks, developed their own solutions to meeting funding gaps, and conducted bottom-up problem solving, all provide potentially catalytic lessons the nation should build on going forward.

I. INTRODUCTION

Nationally, intermetropolitan passenger rail ridership is on the rise. From 1997 to 2012, Amtrak ridership grew by 55.1 percent and now carries over 31 million riders annually, an all-time high.[1] This increase surpassed both population growth (17.1 percent) and GDP growth (37.2 percent) over the same span, while outpacing the growth observed across all other major transportation modes, including domestic aviation (20.0 percent).

The nation's 100 largest metropolitan areas drove almost all (90.0 percent) of this growth (Table 1.) Eight of those metros more than tripled their ridership since 1997 including: Dallas, Lancaster, Harrisburg, Oklahoma City, and Boston. Other metro areas with large ridership gains include Modesto, Los Angeles, Sacramento, Indianapolis, Greensboro, Milwaukee, St. Louis and Bridgeport.[2]

[1] These figures reflect the modern history of Amtrak starting in 1997, the same year as the signing of the Amtrak Reform and Accountability Act.
[2] Brookings' analysis focuses on entire metropolitan area statistics for passenger rail rather than individual stations or cities.

Table 1: Amtrak Ridership, Fiscal Years 1997 and 2012, and Population, Calendar Year 2011

Geography	1997		2012		2011	
	Ridership*	Share	Ridership*	Share	Population	Share
TOTAL	**40,282,852**	**100.0%**	**62,481,130**	**100.0%**	**313,910,777**	**100.0%**
Non-Metro/Micro	513,706	1.3%	686,393	1.1%	24,649,462	7.9%
Micropolitan Areas	884,499	2.2%	1,625,536	2.6%	30,943,552	9.9%
Other Metropolitan Areas	4,202,729	10.4%	5,316,712	8.5%	56,592,916	18.0%
100 Largest Metropolitan Areas	34,681,919	86.1%	54,852,489	87.8%	201,724,847	64.3%
50 Largest Metropolitan Areas	*31,175,876*	*77.4%*	*48,210,938*	*77.2%*	*166,033,092*	*52.9%*
25 Largest Metropolitan Areas	*28,197,816*	*70.0%*	*43,163,838*	*69.1%*	*127,027,407*	*40.5%*
10 Largest Metropolitan Areas	*22,312,105*	*55.4%*	*32,926,198*	*52.7%*	*80,439,034*	*25.6%*
5 Largest Metropolitan Areas	*17,354,655*	*43.1%*	*23,535,255*	*37.7%*	*53,524,167*	*17.1%*

** In this table, ridership measured as total boardings and alightings*
Source: Brookings analysis of Amtrak and Census data.

Each of these metros benefit from being served by one or more of Amtrak's 29 so-called short-distance routes. Since short-distance routes often serve as the primary connectors between metropolitan areas and their regional neighbors, these routes have accounted for the highest shares of ridership.[3] In fact, the 26 routes spanning 400 miles or less—a commonly accepted distance for optimal rail ridership—carried 82.9 percent of Amtrak's ridership in 2012.[4] These same routes also made up 90.3 percent of national ridership gains since 1997. The 15 long-distance routes, by comparison, carry a much smaller share of national ridership—15.2 percent—while providing more extensive service to rural and non-metro areas (Table 2.)

Table 2: Amtrak Ridership, by Route Length, Fiscal Years 1997 to 2012

Corridor Length	1997		2012		Change 1997-2012	
	Ridership	Share	Ridership	Share	Ridership	Percent
Under 400 Miles	15,497,167	78.6%	25,857,883	82.9%	10,366,716	66.9%
400 – 750 Miles	476,000	2.4%	600,511	1.9%	124,511	26.2%
Over 750 Miles	3,741,100	19.0%	4,736,187	15.2%	996,187	26.6%
TOTAL	**19,708,167**	**100.0%**	**31,194,581**	**100.0%**	**11,486,414**	**58.3%**

These corridor statistics exclude all special trains, special buses, and connective bus service
Source: Brookings analysis of Amtrak data

Even with growing levels of ridership on both short-distance and long-distance routes, Amtrak—like most other transportation modes—remains reliant on federal subsidies. PRIIA sought to rationalize this long-standing

[3] Brookings' analysis subdivides routes via their distance. However, since routes' distances vary based on each departure's origin and destination stations, we used a weighted distance for each. We created this weighted distance by manually coding the typical number of weekday departures for each route, subdivided by the particular departure's distance. We then combined these departures by count and distance, using a basic weighting function.

[4] Academic literature shows that the appropriate threshold of short-distance should be no more than 400 miles because, under optimal conditions, this is the maximum distance for rail to assume a significant portion of air travel's market share. See, e.g.,: Mar González-Savignat, "Competition in Air Transport: The Case of the High Speed Train," *Journal of Transport Economics and Policy*, Vol. 38(1): 2004, pp. 77-108; Nicole Adler, Chris Nash, and Eric Pels, "High Speed Rail and Air Transport Competition," Tinbergen Institute Discussion Paper, TI 2008-103/3.

dynamic by calling on states to work more closely with Amtrak. Among its provisions, PRIIA allowed for the restructuring of debt and loans, established metrics and benchmarking across multiple operational categories, and called for the development of state rail plans.

Perhaps most significantly, given the central role played by short-distance routes, PRIIA aimed to establish a consistent level of state support. The law required Amtrak and the states to develop a uniform cost structure for all routes 750 miles or less outside the Northeast Corridor (NEC), which would "establish and allocate the operating and capital costs of providing intercity rail passenger service."[5]

Although Amtrak traditionally covered many of the costs associated with short-distance routes, ranging from rolling stock to track maintenance, 15 states paid at least a portion of the operating expenses for 21 different routes in order to augment the rail service they would otherwise receive. From 2007 to 2011, these state contributions totaled nearly $850 million (Table 3).

Some states devised their own agreements to share support for certain routes, such as Illinois and Wisconsin's 25/75 percent split for the *Hiawatha* service, and Oklahoma and Texas' 50/50 percent split for the *Heartland Flyer*. Other routes, despite crossing state borders, are only supported by one state. For example, while the *Downeaster* traverses three separate states in New England, Maine is the only sponsoring state. North Carolina, likewise, is the only sponsoring state for the *Carolinian*, despite the fact that this route extends from Charlotte to New York City.

Table 3. States Ranked by Operating Support for Amtrak Routes, Fiscal Years 2007-2011

Sponsoring State	Number of Supported Routes	Total Support 2007-2011 (in thousands)
California	3	$400,169
Illinois	3.25	$134,529
Pennsylvania	1	$40,487
Michigan	2	$35,362
Missouri	1	$33,539
Washington	0.5	$32,431
Oregon	0.5	$32,431
Wisconsin	0.75	$27,532
New York	1	$23,180
North Carolina	2	$22,167
Maine	1	$22,137
Vermont	2	$19,910
Oklahoma	0.5	$8,771
Texas	0.5	$8,771
Virginia	2	$135
TOTAL		**$841,549**

Source: Brookings analysis of internal Amtrak financial data

[5] Source (entire paragraph): Federal Railroad Administration, "Overview, Highlights, and Summary of the Passenger Rail Investment and Improvement Act of 2008," 2009.

After PRIIA passed in 2008, Amtrak collaborated with an appointed States Working Group to define the new standardized methodology in a clear and equitable manner. The Surface Transportation Board recently approved the new funding formula, which will take effect this October.[6]

Since then, states have stepped up and identified their own unique solutions to support passenger rail. New York State recently assigned $44 million in its current budget to support its obligation for the *Empire Corridor*. Virginia's new transportation package includes over $50 million in dedicated revenue for capital and operating costs for passenger rail. Pennsylvania recently agreed to contribute $3.8 million per year to support the *Pennsylvanian*, keeping service uninterrupted in the western part of the state. Vermont is budgeting an additional $3.1 million for its share of the *Vermonter*. California's revised budget proposal now includes an additional $18.6 million to cover the operating requirements of the *Pacific Surfliner*. Oregon uses a dedicated portion of revenue generated from personal license plate fees to support its service, while Washington State taps motor vehicles sales taxes and car rental fees.

II. REVENUES AND COSTS

In a recent Brookings report, my colleagues Adie Tomer, Joseph Kane, and I examined how operating costs and revenues varied between different short-distance and long-distance corridors.[7]

While the financial measures we used only reflects revenues and costs for corridor-specific operations assigned by Amtrak—and consequently excludes non-passenger related revenues and other capital costs, such as depreciation—they highlight a clear disparity in the operational efficiency between short-distance routes and long-distance routes.[8] Driving this disparity, as I have mentioned previously, are the significantly higher ridership figures carried by short-distance routes and the sizable funding support many of these routes receive from their state partners.

Indeed, short-distance routes (all under 750 miles) had a positive operating balance of $30.3 million in 2011, compared to the negative operating balance of $597.6 million found among long-distance routes. Although total operating costs for these short-distance routes ($1.62 billion) exceeded those for long-distance routes ($1.1 billion), they had much higher operating revenues overall: $1.65 billion versus $518.4 million. These figures include state operating support (Table 4).

It is important to note that these figures include revenues and costs for two NEC routes, the *Northeast Regional* and *Acela*, which ran the highest positive operating balances in 2011 though they do not receive direct state operating support. Their combined positive operating balance of $205.4 million outweighed the combined negative operating balance of $175.1 million among the 27 other short-distance corridors. The only other routes with a positive operating balance in 2011 included the *Adirondack* ($1.3 million) and the newly formed *Washington-Lynchburg* route ($3.3 million). Still, the negative operating balances among these remaining short-distance routes were relatively modest.

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[6] States Working Group, "Establishing Standard Pricing Policies, Annual Operating Costs, and Capital Charges," 2011.

[7] Robert Puentes, Adie Tomer, and Joseph Kane, "A New Alignment: Strengthening America's Commitment to Passenger Rail," Brookings, 2013.

[8] Brookings analysis of corridor financial performance includes numbers for the national train system, but these do not reconcile with Amtrak's annual Consolidated Statement of Operations. The specific missing elements are the revenues and expenses captured under Ancillary Customers, Freight and Other Customers, Net Depreciation, Net Interest Expenses, and State Capital Payments. For more information, see "Financial Performance of Routes" within Amtrak's September Monthly Performance reports.

Table 4. Financial Performance by Route Length, Fiscal Year 2011

Corridor Length	Financials ($ mil)			Number of Routes	
	Revenue	Costs	Balance	Total	Share
Under 400 Miles	$1,587.7	$1,541.1	$46.6	26	59.1%
400 - 750 Miles	$62.6	$78.9	($16.3)	3	6.8%
Over 750 Miles	$518.4	$1,116.0	($597.6)	15	34.1%
TOTAL	**$2,168.7**	**$2,736.0**	**($567.3)**	**44**	**100.0%**

These corridor statistics exclude all special trains, special buses, and connective bus service
Source: Brookings analysis of Amtrak data

States contributed almost $850 million in operating support over this five-year span, although the amount varied widely depending on the specific state, route, and level of service in question. California, for instance, provided more than $400 million from 2007 to 2011 to support three different routes, including $119.1 million for the *Capitol Corridor*, $129.6 million for the *Pacific Surfliner*, and $151.5 million for the *San Joaquin*. In contrast, New York provided $23.2 million to support the *Adirondack*, averaging $4.6 million per year, while Pennsylvania provided $40.5 million to support the *Keystone*, averaging $8.1 million per year.

In several cases, through this support, states contributed the majority of a route's total operating revenue. For example, support from Oklahoma and Texas accounted for nearly two-thirds of the *Heartland Flyer*'s total revenue in 2011, the highest share among all routes. By doing so, they enabled the route to have a negative operating balance of only $2.7 million; without their support, the route's negative operating balance would have stood at $6.5 million. New York, similarly, provided over half of the *Adirondack*'s total revenue, allowing it to run a positive operating balance of $1.3 million rather than a negative operating balance of $6.3 million without its support. On the other hand, the *Carolinian* only derives 9.6 percent of revenue from state support.

In total, by adding this support to their other operating revenues, the 24 short-distance routes spanning less than 400 miles (outside the Northeast Corridor) improved their financial performance from a $351.2 million negative operating balance in 2011 to a $166.1 million negative balance, more than cutting their annual loss in half.

III. IMPLICATIONS

Scrutiny should be applied evenly to the entire American transportation network and not just to Amtrak alone. Much attention is given to the fact that other non-private passenger transportation modes are not profitable, nor do they concern themselves with being so. Governments at all levels invest much more heavily in the key elements of the transportation network, whether through direct grants for highways, tax incentives for airlines, or appropriations for public transit and, overall, Amtrak covers a relatively large share of its costs. As such, I believe that, like other transportation modes, "profitability" for Amtrak is not in and of itself the primary goal.

Yet there are several key implications that help us understand where it is efficient and effective, why it is successful or not, and what states and the federal government should consider.

A tale of two systems: operational efficiency versus geographic equity. Although a national system, America's passenger rail network is made up of two distinct types of routes: those less than 400 miles and those greater than 400 miles.[9] The former typically enjoy direct state support (even before the federal PRIIA legislation) and

[9] Some argue that the *Acela* and *Northeast Regional* routes constitute a different rail system given its unique characteristics and the fact that Amtrak owns most of the tracks and, as a result, interference with freight rail is minimal compared to the rest of the network.

always serve at least one large metropolitan area. In total, these 26 corridors carried 82.9 percent of all system riders in 2012. The latter represent the geographic equity portion of the network. These routes travel for vast stretches and offer service to many smaller, relatively isolated communities with limited intermetropolitan alternatives. Together, they carry 17.1 percent of Amtrak's passengers and constitute 43.6 percent of its route-associated operating costs.

Making metro connections: frequent service between large, regional metropolitan pairs. Having a direct connection between major metropolitan areas is an important driver of Amtrak ridership and a key attribute of the short-distance routes. Several long-distance corridors also benefit from shorter segments connecting major metropolitan centers. The *Empire Builder* runs from Chicago to Seattle, but passes through metropolitan Milwaukee, Madison, and Minneapolis along the way. Over 120,000 passengers each year travel this short segment between Chicago and Minneapolis, and do so without the multiple daily departures typical of most short-distance corridors. Similarly, the *City of New Orleans* runs between New Orleans and Chicago, but over 75,000 passengers only travel along the roughly 400 miles between New Orleans and Memphis.

Policy and partnerships: the state commitment to intermetropolitan passenger rail. Prior to the federal PRIIA legislation in 2008, 15 states already recognized the importance of intermetropolitan rail and voluntarily subsidized operations for augmented service on 21 routes. Other states—primarily those along the Northeast Corridor—contributed capital investments in stations and other improvements. In many cases, these contributions allow for additional rail service over and above Amtrak's base route system and for more frequent and efficient trains, which make the service more attractive and drive up ridership and ticket revenue. PRIIA expands this relationship with its new formula for state support of short-distance routes, requiring states to contribute enough annual formula funds that each route is operationally breakeven. By providing broader financial support, states have more "skin in the game" and are motivated to target investments more precisely and develop plans more comprehensively, better tailoring maintenance needs and capital improvements to local demands.

IV. RECOMMENDATIONS

The remarkable shift toward federal-state collaboration on Amtrak should not be underestimated. While still a national program, the reformed roles for Amtrak and states are not representative of transportation's late 20th century federalism model where the federal government provides resources that rain down unencumbered to the state and metropolitan level. Rather, PRIIA encapsulates a new 21st century model that challenges our state and metropolitan leaders to develop deep and innovative approaches to solve the most pressing transportation problems.

However, more needs to be done.

With the economy in the midst of a slow recovery and state budgets adjusting to tighter times, every public investment should come under careful analysis and inspection. Yet, an emphasis on fiscal responsibility should not automatically mean scaling back of intermetropolitan rail investments or operations. In fact, these investments are as important as ever. Rather, states and the federal government should consider a range of recommendations to enable them to marshal the resources they already have and ensure that state efforts are more coordinated and efficient in the future.

As with other areas of infrastructure, recommendations for passenger rail tend to devolve into calls for increased federal spending. Such a call is probably justified especially over the long term for myriad reasons, including Washington's historically outsized support of other transportation modes. However, the recommendations below focus on how Washington and the states can operate better during this remarkably challenging time of fiscal constraint and overall aversion to increased funding.

Continue the evolution of long-distance intermetropolitan rail service. Ensuring an efficient and effective passenger rail network in a constrained fiscal environment will require building upon the federal-state partnership initiated in PRIIA and applying it broadly across the network. In this way, it should be a top priority to expand the requirement for state operating support to include the long-distance routes. The goal should not be to eliminate routes by "offloading" responsibility from the federal government to states but to strengthen the partnership and reaffirm the commitment of states to long-distance routes over time.

State and federal stakeholders have undertaken a rigorous and complicated exercise to establish standard pricing policies and cost methodology for short-distance routes in accordance with the federal law. It is reasonable to apply a similar approach to long-distance routes, as well, through careful and collaborative work with state leaders and freight rail companies. This should be informed by the evaluative criteria Amtrak is required to establish for the long-distance routes, recognizing the symbiotic relationship and traffic that the short- and long-distance routes add to each other.

I recognize the long-distance routes are more complex, given their length and the fact that they operate in more than one state. A negotiated approach should recognize that long-distance routes do not provide the same service to all states along its route, nor do they serve the same function as short-distance routes. For example, the *Lake Shore Limited* between Boston and Chicago only travels through Ohio during low-ridership overnight hours, but it serves other states during typical travel hours. A refined approach must also recognize the unique national connectivity these routes provide, especially to certain isolated rural communities.

Provide greater flexibility from Washington. In exchange for greater responsibility from Washington, states should have added flexibility in how they allocate existing funds. For example, current federal law allows states and metropolitan planning organizations (MPOs) to transfer funds between highway and transit programs. Among other benefits, this freedom of financing greatly assists in bottom-up problem solving and gives additional consideration to alternative solutions that achieve a more balanced transportation network. States and MPOs should gain the same flexibility when they support operating or capital investments for intermetropolitan passenger rail.[10] Current federal law allows states to use Congestion Mitigation and Air Quality (CMAQ) program dollars for rail operations, but the U.S. Department of Transportation limits this use to only three years. That cap should be removed. Federal policy should also expand CMAQ's passenger rail flexibility to MPOs that receive suballocated funds from their states.

Finalize the national and state rail plans. One of PRIIA's most important elements requires states to develop passenger rail plans as a condition to receive funding for capital projects. These plans are integral to the development of a multimodal passenger and freight rail network. The federal government recently released draft guidance and comments from stakeholders are currently under consideration. Just as critical is the development of a national rail plan, as called for by PRIIA. Such a plan is not only important to develop objective methodologies that guide federal investments, but it also has important implications for individual states whose plans must be consistent with the national one. While the U.S. Department of Transportation released a draft national rail plan in October 2009, the lack of a finalized plan continues to present uncertainties to stakeholders. The completion of the final plan should expedited.

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[10] States would undoubtedly make better partners by removing the roads-only exclusion for their gasoline tax revenues. By committing a portion of revenues to other modes beyond highways, states would increase their ability to consider the entire transportation system, rather than isolated parts.

V. CONCLUSION

Mr. Chairman, I firmly believe we can continue to strengthen passenger rail in the United States by enhancing the federal-state partnership. While Amtrak has done a lot to remake itself in recent years, states need to continue to reaffirm their commitment for the model to be sustainable. The upcoming reauthorization and the finalization of a national rail plan, coupled with increased attention on the role of passenger rail in states, make this the right time to focus on the future of Amtrak, despite the fiscally constrained times.

The views expressed in these written remarks are those of the author alone and do not necessarily represent those of the staff, officers, or trustees of The Brookings Institution.

Appendix A: Amtrak Station and Ridership Statistics by Metropolitan Area

Metropolitan Area	Active Stations	Ridership Totals *			2012 System Ridership Share
		1997	2012	Change	
Akron, OH	0	---	---	---	---
Albany-Schenectady-Troy, NY	3	620,353	862,737	39.1%	1.4%
Albuquerque, NM	1	47,906	78,324	63.5%	0.1%
Allentown-Bethlehem-Easton, PA-NJ	0	---	---	---	---
Atlanta-Sandy Springs-Marietta, GA	1	81,259	104,854	29.0%	0.2%
Augusta-Richmond County, GA-SC	0	---	---	---	---
Austin-Round Rock, TX	3	11,161	53,911	383.0%	0.1%
Bakersfield, CA	2	319,283	528,175	65.4%	0.8%
Baltimore-Towson, MD	3	1,185,856	1,776,500	49.8%	2.8%
Baton Rouge, LA	0	---	---	---	---
Birmingham-Hoover, AL	1	28,955	48,734	68.3%	0.1%
Boise City-Nampa, ID	0	3,455	---	---	---
Boston-Cambridge-Quincy, MA-NH	10	1,018,297	3,167,716	211.1%	5.1%
Bridgeport-Stamford-Norwalk, CT	2	232,447	478,149	105.7%	0.8%
Buffalo-Niagara Falls, NY	3	183,619	195,247	6.3%	0.3%
Cape Coral-Fort Myers, FL	0	---	---	---	---
Charleston-North Charleston-Summerville, SC	1	49,629	84,956	71.2%	0.1%
Charlotte-Gastonia-Concord, NC-SC	3	107,766	213,457	98.1%	0.3%
Chattanooga, TN-GA	0	---	---	---	---
Chicago-Naperville-Joliet, IL-IN-WI	11	2,289,103	3,757,555	64.1%	6.0%
Cincinnati-Middletown, OH-KY-IN	1	19,235	16,209	-15.7%	0.0%
Cleveland-Elyria-Mentor, OH	2	49,269	57,233	16.2%	0.1%
Colorado Springs, CO	0	---	---	---	---
Columbia, SC	2	26,967	41,276	53.1%	0.1%
Columbus, OH	0	---	---	---	---
Dallas-Fort Worth-Arlington, TX	3	34,651	201,996	482.9%	0.3%
Dayton, OH	0	---	---	---	---
Denver-Aurora, CO	1	143,098	113,393	-20.8%	0.2%
Des Moines-West Des Moines, IA	0	---	---	---	---
Detroit-Warren-Livonia, MI	7	229,100	253,457	10.6%	0.4%
El Paso, TX	1	11,117	12,329	10.9%	0.0%
Fresno, CA	1	214,134	394,074	84.0%	0.6%
Grand Rapids-Wyoming, MI	1	32,618	56,832	74.2%	0.1%
Greensboro-High Point, NC	2	68,557	173,246	152.7%	0.3%
Greenville-Mauldin-Easley, SC	2	21,184	18,372	-13.3%	0.0%
Harrisburg-Carlisle, PA	2	186,938	644,755	244.9%	1.0%
Hartford-West Hartford-East Hartford, CT	5	236,047	299,163	26.7%	0.5%
Honolulu, HI	0	---	---	---	---
Houston-Sugar Land-Baytown, TX	1	16,380	20,327	24.1%	0.0%

Metropolitan Area	Active Stations	Ridership Totals *			2012 System Ridership Share
		1997	2012	Change	
Indianapolis-Carmel, IN	1	11,811	34,863	195.2%	0.1%
Jackson, MS	2	35,006	51,764	47.9%	0.1%
Jacksonville, FL	1	91,599	77,512	-15.4%	0.1%
Kansas City, MO-KS	3	128,609	201,238	56.5%	0.3%
Knoxville, TN	0	---	---	---	---
Lakeland-Winter Haven, FL	2	28,541	50,195	75.9%	0.1%
Lancaster, PA	3	207,073	740,587	257.6%	1.2%
Las Vegas-Paradise, NV	0	---	---	---	---
Little Rock-North Little Rock-Conway, AR	1	8,328	24,036	188.6%	0.0%
Los Angeles-Long Beach-Santa Ana, CA	14	1,997,381	3,424,851	71.5%	5.5%
Louisville-Jefferson County, KY-IN	0	---	---	---	---
Madison, WI	3	22,686	36,549	61.1%	0.1%
McAllen-Edinburg-Mission, TX	0	---	---	---	---
Memphis, TN-MS-AR	1	37,912	73,116	92.9%	0.1%
Miami-Fort Lauderdale-Pompano Beach, FL	6	215,192	300,357	39.6%	0.5%
Milwaukee-Waukesha-West Allis, WI	2	357,687	795,850	122.5%	1.3%
Minneapolis-St. Paul-Bloomington, MN-WI	1	101,168	120,515	19.1%	0.2%
Modesto, CA	2	82,163	143,534	74.7%	0.2%
Nashville-Davidson--Murfreesboro--Franklin, TN	0	---	---	---	---
New Haven-Milford, CT	3	276,021	808,300	192.8%	1.3%
New Orleans-Metairie-Kenner, LA	2	190,842	229,929	20.5%	0.4%
New York-Northern New Jersey-Long Island, NY-NJ-PA	8	8,830,040	10,855,647	22.9%	17.4%
North Port-Bradenton-Sarasota, FL	0	---	---	---	---
Ogden-Clearfield, UT	0	5,445	---	---	---
Oklahoma City, OK **	3	0	76,556	237.5%	0.1%
Omaha-Council Bluffs, NE-IA	1	19,682	22,794	15.8%	0.0%
Orlando-Kissimmee, FL	4	427,748	518,574	21.2%	0.8%
Oxnard-Thousand Oaks-Ventura, CA	5	145,562	221,234	52.0%	0.4%
Palm Bay-Melbourne-Titusville, FL	0	---	---	---	---
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	11	4,203,480	5,295,206	26.0%	8.5%
Phoenix-Mesa-Scottsdale, AZ **	1	0	10,804	931.9%	0.0%
Pittsburgh, PA	4	135,024	152,048	12.6%	0.2%
Portland-Vancouver-Beaverton, OR-WA	3	410,670	778,791	89.6%	1.2%
Poughkeepsie-Newburgh-Middletown, NY	2	161,365	265,729	64.7%	0.4%
Providence-New Bedford-Fall River, RI-MA	3	368,117	874,436	137.5%	1.4%
Provo-Orem, UT	1	2,242	5,675	153.1%	0.0%
Raleigh-Cary, NC	4	133,611	258,374	93.4%	0.4%
Richmond, VA	4	267,580	427,087	59.6%	0.7%
Riverside-San Bernardino-Ontario, CA	7	30,542	53,196	74.2%	0.1%
Rochester, NY	1	114,710	144,703	26.1%	0.2%

Metropolitan Area	Active Stations	Ridership Totals *			2012 System Ridership Share
		1997	2012	Change	
Sacramento--Arden-Arcade--Roseville, CA	6	592,236	1,760,373	197.2%	2.8%
St. Louis, MO-IL	5	236,109	499,346	111.5%	0.8%
Salt Lake City, UT	1	29,672	42,502	43.2%	0.1%
San Antonio, TX	1	43,861	70,161	60.0%	0.1%
San Diego-Carlsbad-San Marcos, CA	4	1,214,056	1,536,298	26.5%	2.5%
San Francisco-Oakland-Fremont, CA	9	964,369	2,058,032	113.4%	3.3%
San Jose-Sunnyvale-Santa Clara, CA	3	148,871	357,646	140.2%	0.6%
Scranton--Wilkes-Barre, PA	0	---	---	---	---
Seattle-Tacoma-Bellevue, WA	6	567,380	903,882	59.3%	1.4%
Springfield, MA	2	134,766	156,550	16.2%	0.3%
Stockton, CA	3	194,937	326,421	67.4%	0.5%
Syracuse, NY	2	111,189	154,053	38.6%	0.2%
Tampa-St. Petersburg-Clearwater, FL	1	32,242	150,844	367.8%	0.2%
Toledo, OH	1	70,374	69,275	-1.6%	0.1%
Tucson, AZ	1	23,524	23,896	1.6%	0.0%
Tulsa, OK	0	---	---	---	---
Virginia Beach-Norfolk-Newport News, VA-NC	2	147,949	195,263	32.0%	0.3%
Washington-Arlington-Alexandria, DC-VA-MD-WV	11	3,626,322	5,797,689	59.9%	9.3%
Wichita, KS	1	10,878	14,131	29.9%	0.0%
Worcester, MA	1	15,667	8,900	-43.2%	0.0%
Youngstown-Warren-Boardman, OH-PA	0	1,296	---	---	---

** Some discontinued metro areas do not include reported ridership from 1997*
*** These metros did not start service until after 1997, meaning change is based on their initial service years*
Source: Brookings analysis of Amtrak and Census data

Appendix B: Amtrak Route Performance

Route	Weighted Distance (miles)	Average Weekday Departures	Ridership			2011 Operating Finances ($ mil)			
			1997	2012	Change *	State Support	Other Revenue	Costs **	Balance **
New Haven-Springfield	62	5	0	384,834	---	N/A	$11.6	$24.4	($12.9)
Hiawatha	86	7	361,000	838,355	132.2%	$7.7	$16.0	$25.9	($2.2)
Downeaster	111	6	0	541,757	---	$5.3	$7.2	$13.5	($1.0)
Capitol Corridor	113	15	490,000	1,746,397	256.4%	$28.1	$27.4	$69.6	($14.1)
Empire (NYP-ALB)	141	9	1,057,000	1,062,715	0.5%	N/A	$40.9	$71.9	($31.0)
Washington-Lynchburg	173	1	0	184,907	---	N/A	$10.1	$6.9	$3.3
Piedmont	173	2	43,000	162,657	278.3%	$2.7	$2.5	$7.1	($1.9)
Pere Marquette	176	1	65,172	109,321	67.7%	$2.6	$3.4	$6.8	($0.8)
Pacific Surfliner	183	12	1,635,000	2,640,342	61.5%	$27.2	$58.1	$115.4	($30.1)
Washington-Newport News	187	2	0	623,864	---	-$0.1	$30.9	$31.3	($0.5)
Keystone	195	13	442,000	1,420,392	221.4%	$9.2	$29.7	$47.0	($8.2)
Hoosier State	196	1	0	36,669	---	N/A	$0.9	$4.9	($4.0)
Heartland Flyer	206	1	0	87,873	---	$3.8	$2.1	$8.7	($2.7)
Ethan Allen	241	1	29,000	54,376	87.5%	$1.5	$2.6	$6.6	($2.5)
Chicago-Quincy (IL Zephyr/Carl Sandburg)	258	2	82,000	232,592	183.6%	$8.5	$5.9	$16.8	($2.4)
Cascades	262	5	335,000	845,099	152.3%	$12.6	$37.8	$66.1	($15.6)
Kansas City-St. Louis (MO River Runner)	283	2	156,000	195,885	25.6%	$8.6	$5.3	$14.1	($0.3)
Chicago-St. Louis (Lincoln Service)	284	4	256,000	597,519	133.4%	$14.9	$13.4	$32.4	($4.1)
San Joaquin	303	6	688,000	1,144,616	66.4%	$32.8	$38.3	$77.9	($6.8)
Wolverine	304	3	418,491	484,138	15.7%	N/A	$20.2	$37.2	($17.0)
Acela	308	25	0	3,395,354	---	N/A	$510.3	$331.6	$178.8
Chicago-Carbondale (Illini/Saluki)	309	2	89,000	325,255	265.5%	$6.7	$9.4	$20.6	($4.4)
Blue Water	319	1	123,504	189,193	53.2%	$5.4	$6.3	$14.0	($2.3)
Northeast Regional	330	22	7,041,000	8,014,175	13.8%	$0.2	$505.1	$477.3	$28.0
Albany-Niagara Falls-Toronto	347	3	0	407,729	---	N/A	$25.0	$30.9	($5.9)
Adirondack	381	1	99,000	131,869	33.2%	$7.6	$7.0	$13.3	$1.3

Route	Weighted Distance (miles)	Average Weekday Departures	Ridership			2011 Operating Finances ($ mil)			
			1997	2012	Change *	State Support	Other Revenue	Costs **	Balance **
Pennsylvanian	444	1	160,000	212,006	32.5%	N/A	$9.4	$16.8	($7.4)
Vermonter	611	1	85,000	82,086	-3.4%	$3.2	$4.2	$9.3	($1.9)
Carolinian	704	1	231,000	306,419	32.6%	$2.0	$18.8	$21.9	($1.1)
Capitol Ltd.	780	1	179,000	226,884	26.8%	N/A	$22.4	$47.0	($24.5)
Palmetto	829	1	188,000	198,260	5.5%	N/A	$17.4	$34.0	($16.5)
Auto Train	855	1	241,000	264,096	9.6%	N/A	$69.9	$101.5	($31.5)
City of New Orleans	934	1	174,000	253,170	45.5%	N/A	$18.8	$41.6	($22.8)
Lake Shore Ltd.	989	1	355,000	403,700	13.7%	N/A	$32.9	$70.4	($37.5)
Cardinal	1,147	1	80,000	116,373	45.5%	N/A	$7.8	$26.4	($18.6)
Texas Eagle	1,305	1	95,000	337,973	255.8%	N/A	$26.6	$56.7	($30.1)
Coast Starlight	1,377	1	497,000	454,443	-8.6%	N/A	$44.3	$98.1	($53.8)
Crescent	1,377	1	247,000	304,266	23.2%	N/A	$32.3	$77.1	($44.8)
Silver Meteor	1,389	1	255,000	375,164	47.1%	N/A	$41.6	$85.6	($44.0)
Silver Star	1,521	1	270,000	425,794	57.7%	N/A	$36.3	$86.9	($50.7)
Sunset Ltd.	1,995	1	124,000	101,217	-18.4%	N/A	$12.6	$51.7	($39.1)
Empire Builder	2,230	1	347,000	543,072	56.5%	N/A	$57.7	$112.3	($54.6)
Southwest Chief	2,265	1	257,000	355,316	38.3%	N/A	$48.0	$114.5	($66.5)
California Zephyr	2,438	1	292,000	376,459	28.9%	N/A	$49.8	$112.5	($62.6)

** Change unavailable for some routes due to missing or nonexistent FY 1997 data*
*** Does not include capital charges (such as depreciation), interest, and other costs*
Source: Brookings analysis of Amtrak data

Committee on Transportation and Infrastructure
Subcommittee on Railroads, Pipelines, and Hazardous Materials
Hearing on "Understanding the Cost Drivers of Passenger Rail"
May 21, 2013
Questions for the Record

Questions from Rep. Denham:

1. Your report recommends strengthening the PRIIA provisions for states to consider competitive bidding processes for new passenger rail services. What changes do you think would help open up intercity rail to more providers?

Questions from Rep. Corrine Brown:

1. In your report you recommend a Section 209 approach to long distance, where the States and Amtrak would work together to fund the routes. We have yet to see how Section 209 will work. In fact, some concerns have already been raised by many States about their ability to pay their bills due to Amtrak. If States are having problems paying this initial bill, do you have any concerns about States' ability to pay for additional service? Do you have any concerns that if States were not able to pay for the long distance trains, our national rail system would begin to fall apart?

To: Erin Sulla
Subcommittee on Railroads, Pipelines, and Hazardous Materials
Committee on Transportation & Infrastructure
U.S. House of Representatives
B-376 Rayburn House Office Building
(202) 226 – 0727

From: Robert Puentes

Date: June 23, 2013

Re: QFRs from 5-21-13 Rail Hearing

Response to question from Rep. Denham:

The heretofore-limited focus on privatizing the Northeast Corridor misses a critical opportunity to engage in meaningful partnerships that tap into interested private capital markets and private firms' management expertise. Indeed, the very operation of Amtrak on privately-owned freight rail tracks represents a clear model for such a partnership. The reauthorization of the Passenger Rail Investment and Improvement Act (PRIIA) of 2008 should strengthen the existing provisions for states to consider a competitive bidding process for the operation of passenger rail service beyond Amtrak. For example, in 2012 Florida East Coast Industries proposed a new privately-financed route connecting Miami and Orlando via the company's coastal right-of-way and new tracks into Orlando. Authorizing legislation should make it easier to develop similar privately-led projects, such as facilitated public bid solicitations and easier access to public financing vehicles.

However, public/private partnerships (PPPs) such as these often entail complicated contracts that differ significantly from project to project and from place to place. To address this problem, countries, states, and provinces around the world have created specialized institutional entities—called PPP units—to fulfill different functions such as quality control, policy formulation, and technical advice. The federal government should establish a dedicated PPP unit to tackle bottlenecks in the PPP process, protect the public interest, and provide technical assistance to states and other public entities that cannot develop the internal capacity necessary to deal with the projects themselves.

Response to question from Rep. Corrine Brown:

In the reauthorization of PRIIA, it should be a top priority to expand the requirement for state operating support to include the long-distance routes. It is rational and appropriate to expect states to partner with the federal government on the operation of routes within their borders, as the legislation stipulates for routes under 750 miles. What is less understandable and defensible is why routes longer than 750 are exempt from this requirement on the grounds that, as many maintain, the routes are all designed to work together as an integrated network.

The goal of such a policy reform is not to eliminate routes but to strengthen the federal-state partnership and reaffirm the commitment of states to long-distance routes over time. I recognize the long-distance routes are more complex for several reasons especially their length and the fact that they operate in more than one state. Therefore, a negotiated approach should recognize that long-distance routes do not provide the same service to all states along its route, nor do they serve the same function as short-distance routes. For example, the *Lake Shore Limited* between Boston and Chicago only travels through Ohio during low-ridership overnight hours, but it serves other states during typical travel times.

It is important to note that the recommendations in my testimony should be considered holistically. For example, an increased state role needs to be coupled with greater flexibility from the federal government in order for the partnership to be successful. States need added flexibility to design and allocate what are likely to be shrinking levels of resources. Current federal law allows states and metropolitan planning organizations to transfer funds between highway and transit programs. They should gain the same flexibility when they support operating or capital investments for passenger rail. As you know, current federal law allows states to use Congestion Mitigation and Air Quality program dollars for rail operations but is limited to only three years. That cap should be removed. Doing so does not change the distribution of funds; nor does it mandate the use of CMAQ funds for passenger rail; It simply gives states and groups of states the flexibility envisioned in federal law and empowers them to devise their own solutions.

I do share your concern that one state's unwillingness to contribute to the operation of long-distance routes. However, a new 21st century federalism model is emerging that challenges our state and metropolitan leaders to develop deep and innovative approaches to solve the most pressing transportation problems. As a result, states have already stepped up and identified their own unique solutions to support Amtrak, both within and beyond their borders. Given the budgetary challenges facing the federal government for the foreseeable future, a new partnership model is inevitable.

TESTIMONY

OF

JOSEPH H. BOARDMAN

PRESIDENT AND CHIEF EXECUTIVE OFFICER

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BEFORE THE

SUBCOMMITTEE ON RAILROADS, PIPELINES and HAZARDOUS MATERIALS

"Understanding the Cost Drivers of Passenger Rail"

TUESDAY, MAY 21, 2013

1:00 P.M.

2167 RAYBURN HOUSE OFFICE BUILDING

Good morning, Mr. Chairman, and thanks for the opportunity to testify today. We appreciate the Committee's interest in this topic. We appreciate the Committee's interest in the question of what drives Amtrak's costs, and I think the best way for us to examine them is through the prism of one of our trains. We've decided to use our *California Zephyr*, which connects Chicago with Denver, Salt Lake City and the San Francisco Bay area. At 2,438 miles, it traverses seven states in the course of a trip that requires 2 days and 2 hours, and it covers the longest distance of any Amtrak train. We want to use it to explain to you not only the nature of our system, but to help you visualize the form our efforts to improve it are taking. I have just returned from a trip across American on the *Zephyr* as part of National Train Day, which was celebrated in 259 communities across the United States.

Over the last decade, we have worked hard to realign Amtrak and transform the company into a modern business. We've made a determined effort to transform Amtrak, addressing the company's culture, strategic plans, and day to day operations in an integrated effort designed to deliver a better financial performance. We've engaged our workforce through programs designed to involve them in the leadership of key safety programs, and shape the culture to build a better integrated team so that our workforce can contribute more effectively to the company's efforts. We've created a strategic plan, and mapped out plans and strategies for fleet replacement, station facilities (accessibility and station master plans), and the construction of projects of national significance, such as the NEC Master Plan, Gateway Project and the NextGen High Speed Rail system. All of these initiatives are designed to address the behaviors and attitudes that cause employees to disengage, and to bolster and encourage employee engagement. This strategy has implications for every aspect of our work and our culture – for safety, efficiency, and customer service – and it will play a major role in preparing the next generation of employees for leadership roles at Amtrak.

These efforts are designed to help our people realize the natural efficiency opportunities that are inherent in rail transportation. If you look at our basic unit of production (the passenger-mile) and our overall operating costs, you will see that our production of passenger-miles has risen steadily, while overall operating need has fallen (Fig 1). Concurrently, we've pursued debt reduction opportunities that will save the taxpayers tens of millions of dollars on debt service payments in coming years. We've developed technologies like Julie, Amtrak.com, mobile applications, and eTicketing to allow our passengers to purchase their tickets in easier and more cost-effective ways.

Over the longer term, we've pursued investment strategies to build ridership on our existing routes and services. I would note parenthetically, that while rail enjoys natural energy efficiencies, Congress has decided that railroads ought to bear certain additional costs and has created a separate regime that includes FELA, Railroad Retirement, and Railroad Unemployment. When it comes to railroad labor and benefits, the market rate has for decades been determined the Congressionally-mandated processes of the Railway Labor Act. These influence costs significantly.

While we are focused on improving our financial performance, it's important to keep in mind that our goal isn't just cost cutting – it's improving financial performance, which is why we're pursuing strategic initiatives designed to maximize the revenues we can develop from our existing workforce and asset base – the people, trains and infrastructure that make Amtrak what it is.

So let's take a look at what these improvements translate into, in concrete terms.

To start with, we've set nine ridership records in the last ten years, and the growth in ridership isn't confined to one segment of our business: since 2006, the ridership for the long distance (LD) trains has risen by almost 27%, a higher rate of growth than the Northeast Corridor (NEC) has enjoyed. These improvements in ridership translate into improved revenues that help Amtrak to leverage its Federal investment into an even larger investment in the American economy. To illustrate the magnitude of this "multiplier effect," over the last three fiscal years (FY 10-12), Amtrak took a total of $4.4 billion in Federal investment and returned more than $12.6 billion to the American economy in the form of wages and salaries, procurement (99% of which was spent to buy American products), tax payments, and contributions to Railroad Retirement.

Not only are we focusing on what we invest in the Federal economy – we are trying to ensure that we obtain the best value for every dollar the Federal government invests in Amtrak. We've cut our debt to less than half the 2002 level and saved the taxpayers millions of dollars that can be spent on new equipment and infrastructure, rather than servicing debt. System on-time performance reached a record high of 83% last year, and this year we're doing even better. It's still too early to predict our annual results, but our performance exceeded 85% at the end of April, a bit better than last year. All of these qualities have helped us to reduce our need for

Federal operating support by almost half, in constant value terms, and last year we covered 88% of our operating costs with Amtrak-generated revenue.

These are significant achievements – and they should serve as a reminder that Amtrak's integrated national system is a tremendous asset that allows us to realize economies of scale while connecting the nation. The NEC and the LD trains are fundamentally different businesses, but they are deeply interdependent. Seven of the 15 LD trains use the NEC for some part of their run, and they bring about half a million passengers onto the NEC every year. The LD trains also help feed riders onto our rapidly growing state-supported services. Figure 3 shows a chart of the passenger traffic flows move for those *California Zephyr* passengers who passed through Chicago Union Station, one of the train's termini. These riders constitute about 36% of the train's total ridership. You can see that 43% of those riders connected to or from another train at Chicago. We chose the *Zephyr* as an example because it is a good case study in some of the challenges of long distance train service. It has the longest run of any of our trains, covering more than 2,400 miles in a trip – which takes 50 hours. That means we can have up to 6 trains labeled "the *California Zephyr*" out on the railroad simultaneously, which means we need to maintain six complete trains (each with two locomotives and up to ten cars at the peak season) to sustain a daily service. Each train can accommodate 365 passengers at a time (that's about 7.3 busses or 2.6 Boeing 737s), but the average number of passengers carried per trip in 2012 was 512 – so that while the peak load is considerably lower, we come close to filling each seat twice in the course of a trip. This train is supported by 6 crewbases, 4 of which exist specifically so that the changes of train and engine crews (which are mandated by the Hours of Service Act) can be accomplished reliably – because of limitations imposed by the Hours of Service Law, it takes

27 engineers and conductors to move the train from Chicago to California. It also takes 10 onboard service staff to man each train, making a total of 37 employees who work on that train in the course of its trip. Amtrak needs a total of 140 onboard service employees, divided into 14 crews, to operate this daily service.

These long distance trains are vital, and they represent a vital contribution to mobility, particularly rural mobility. In 23 of the 46 states we serve, the only Amtrak train is a long distance train. Amtrak serves about 40% of America's rural population, and in many places we are best tangible reminder for people of the Federal government's investment in transportation. If the *Auto Train* (which does not serve any intermediate points between its termini at Lorton, Virginia and Sanford, Florida) is excluded, 48% of long distance train riders are traveling to or from a station that is not within the top 100 metropolitan areas; in the case of the *California Zephyr*, this figure is 63%. Although these trains typically link major metropolitan areas, their principal role is not necessarily moving people between cities several thousand miles apart; only about 15% of *California Zephyr* passengers rode the train for the full length of the trip. Their major role is instead the linking of rural areas and smaller communities with major urban areas, which serve as either an endpoint destination or a transfer point to another train.

People appreciate the range of travel alternatives an integrated national system can offer, and these services are well patronized; long distance ridership has risen 27% since 2006, and today the average long distance train has the same peak load factor as Acela; some 43% of our total FY 2012 passenger-miles are generated by long distance services. In addition to the role these trains play in supporting rural communities, they carry substantial numbers of senior citizens and passengers with disabilities; about 43% of the identified passengers with disabilities who used Amtrak in FY 2012 rode on a long distance train.

Finally, while it is often claimed that these trains are "poster children" for poor financial performance, their financial performance does not vary significantly from the performance of other passenger services. As you can see in Figure 4, our long distance train farebox recovery ratio (48% in 2011, the most recent year for which comparative data is available) is similar to the average American commuter rail operation (52%) and close to our short distance corridor trains (56% farebox recovery), once state support payments are deducted. The revenues generated by our Northeast Corridor trains exceed operating costs, but that calculation excludes the substantial capital need of the NEC, a 363 mile high density railroad with a large state of good repair backlog.

This is not to gainsay the importance of capital investment, because our fleet and infrastructure require it, and Amtrak will have significant capital needs in the coming years if we are to deal with the challenges of an aging fleet and infrastructure. These are capital investments of the kind that every transportation system – and viewed from the perspective of energy efficiency (see Figure 2), it's clear that our rising ridership and natural efficiencies offer the country a transportation policy solution that addresses fuel costs, congestion, and land use challenges in a single package.

I think the basic vision for the most efficient and effective intercity passenger rail service was realized in the original Rail Passenger Service Act, which created Amtrak 42 years ago. It freed the private sector to concentrate on profit-making freight services, but ensured that private carriers retained some residual responsibility to the public to move our trains. It integrated almost all of the nation's intercity passenger rail services, so they could be operated more efficiently. It brought numerous advantages to the customer in a unified ticketing, reservation, scheduling and service package – which has allowed us in turn to upgrade those systems in an integrated manner that allowed us to bring innovations like eTicketing to the entire national system within a coordinated and efficient manner. It eliminated a lot of facility duplication, which has saved uncounted taxpayer dollars over the years. All of these structural advantages, combined with a strong focus on the bottom line, have helped Amtrak to improve its efficiency, and to pass those efficiencies on to the American taxpayer.

I want to close with a word of caution. We often find lately that it is increasingly possible for companies to offer rail-related services to passenger carriers – including operating trains – without meeting all of the legislated railroad requirements. Contract operators can undercut us because in many cases, they can set up new companies to run intrastate trains without being deemed "railroads" under Federal law, which allows them to avoid the collective bargaining provisions of the Railway Labor Act, and to avoid paying into the Railroad Retirement and Railroad Unemployment systems. Because they are not organized as railroads, these companies can compete effectively for business on the basis of price. Another trend we are increasingly seeing is the acquisition of rail lines and the operation of commuter services by state agencies, often through private contractors, who claim that their state laws preclude them from entering into or honoring agreements with Amtrak to bear liability risks attributable to their commuter rail services. This provides the appearance of savings, but it effectively transfers risk from the agency to Federal taxpayers.

For all of these reasons, I believe that the national intercity passenger system should continue to be a publicly owned and funded railroad. As I have said, the national system is complex and richly interconnected. It delivers a huge public benefit – and at the end of the day, every penny we make is reinvested in Amtrak, and the overwhelming majority of our revenues and funding are spent in America. We are America's Railroad, from beginning to end, and while we are working hard to run it economically, you can rest assured that our first concern is provision of safe, economical, and comfortable passenger rail transportation – and not just making a profit.

Appendix – Selected Figures

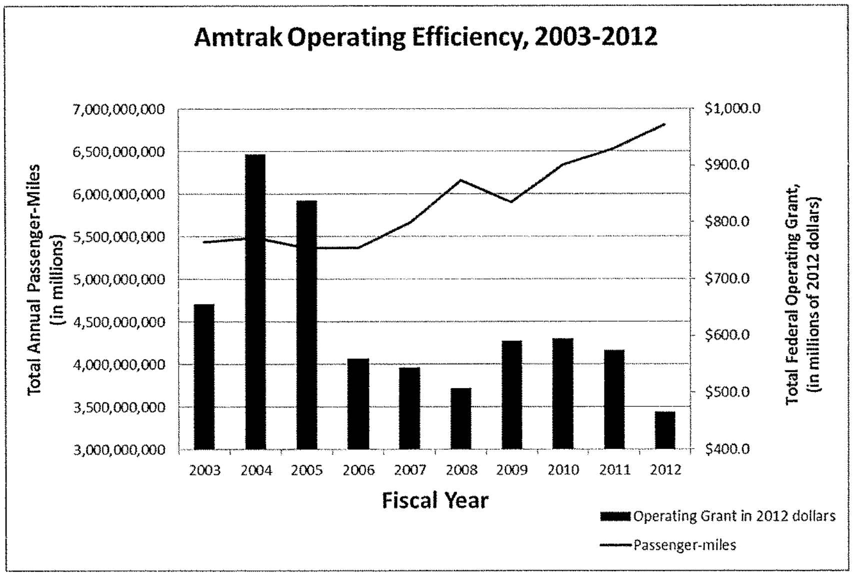

Fig 1. Amtrak operating efficiency, 2003-2012

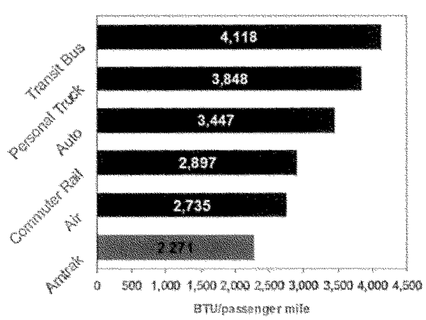

Fig 2. Energy efficiency of selected intercity travel modes

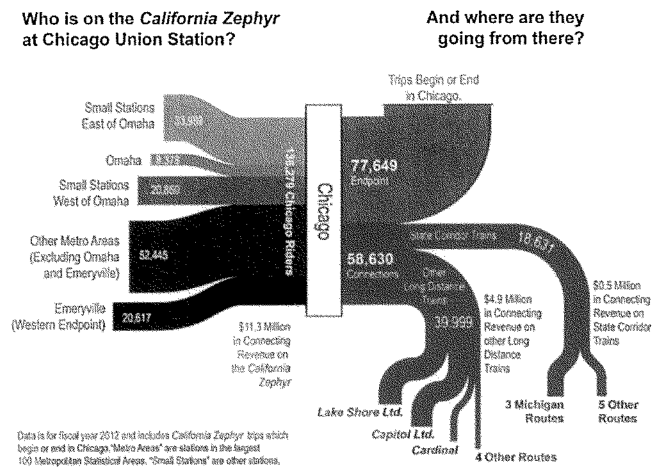

Fig 3. *California Zephyr* passenger flow through Chicago Union Station

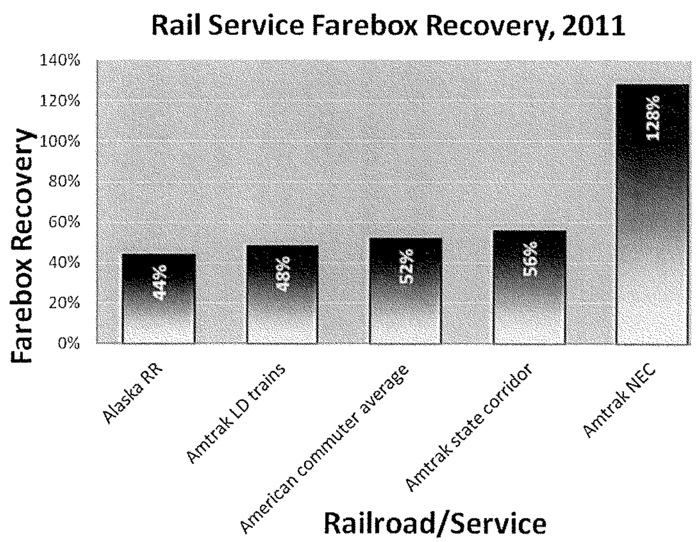

Fig 4. Comparative Farebox Recovery Data, 2011

Committee on Transportation and Infrastructure
Subcommittee on Railroads, Pipelines, and Hazardous Materials
Hearing on "Understanding the Cost Drivers of Passenger Rail"
May 21, 2013
Questions for the Record

Questions from Rep. Denham:

Question 1: What would be the single most significant policy change that would reduce the cost of providing intercity passenger rail?

Answer to Question 1: The single most significant policy change that would reduce the cost of providing intercity passenger rail would be a stable and reliable source of funding for capital investment. Inadequate and uncertain capital funding precludes Amtrak from making many investments in technology, equipment, infrastructure and other areas that would reduce costs, improve the efficiency, reliability and quality of Amtrak service, increase capacity and generate additional revenues. The lack of sustained and predictable Federal capital funding for intercity passenger rail also inhibits Amtrak's efforts to attract state and private sector investments that would leverage Federal dollars.

Question 2: In addressing Section 209 of PRIIA, you have said that "One of the goals of this Congressionally-mandated requirement is having a consistent formula for all our state-supported services and having the states know that they are being treated equally." How can States and the public know they are being treated fairly without a full disclosure of how the costs are derived – for all the states?

Answer to Question 2: The Section 209 process has involved a high level of transparency, while balancing Amtrak's need to maintain certain business and contractual information as confidential. The basis of the Section 209 methodology is the Amtrak Performance Tracking (APT) cost allocation system, whose methodology is available on the Federal Railroad Administration (FRA) website: http://www.fra.dot.gov/eLib/Find#p1_z5_lRO_y2009_m12. In downloadable volumes, the APT documentation explains the theory and process of how costs are allocated in the APT system. During the development of the Section 209 policy, Amtrak shared significant financial information for all routes affected by Section 209 with the State Working Group (SWG), the group of States and Agencies chosen by the States to work with Amtrak on Section 209 issues. Many States continue to consult and exchange information with each other on issues involving Section 209 and have been provided with granular detail about their services and costs. Amtrak recognizes that different States have different views about how much of this information they wish to share, so whenever possible we attempt to defer to our State partners on disclosing information about their routes.

Question 3: What is the process for states to receive the Section 209 cost information early enough to negotiate service costs with Amtrak that are sustainable from a state funding perspective?

Answer to Question 3: Amtrak has been providing pro forma financial information to States and Agencies about how much routes would cost under various methodologies since the Section

209 process began in 2010. In addition to workbooks, there has been continuous and ongoing outreach to States on 209. Detail was shared through workbooks, followed by calls and meetings with each of the states. One challenge we have been working under is that the APT system underlying Section 209 was developed in 2009, and in 2011 Amtrak switched to a new general ledger accounting system. Due in part to the transition to these new systems, some routes have experienced changes to their operating cost estimates, but this was expected and anticipated. The process helped us to correct and refine the new financial system. Since April when the forecasts were mailed, the numbers have not changed. Due to allocation errors, there have been changes to the estimates for equipment overhaul costs for some routes. We believe that as we all gain experience under Section 209 pricing, there will be fewer material changes to future forecasted costs.

Question 4: Why don't the public and corridor stakeholders (i.e. city or county officials, transit partners, etc.) have access to the Section 209 service and cost information prior to budget actions by the states?

Answer to Question 4:
The Section 209 financial information that Amtrak has shared with States and Agencies is proprietary and confidential. However, we continue to value the working relationships with our State partners, and for highly sensitive information requests, we will meet or create "work sessions" that allow the States to review the requested information. Ultimately, it is up to the discretion of our State partners on how this information should be used; thus far, Amtrak has not denied any information requests by the States. We look to our State partners to share information with city, county and transit officials because we have entered into an agreement with States and not local entities such as those referenced. Our goal is to educate policy makers at all levels and allow them to make informed decisions.

Questions from Rep. Mica:

Question 1: At the hearing, you said losses from food and beverage for 2012 were $72 million. Please provide for the record how you calculated that number, including revenue and expenses with a break out of costs for labor and concessions.

Answer to Question 1: The $72 million is calculated by taking the total Food and Beverage (F&B) revenue and subtracting the on-board labor, support, commissary provisions and management costs directly associated with providing Food and Beverage service.

Question 2: This $72 million figure varies greatly from the approximately $80 million per year in losses the prior ten years...Have your calculations of costs and revenues changed, and if so how? If not, how was Amtrak able to produce nearly $10 million in savings?

Answer to Question 2: The methodology to record revenues and calculate cost has not changed. Amtrak has taken a number of actions to improve our F&B Cost Recovery including the following:

- Outsourced Commissary Managed Services

    - Renegotiated existing Gate Gourmet contract to more favorable terms.
    - Competitively procured ARAMARK under new managed service contract at significant savings.
- Simplified Dining Initiative
    - Restructured staffing model for Dining car services on long-distance trains, reducing staffing levels and labor costs.
- Onboard Credit Card Processing
    - Introduced onboard electronic credit card technology on all Café, Lounge, and Dining cars to increase on-board sales and F&B revenue.
- Initiated Development of F&B Automated Systems
    - Onboard Point-of-Sale (POS)
    - Warehouse Information Management System (WIMS)
- Redesigned product portfolio to maximize customer satisfaction, reduce preparation times and optimize margins.
- Evaluated each menu offering and ingredient taking into consideration business needs, market trends, costs, flavor profiles and consumer demand in developing final SKUs.
- Comprehensively reviewed OBS crew staffing with goal of optimizing staffing levels, crew report times, en route hours, hotel costs and overtime expenses through extra-board optimization.
- Improved business intelligence tool set integrates data and employs Business Intelligence to better manage food service operations, labor productivity and revenue performance.
- Establishment of the Amtrak Culinary Advisory Team (ACAT) to provide insight on industry best practices, trends and product and menu development from industry-leading chefs.

Question 3: Please provide for the record your total annual expenses for the Gourmet Chefs Conclave for the past ten years. Also, please provide a breakdown of all costs associated with this conclave.

Answer to Question 3: The Amtrak Culinary Advisory Team (ACAT) was formed in 2006. From 2006 to 2009, total expenses were under $5,000 per year. Beginning in 2010, we evolved to a once a year meeting format and tracked all costs for the three day meeting. The celebrity chefs that participate on the ACAT do not receive monetary compensation. The celebrity chefs do receive space restricted travel privileges in exchange for their contribution to the team. Amtrak does reimburse them for expenses (air travel, hotel, meals and associated expenses) related to attending the annual meeting. Since 2010 expenses were:

2010 - $6,781
2011 - $7,252
2012 - $8,387
2013 - $9,071

Questions from Rep. Michaud:

Question 1: State-supported routes play an important part in the nation's rail system. What impact will the implementation of PRIIA Section 209 have on the Amtrak system, and how will it contribute to the growth and efficiency of state routes and the Amtrak network as a whole?

Answer to Question 1: Prior to Section 209, different States could pay widely different amounts for the corridor service in their State, which created a serious issue of equity among the States. Having a consistent cost-sharing formula will allow Amtrak and our State partners to spend less time on contractual issues, and more time improving and developing the services. Many States have also informed Amtrak that under Section 209, they plan to play a larger role in managing their services and will have high expectations for Amtrak. We welcome this involvement and believe that it will accelerate the pattern of growth and innovation that our State partners contribute to the Amtrak system. Section 209 has also brought State legislators much more directly into the rail passenger service in their states. State DOTs will have to spend more time educating legislators about their services and advocating for State dollars to sustain the service. Involving more people in the annual process of what to fund, when to grow or even where to cut, can only bring greater strength to decision making and transparency to the process at the State level.

Question 2: What is the specific cost savings associated with the implementation of e-Ticketing? What is the financial impact on Amtrak and how will it change your business model going forward?

Answer to Question 2: The benefit to Amtrak of eTicketing includes both cost savings and incremental revenues. We estimate the value of these combined benefits to be approximately $30 million annually.

The net cost savings is approximately $6 million per year. This cost savings is a result of the direct decrease in paper ticket processing costs as well as savings through improved fraud detection and refund processing.

The incremental revenue generated by the eTicketing project is estimated at $24 million per year. This revenue is attributed to the new distribution channels enabled by eTicketing as well as to increased sales at remote stations where Amtrak was previously unable to sell tickets within a week prior to departure.

Going forward, the impact of eTicketing on Amtrak's business model is transformational in a number of ways. Most importantly, it provides for a greatly improved customer experience. Customers no longer have to wait in line to obtain paper tickets and they do not have to be concerned about losing or misplacing a ticket. Customers have the option of printing their travel documents from the location of their choice or not printing them at all and using their smart phones to display their tickets to the conductor. This capability has been welcomed by Amtrak's customers, and in particular our business customers who are accustomed to this level of flexibility and convenience within the travel industry. The eTicketing capability also lays the foundation for future enhancements that will allow Amtrak to partner with other transit providers in providing a seamless and paperless travel experience across multiple providers. eTicketing thus yields numerous benefits that make Amtrak a more attractive and accessible travel option for our customers and a better partner for the travel community.

In addition to the significant customer benefit, eTicketing has produced positive and fundamental shifts in how Amtrak operates. We now have real-time information about the passengers on our trains, which results in improved security and the ability to respond more effectively to emergency situations. We are also able to recognize revenue more quickly and produce more accurate passenger counts. This has resulted in better financial performance and additional revenue opportunities through improved inventory management. Moreover, eTicketing has reduced the amount of time that conductors must spend in revenue-collection activities, allowing them to spend more time focused on the safe operation of the train.

Question 3: Where are the biggest opportunities to reduce costs, increase revenues or gain efficiencies in the Amtrak system?

Answer to Question 3: See response to Question 1 from Representative Denham.

Questions from Corrine Brown:

Question 1: In your testimony, you mention that long-distance trains help feed riders onto Amtrak's state-supported routes. (1) Would it be easy to dismantle your long-distance routes without jeopardizing the state-supported services or are they all connected? (2) What costs would be involved in dismantling long-distance service? (3) What costs may be shifted to States with state-supported routes and the Northeast Corridor if long-distance service was discontinued? (4) What would happen to Amtrak revenues and costs for the Northeast Corridor and state-supported routes if long-distance service was discontinued?

Answer to Question 1: Amtrak's long-distance, state-supported service and Northeast Corridor (NEC) business lines are part of an interconnected network that shares facilities and services.

For example, the tracks, stations and equipment maintenance facilities along the NEC are used by seven of Amtrak's fifteen long-distance routes, and eight of Amtrak's state-supported routes. Each of these services incurs **direct costs** for use of NEC services and facilities by individual trains, such as the wages paid to the engineers and conductors who operate the trains and to the coach cleaners who clean them between trips. However, many of Amtrak's expenditures for the NEC – such as the costs of maintaining track and staffing stations – benefit multiple routes and business lines. These **shared costs** are divided among all of the routes that utilize the NEC based upon relative usage.

The table below shows the revenues, direct costs and shared costs attributable to Amtrak's long-distance business line in FY12.

Revenues	**$557 million**
Direct Costs	$707 million
Shared Costs	$416 million
Total Costs	**$1.123 billion**
Contribution (Loss)	**($566 million)**

The $416 million in shared costs allocated to long-distance trains in FY12 accounted for the vast majority – 75 percent – of the $566 million in long-distance train costs not covered by revenues. Most shared costs attributed to long-distance trains, such as the costs of maintaining the signal system and providing police protection on the NEC, would not decrease if all long-distance trains were eliminated. Rather, Amtrak would have to continue to incur these costs in order to operate NEC and state-supported trains, and they would be reallocated to those business lines.

Many of the $707 million in direct costs incurred by long-distance trains would be avoided if those trains were eliminated. However, direct costs would not go down a one-to-one basis because some efficiencies and economies of scale would be lost. And Amtrak would lose $570 million in revenues: $557 million on long-distance trains, and $13 million from long-distance train passengers on connecting state-supported and NEC routes.

As a result, discontinuing all long-distance trains would produce only small savings in operating funding requirements. While revenues attributable to long-distance trains would all go away, many of the costs could not be eliminated, but rather would be shifted to NEC and state-supported routes.

State funding requirements for state-supported services would significantly increase. For example, the Midwestern states that fund state-supported trains that use Chicago Union Station would have to bear all of the costs associated with Amtrak's operations at that station, about 50% of which are currently assigned to the long-distance trains that would be eliminated.

In addition, there would be significant termination costs associated with eliminating all long-distance trains. Amtrak is legally obligated to pay labor protection (lost wages and continuation of benefits) for up to five years to agreement-covered employees who lose their jobs, or experience a reduction in pay, as a result of the discontinuance of a route. There would also be other significant termination costs due to ongoing obligations under leases for equipment and station facilities, and in contracts for goods and services.

Because revenues cover most (79%) of the direct costs of operating long-distance trains, and discontinuance of long-distance routes would trigger significant termination costs, eliminating all long-distance trains would increase rather than decrease Federal funding requirements in the initial years following service discontinuance. Since long-distance routes would no longer contribute to shared costs, state funding requirements for state-supported routes (i.e., all routes other than the NEC Main Line between Washington and Boston) would significantly increase.

Continuation of these services would be dependent upon states providing the additional funding that would be required.

Question 2: The Passenger Rail Investment and Improvement Act (PRIIA) required Amtrak to develop performance improvement plans for the long-distance routes, which Amtrak did. Most of those plans required substantial additional investment to improve the routes, including upgrading short-line railroad tracks and adding sidings to increase train service. There seems to be this misperception that disinvesting or under-investing in Amtrak is the way to improve service. In no other mode do we nickel and dime them to death and expect miracles. Can you talk about some of your performance improvement plans and Amtrak's needs for the long-distance routes?

Answer to Question 2: The Performance Improvement Plans (PIP) developed for each long-distance route as required under PRIIA, Section 210 included a combination of major initiatives that would have required significant rail infrastructure capital expenditures, as well as many that did not require any capital improvements and would have improved the cost recovery ratio, but would have resulted in a higher net loss. In the first year of the PIP development, we tended to favor bold initiatives that require host railroad approval, often requiring capital investment. All of these were either indefinitely deferred, given the host railroad response, or are deferred pending equipment availability.

In the second and third year, PIPs concentrated heavily on initiatives that did NOT require host railroad approval and focused on initiatives more within Amtrak's control, such as equipment design and service related improvements. One notable example is the *California Zephyr* PIP that emphasizes incremental improvements in customer service: emphasis on teamwork, improved enroute communications, increased personal attention to passengers, improved quality of pillows and blankets, as well as trash collection and recycling. Another example of growth and improvement resulting from the PIPs was the implementation of Priority Vehicle Offloading on the *Auto Train*. This is a time-saving upgrade option for *Auto Train* passengers, which allows them to reserve Priority Vehicle Offloading to ensure their vehicle is one of the first 20 offloaded from the train.

Clearly these are improvements that all long-distance routes will benefit from, but more significant improvements, with significant ridership and revenue increases, will require capital investment in facilities and rail equipment. Current levels of capital funding do not allow these improvements.

While an appropriate level of financial operating support is certainly important to delivering a consistent level of customer service, the need to retain appropriate levels of capital funding is perhaps more critical for the long-term. The need to protect and improve the rail infrastructure, rolling stock condition and customer support systems are absolutely essential to the viability of Amtrak as a meaningful element in the national transportation network.

Question 3: As we begin to reauthorize the Passenger Rail Investment and Improvement Act, what issues would you recommend we address in our reauthorization bill?

Answer to Question 3: Amtrak's key recommendations for reauthorization include:

(i) Providing an adequate, stable and reliable source of Federal funding for Amtrak and state capital investments in intercity passenger rail service, as is the case for other transportation modes such as highways and aviation. Amtrak's ability to make the multi-year commitments of funds that are required for major capital programs in all transportation modes is constrained by the uncertainty of future Federal funding. Continued reliance on annual appropriations for Amtrak capital investment frustrates efforts to significantly improve and expand intercity passenger rail service in the United States and to attract state and private investments, which increases Federal costs. There are a range of different options for improving Amtrak's Federal funding situation, particularly for capital investments. It should be noted, for instance, that several other entities that receive Federal funding assistance receive what are known as "advance appropriations," or budget authority that becomes available one or more fiscal years after the fiscal year covered by the applicable appropriations act. Although the appropriations are not scored until the fiscal year in which they become available, the fact that future year funding is known in advance allows agencies to plan and execute projects that span multiple years, as well as leverage non-Federal investments.

(ii) Reauthorization of the now-expired Section 205 of PRIIA, which authorizes the Secretary of the Treasury to restructure and repay Amtrak's existing debt when doing so will result in significant savings to Amtrak and the Federal government. Reenactment of this provision would enable the Secretary to reduce Federal funding requirements for Amtrak's debt obligations by early repayment of high interest debt, thereby reducing Federal expenditures.

(iii) A "mode-neutral" approach to surface transportation that establishes broad modal eligibility across surface transportation programs so that investment decisions are aligned with and responsive to outcomes, instead of arbitrarily constrained by mode. Intercity passenger rail investments should be eligible under Federal surface transportation programs, including the Federal-aid highway program.

(iv) Requiring all operators of passenger rail service on the national rail network to maintain an adequate level of liability insurance, as Amtrak is already required to do by statute.

These types of reforms and initiatives are meaningful and would bring greater efficiency to Amtrak and more buying power to funding provided by Congress. The lack of any certainty of both the amount and thinking behind Congressional appropriations is expensive to Amtrak, particularly in the planning and execution of multi-year funding projects.

Further detail on Amtrak's legislative recommendations for reauthorization can be found in the Amtrak FY2014 Grant and Legislative Request, which was submitted to Congress on March 27, 2013 and can be found at http://www.amtrak.com/ccurl/531/509/Amtrak-FY14-Grant-Legislative-Requests.pdf.

WRITTEN TESTIMONY

"UNDERSTANDING THE COST DRIVERS OF PASSENGER RAIL"

DAVID B. KUTROSKY
MANAGING DIRECTOR
CAPITOL CORRIDOR JOINT POWERS AUTHORITY
OAKLAND, CA

HOUSE OF REPRESENTATIVES
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON RAILROADS, PIPELINES AND HAZARDOUS MATERIALS
MAY 21, 2013

It is a pleasure to be here today before the Subcommittee.

I have been asked to provide my commentary on the topic of today's hearing, "Understanding the Cost Drivers of Passenger Rail ". I will focus on tools that managers of state-supported intercity passenger rail (IPR) services can use to make informed decisions that will improve the efficiency and utilization of these IPR services.

I have over 15 years experience in the management of the Capitol Corridor IPR trains that operate in the Northern California Megaregion, connecting the metropolitan areas of Sacramento, the San Francisco Bay Area and San Jose/Silicon Valley. Throughout my career at the Capitol Corridor Joint Powers Authority (CCJPA), Amtrak has been the contract operator for the Capitol Corridor trains.

The State of California has always supported the Capitol Corridor service by providing funds to help offset the net operating costs, which is the difference between total operating costs and revenues.

From FY2011 (using audited financials) to the FY2014 forecast (received on April 19, 2013), the major cost drivers which have impacted the Capitol Corridor are:

- Fuel, which has increased 18% for an average annual increase of approximately 6%
- Direct Route Costs, such as crews, equipment maintenance, food service and marketing, which have increased 6%, an average of approximately 2% per year
- Shared Costs, such as overhead and shared facility costs, have increased 8%, an average of approximately 2.3% per year

Over the past 15 years, the CCJPA has worked with its local Amtrak team to control the operating costs while maximizing revenues and constantly improving the customers' experience on the Capitol Corridor trains.

As you can see, fuel is the largest driver of cost increases for the Capitol Corridor. External factors have had an upwards impact on the price of fuel which has driven an increase in the price of diesel fuel for the Capitol Corridor. I am quite sure that this impact is being felt by my colleagues at other state IPR agencies. While control of this cost driver can be difficult to implement, it becomes important that Amtrak, which purchases the fuel for the state IPR services, work with its state partners to develop conservative budget estimates to provide the contingency to absorb any external global actions that would lead to a spike in fuel prices. At the

CCJPA we try to control fluctuations in fuel pricing by opting into Amtrak's fuel hedging program. While this hedging does not guarantee a reduction in fuel costs, it does provide a moderating factor that levels out the potential for large spikes in fuel prices.

Another means to control costs is to adjust train schedules that will optimize the service performance of the train services. With completion of upgrades to the Sacramento Valley Station funded by the American Recovery and Reinvestment Act, the CCJPA, working with our local Amtrak management team, instituted a service change that optimized the Capitol Corridor train schedule by reducing weekday service from 32 to 30 trains. We eliminated two under-performing weekday trains which resulted in savings of $2.5 million (per FY2014 budget forecast) or 4.2% of the total Capitol Corridor operating budget, primarily in fuel and direct route costs. While ridership has declined 3% on the Capitol Corridor, revenues and customer satisfaction are still even with last year's levels.

To that end, you can see that the ability to control operating costs while maintaining solid, consistent performance and keeping the passengers happy requires a strong partnership between the manager of the trains, CCJPA, and its operating contractor, Amtrak.

I would like to transition to another relevant topic in understanding the future of cost drivers in state IPR services – PRIIA Section 209 Policy.

The timing of this hearing is very appropriate given the deadline of October 2013 for the implementation of the PRIIA Section 209 Policy which will govern the pricing of state-supported, Amtrak-operated IPR services.

In addition to my current duties at the Capitol Corridor JPA, I was tapped to lead the State Working Group (SWG), representing the state IPR agencies in the negotiations with Amtrak to develop and implement the PRIIA Section 209 Policy. The Policy now provides state intercity passenger rail agencies a better opportunity to gain control over the costs of their IPR train services.

In the development of the Section 209 Policy, the states and Amtrak recognized that to ensure the acceptance by all parties the Policy must be transparent, equitable and fair in the allocation of operating costs and equipment capital costs from Amtrak to the state IPR agencies.

As background, the states have been cooperatively working with Amtrak since 2010 in the development of the Policy, which provides state IPR agencies with a menu of fifteen (15) functions to select from in the development of the service plan and budget for their IPR train service(s). In August 2011, the final Policy was distributed to states and by November 2011, all but one of the 19 states affected by Section 209 adopted the Policy. Per the Policy, states have agreed to reimburse Amtrak for:

- 100% of 3rd party costs, such as fuel and host railroad costs and
- 100% of Route Costs, 15 categories of costs which are verifiably and directly associated with the operation of a route, and
- Support Fees applied to Route costs via additive rates to cover management, overhead and other backbone costs which are not route specific in 15 basic functions.
- Investments made in Amtrak-owned rolling stock used by States in the operation of their routes, based on the number of units used.

In March 2012, the Surface Transportation Board (STB) confirmed the development and elements of this Policy.

Since the actions to approve and adopt the Policy in November 2011, Amtrak has been working to develop the FY2014 forecasts for both operating expenses and the equipment capital charges. Amtrak has provided states with cost projections based on FY11 and FY12 costs, however the FY2014 projections were just released to the states one month ago on April 18, 2013.

According to Amtrak, estimated state payments of $193 million in FY13 are forecasted to increase to $317 million in FY14 (including operation and equipment capital), representing a lump sum increase of $119 million (or 60%). Most states have been working with their legislative houses and governor's offices to increase their share of support for their IPR services and are now beginning to see if the FY2014 Amtrak forecasts can be absorbed within their state FY2014 budgets.

In parallel, the SWG has been meeting with Amtrak to review these FY2014 Amtrak operating forecasts and ensure that these forecasts adhere to and follow the Section 209 Policy. The results of these discussions with Amtrak should help state IPR agencies understand the cost drivers for these state-supported IPR services.

An initial review of Amtrak's FY2014 operating forecasts using the Section 209 Policy indicate that fuel, direct route costs and equipment capital charges have driven the increase in state IPR service operating costs. Specifically, crew transportation and equipment maintenance expenses are the largest costs in terms of dollars. Another cost function that requires further evaluation is food and beverage service. As state IPR agencies will now be paying for the net difference between food and beverage revenues and expenses, the interplay between crew and material expenses when compared to revenues will necessitate detailed analyses. These are areas where the SWG and state IPR agencies will work with Amtrak to find ways to gain efficiencies and control these cost drivers.

Upon review of Amtrak's annual reports, since the passage of PRIIA in October 2009, total operating costs (including PEBs) on the Northeast Corridor (NEC) have dropped 4.9% between FY2012 and FY2009. At the same time, costs for the state-supported routes have increased 11.6% and the long distance network routes have gone up 20.9%.

Based on these annual report figures combined with the initial findings on the cost drivers in the FY2014 Section 209 forecasts, the states eagerly look forward to working with Amtrak to help drive down the costs for the state-supported Amtrak-operated IPR services to capture similar cost reductions that were effectuated for the NEC.

Between the state IPR agencies and Amtrak, I believe that numerous strategies and initiatives are available to confront the rising costs for state IPR services.

As previously mentioned, one of the most effective tools is to implement strategic service changes to optimize service performance. This is a delicate balancing act. State IPR agencies need to ensure that cost reductions are specifically targeted so as avoid negatively impacting customer satisfaction. This is where Amtrak as the operating partner can and must provide its resources to assist states. The Capitol

Corridor implemented such a plan in 2012 to reduce costs while maintaining a high quality of service to the paying public.

Another tool is to improve the other side of the balance sheet – revenues. The use of ticket pricing strategies can further offset increasing costs. The Amtrak reservations system uses yield management pricing, similar to the airlines, to maximize revenues by applying various algorithms based on day of purchase versus day of travel versus seats available for that particular leg of the trip.

For those IPR agencies that do not have a ticket reservation system, one possibility is to offer discounted tickets through promotions and offers that entice people to travel when there are seats available. For example, the Capitol Corridor just completed an on-line campaign that offered 50% discounted tickets on weekends. Previously we also provided mid-day, mid-week 50% discounts for senior citizens. Also, every year for the past 10 years we have offered a youth and school group program that provides steeply discounted group travel tickets on off-peak travel trains, which is very successful in introducing school children and boy/girl scout troops to the pleasures of train travel.

Using a combination of controlling cost drivers and increasing revenues, state IPR agencies, through the Section 209 Policy, can now select from a menu of functions that Amtrak can provide in the delivery and operation of these state IPR services.

When choosing from the menu of services available in the Section 209 Policy, states, as clients, need to be aware of what Amtrak, the contract vendor, brings to the table as an operating partner:

- Ability to access host railroad track for IPR services at a federally-mandated incremental cost basis, which is significantly lower than commercially negotiated commuter train access costs
- Lowered insurance premiums as insurance costs are pooled across the entire Amtrak network
- Provides indemnification to state IPR agencies as their contract operating partner
- Owner of operating slots on host railroad tracks for nearly all of the state IPR trains (exception for three California IPR services)
- Owner of train equipment used in majority of state IPR trains (exceptions include North Carolina, and most of the IPR services in Washington/Oregon and California,)

In closing, the Section 209 Policy allows state IPR agencies to acquire the tools to understand and control cost drivers in their IPR services. These tools can help states make business-based decisions in the delivery of their IPR services that meet the needs of the traveling public while also ensuring these services are cost-effective.

With the implementation of the Section 209 Policy, states now can leverage the federally-enabled institutional arrangements bestowed upon Amtrak as an operating partner while also forming other partnerships to develop and manage the operation of high-performance, efficient state IPR services.

Thank you for the opportunity to present this testimony.

Committee on Transportation and Infrastructure
Subcommittee on Railroads, Pipelines, and Hazardous Materials
Hearing on "Understanding the Cost Drivers of Passenger Rail"
May 21, 2013
Questions for the Record
David B. Kutrosky, Managing Director – Capitol Corridor

Questions from Rep. Denham:

1. In your testimony, you describe how fuel is the largest cost component of the Capitol Corridor service, and has increased significantly since 2011. Amtrak purchases fuel for State-Supported routes through its hedging program. How well do you think that program is working, and could there improvements be made?

Answer: Under the current operating contracts with Amtrak and in the future with the implementation of PRIIA Section 209, state/Intercity Passenger Rail (IPR) agencies assume the risk of and pay 100% of an IPR route's share of fuel costs. With that as background, the Capitol Corridor Joint Powers Authority has taken actions to mitigate and/or reduce this fuel cost risk by "opting into" Amtrak's fuel hedging, which has resulted in 1.4% in cost savings over the last twenty (20) months. The CCJPA uses this fuel hedging to primarily absorb large spike in fuel prices. The CCJPA also includes a contingency in the fuel budget based on historical data that together with the fuel hedging program will help the CCJPA manage and control fuel costs. So, I believe that the program is working, yet improvements are underway to ensure detailed reporting from Amtrak to help enhance forecasting on fuel usage and prices. The CCPA is also working to install wayside power cabinets at train layover facilities along the Capitol Corridor that will allow trains that are parked overnight or for more than two hours to turn off the locomotive engines after being attached via cables to the power cabinet thereby decreasing fuel usage, eliminating noise and air pollution, and reducing operating costs.

Questions from Rep. Michaud:

1. Section 209 of PRIIA will take effect in October of this year requiring all states, like Maine, to pay the direct costs and a significant portion of shared costs, associated with the operation of their routes. Can you tell me how the implementation process is going from the State perspective? Are the States receiving all the information they need from Amtrak?

Answer: States and Amtrak have worked collaboratively to implement a methodology and have worked closely since that time to implement the policy. There have been significant changes in cost projections, and the back-up information provided by Amtrak has made it challenging for States to verify and justify the costs being charged. Amtrak remained in continual communication with States, and has been cooperative. States have outlined specific issues, and Amtrak has responded with what they feel can be

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accommodated in FY14 and what issues will be addressed in FY15. The Federal Railroad Administration (FRA) has been working to try and help resolve issues and clarify differences of participation. That said, this is a complex process, and many issue remain unresolved. While both States and Amtrak are making good faith efforts to implement PRIIA Section 209 by October, it is very much a work in progress.

2. Your prepared testimony noted that since the Section 209 policy was approved and adopted in November 2011, Amtrak has provided states with cost projections based on past fiscal years. The FY2014 cost projections were sent to States last month. Were the FY2014 cost projections consistent with prior years? Have the costs to states been reduced or increased and why do you think that is?

Answer: Many costs have increased specifically, Train and Engine Crew Costs, and Equipment Maintenance costs and Equipment Capital Costs. The 5-year Capital Improvement Plan provided by Amtrak in 2012 was modified in FY14 forecasts. While Amtrak has agreed to honor the FY2014 projections put forth in 2012, the 5 year plan has yet to be updated to reflect future costs.

3. Do the states see opportunities for cost reductions now that they have greater financial responsibility for their operations and how can we help you to realize them?

Answer: At this time, Amtrak is facing challenges in reducing costs due to its system of allocating costs to states. A significant portion of Amtrak's expenses are allocated based on formulas rather than capturing direct costs. This leaves little or no ability for States to control costs. The Amtrak Performance Tracking (APT) cost allocation system is complex and lacks the flexibility for States or Amtrak to really understand how changes made at the route level can be realized by either Amtrak or States. Amtrak is making a sincere effort to be equitable in their allocation of costs to States. However, their approach is one of a fixed cost which is allocated to States based on certain statistics. In the process, it has been difficult to realize cost savings without states outsourcing services that Amtrak currently provides to state IPR routes, which could have the unintended consequence of Amtrak allocating these cost savings to another route as increased costs.

Questions from Rep. Corrine Brown:

1. As we begin to draft legislation to reauthorize the rail program this Congress, what can we do for States to ensure that passenger rail continues to grow and remain a priority?

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Answer: Significant progress has made over the last 5 years in the development and performance of the nation's intercity passenger rail (IPR) routes. For this growth to continue, the national transportation policy must become more balanced and provide equity for federal investment among ALL transportation modes. This would include the development of a new federal fund source(s) for investment in the intercity passenger rail network including, where appropriate, High Speed Rail (HSR) Corridors. Congress, through the authorization and appropriation of these new federal funds, should partner with and incentivize States to plan, develop, and integrate these high-speed and intercity passenger rail (HSIPR) corridors across the United States with the existing Amtrak network, and with commuter rail and transit operations wherever possible to create a connected national passenger rail network. States and other HSIPR interests have been working with the American Public Transportation Association (APTA) and the American Association of State Highway and Transportation Officials (AASHTO) to prepare federal legislative proposals to assist Congress in its development of a separate funded rail title to facilitate the development of a HSIPR System as part of a balanced, efficient, multi-modal, and inter-connected national transportation system.

2. In your testimony, you note that the State of California has always supported the Capitol Corridor by providing funds to help offset the net operating costs. How important is the constant support and financial backing from the State? Do you think the Capitol Corridor could be successful without State support? Do you think this funding could be jeopardized if the State was also required to pay for all their long-distance trains?

Answer: The State of California has established a trust fund financed by the state sales tax receipts on diesel fuel which is used to support the state's network of transit services plus the three (3) successful IPR services. These operating funds for the three IPR services have consistently been included in every state budget act as these trains are widely endorsed and supported by the Legislature and the current and previous Governors' administrations. It is recognized that the appropriation of these operating dollars are the best means to utilize and protect the state's $2 billion investment in the California IPR system. Without a doubt, the Capitol Corridor train service would be severely curtailed or eliminated without this state operating support. While I cannot conjecture thoroughly, I surmise that California does not have funds set aside to pay for the Amtrak long-distance trains operating in California. In developing the PRIIA Section 209 policy, it was clear that the operating support for Amtrak trains with routes greater than 750 miles in length would remain the responsibility of Amtrak through its annual federal appropriation. Establishing these criteria for who is responsible for which routes in the Amtrak system is key in advancing the development and adoption of the PRIIA Section 209 policy by the states and Amtrak.

Committee on Transportation and Infrastructure
Subcommittee on Railroads, Pipelines, and Hazardous Materials
Hearing on "Understanding the Cost Drivers of Passenger Rail"
May 21, 2013
Questions for the Record
David B. Kutrosky, Managing Director – Capitol Corridor

3. As we begin to reauthorize the Passenger Rail Investment and Improvement Act, what issues would you recommend we address in our reauthorization bill?

Answer: Consistent with the answer above, as Congress looks at the reauthorization of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA), the following issues should be addressed:

- the myriad of challenges facing railroad owners in the development, installation and operation of Positive Train Control systems;
- policies that encourage and ease the utilization of existing financing tools (such as RRIF) and public-private partnerships that can attract private investment and speed project development;
- Conform changes to passenger railroad projects that are consistent with previous changes in MAP-21 that reform the National Environmental Protection Act (NEPA)/Categorical Exclusions (CEs) for highway and transit projects;
- Inclusion of a new funding source in a Rail Title for the development of a High Speed and Intercity Passenger Rail (HSIPR) System;
- Direction on a policies that require integration and connection of the HSIPR system with other modes in the national transportation network.

Together, this represents a new, forward-looking vision for the 21st century that allows HSIPR services to be an integral component in the nation's transport network and will provide better travel choices, enhance mobility options, guarantee connectivity and promote economic growth.

Statement of

Ross B. Capon

President and Chief Executive Officer

National Association of Railroad Passengers

Before the

Subcommittee on Railroads, Pipelines and Hazardous Materials

The Honorable Jeff Denham, Chairman

Committee on Transportation & Infrastructure, U.S. House of Representatives

* * *

Understanding the Cost Drivers of Passenger Rail

* * *

May 21, 2013

* * *

Thank you for the opportunity to appear before you today, and for your continuing interest in passenger rail.

Broadly speaking, as Amtrak's figures reflect, the major drivers of net costs of Amtrak service are Northeast Corridor (NEC) capital needs and long-distance train operations.

<u>The NEC</u> requires considerable capital investment just to "stay in place." Indeed, there has been some publicly-acknowledged NEC deterioration in recent years. The NEC Infrastructure Master Plan at $52 billion is heavily oriented towards upgrading the existing tracks and infrastructure. Based on commuter railroads' share of NEC train-miles, commuter rail accounts for roughly half of the costs in the Master Plan.

We have two major concerns regarding the NEC.

- Because tracks at critical segments, key stations, and the overall fleet are near or at capacity, fares continually rise and the proportion of the population who can afford to ride Amtrak's NEC trains continually falls.
- Public discourse has overemphasized the difference between capital and operating costs. This has caused many people to believe that the Northeast Corridor is "profitable" in a private sector sense—and that the NEC could continue operating if federal funding for Amtrak ceased and all or most non-NEC services eliminated. For

> example, in a June 28, 2011, broadcast on *All Things Considered*, Robert Siegel said, "The heavily populated Northeast Corridor, from Washington to Boston, is the only segment of Amtrak's national service that is profitable."

The reality, of course, is that without federal capital support, the NEC's downward drift would accelerate into a death spiral.

When Amtrak reports that passenger and other non-federal revenues cover 88% of operating costs, that is the net result of NEC revenues exceeding *non-capital* costs and, elsewhere in the network, operating costs exceeding revenues.

The key word is "network" – Amtrak's individual routes are part of an interactive and interdependent system. The impact of eliminating any route or group of routes is not easy to predict, as it involves assumptions about what would happen to revenues from passengers making connections, as well as distinguishing between costs that would be eliminated and those that would be shifted to surviving trains.

The net cost of operations for the long-distance trains should be put in context with the huge capital needs of the NEC (and other short corridors).

- Long-distance, fully-allocated net cost declined from $597.7 million in FY 2011 to $591.0 million in FY 2012.
- Fully-allocated figures vastly overstate what could be saved by eliminating services, since so many costs are fixed and—in the event of discontinuance of a route or routes—would simply be reassigned to surviving services. For example, only two major terminals—New Orleans and Miami—are solely devoted to long-distance trains. If, as we anticipate, Amtrak is able to improve interconnectivity by moving from its isolated Miami station into the new Miami Intermodal Center, also occupied by Tri-Rail, Miami would be eliminated from that list as regards its passenger terminal (though not support facilities).

The long-distance trains are heavily used by people who get on and off at intermediate points. About one-third of trips are 501-999 miles, with a slightly larger proportion making trips over 1,000 miles and a slightly smaller proportion making trips 500 miles or less.

In Fiscal 2012, the long-distance trains accounted for 43% of all Amtrak intercity passenger-miles. (A passenger-mile is one passenger traveling one mile.) In 23 states, the long-distance network is the *only* Amtrak service. That number rises to 25 if one includes the Oklahoma City-Fort Worth *Heartland Flyer* which likely would not outlive the *Texas Eagle* – the two trains share facilities at Fort Worth and a substantial portion of *Flyer* passengers connect with the *Eagle*. Thus, elimination of the *Eagle* would substantially increase *Flyer* costs while reducing its revenues.

NARP urges policymakers to focus on expanding long-distance services, not reducing them.

1. Lengthen trains, increase frequencies and fill gaps in the national network, creating a comprehensive web of routes that provides convenient connectivity at major hubs;

2. Make track, signal and station improvements that decrease trip times and increase on time performance; and
3. Procure high-performance, modern equipment suitable for overnight and longer distance trips.

Eliminate Routes?

Amtrak's network also is so skeletal that attempts to eliminate individual routes would seriously weaken the system's credibility. It also likely would lead to wasting an incredible amount of energy – starting with Amtrak staff time but also including yours and many others'. As well, there is scant evidence that elimination of routes has resulted in meaningful improvements to Amtrak's bottom line. The biggest route cuts in Amtrak's history occurred in 1979 and were justified primarily by lack of enough acceptable rolling stock.

In the 1980s, Amtrak sought to discontinue rail service between Tampa and St. Petersburg, replacing it with bus service. This was accomplished. Afterwards, however, then Amtrak President W. Graham Claytor Jr. told his staff that—if he had known up front the costs of the change, including executive staff time—he would not have proposed the change.

In 2005, Amtrak "suspended" the *Sunset Limited* east of New Orleans after Hurricane Katrina destroyed some of the CSX infrastructure. That infrastructure was restored "better than new" within about six months, but the train remains suspended, and its discontinuance remains a major source of ill will towards Amtrak and the federal government. NARP frequently cites this as our biggest disagreement with Amtrak.

We have criticized the statutorily mandated report Amtrak did on restoration costs, for example, inclusion of costs for a station in Sanford which is not needed. Significant ADA-related costs were included for all stations, something which Amtrak has not required in the case of other weather-related service outages. These costs helped insure that the service is not restored, and the outcome is that the ADA community—which benefits disproportionately from Amtrak service—has no service at all on this route. Amtrak reported that 42% of passengers with disabilities who traveled on Amtrak in fiscal 2010 rode long-distance trains.

A major campaign by Gulf Coast mayors to get New Orleans-Florida back into the Amtrak system is focused on 100% federal funding.

Public Wants More Trains, not Fewer

Amtrak on October 10, 2012, reported 31.2 million intercity passengers in Fiscal 2012 – "the ninth ridership record during the last ten years." On April 9, 2013, Amtrak reported that ridership increased during the first half of Fiscal 2013 in spite of the "significant hit" that the NEC took from Superstorm Sandy. Individual monthly records were set in October, December and January.

The growth affects all segments of Amtrak service and all parts of the country. From 1997 to 2012, ridership on Amtrak's long-distance trains rose almost 20% even though capacity was not increased. The above-referenced October release said "all 15 Amtrak long-distance routes experienced an increase in passengers resulting in their best combined ridership numbers in 19 years."

Non-NEC short-distance corridors have been key drivers in the systemwide growth. As the Brookings Institution has reported, from FY 1997 to FY 2012, "Amtrak's total boardings and alightings jumped 55.1%. ... This:

- "outstrips population growth (17.1%) more than threefold over the same period;
- "exceeds the growth in real gross domestic product (37.2%);
- "more than doubled the growth in domestic aviation passengers (20.0%); and
- "far exceeded the growth in driving (measured by vehicle miles traveled per year; 16.5%) and transit trips (26.4%)."

On the comparison with other transport modes, Brookings noted, "all three modes do carry larger aggregate quantities of people, but these growth trends serve as evidence of changing attitudes towards train travel."

Those attitudes are reflected elsewhere, particularly in statistics relating to younger people. An April 2012 Frontier Group study notes, "From 2001 to 2009, the average annual number of vehicle-miles traveled by young people (16 to 34-year-olds) decreased from 10,300 miles to 7,900 miles per capita—a drop of 23 percent."

- Over that period, 16-to-35-year-olds took 24% more bicycle trips and were 16% more likely to walk to their destinations. And from 2000 to 2010, the share of those aged 14 to 34 without drivers' licenses grew by 5%.
- "Sheryl Connelly, Ford's futurologist, said the carmaker ... [noticed] the proportion of 16-year-olds holding a drivers license in the U.S. fell from 50 to 30% in the 30 years to 2008" (*Financial Times*, Dec. 24, 2012).
- A 2011 Zipcar survey found that 48% of 18- to 24-year-old U.S. drivers said they'd rather have Internet access than a car, if they had to choose one or the other. This reflects that people can "stay connected" while riding public transportation but cannot (or should not) while driving.

Driving Down: In February, 2013, travel on all US roads was down 1.4 % or roughly 3.1 billion miles driven compared with February 2012, according to Federal Highway Administration data, while cumulative travel declined only 0.4 percent over the same period.

Since June 2005, VMT on all US roads declined an estimated 8.75 percent, according to Advisor Perspectives researcher Doug Short. The correlation between gas prices and miles driven is actually rather weak. More relevant factors include the aging population (seniors moving to areas where they don't need to drive as much), continuing high unemployment, the increased ability to telecommute made possible by the Internet, and the increased availability of attractive and reliable public transportation (witness the growth of rail transit systems in such places as Denver, Dallas, Salt Lake City and Seattle).

"The amount of driving in the United States in 2040 is likely to be lower than is assumed in recent government forecasts. This raises the question of whether changing trends in driving are being adequately factored into public policy." That is a report, "A New Direction: Our Changing Relationship with Driving and the Implications for America's Future," released May 14 by U.S. Public Interest Group Education Fund.

Airline and Intercity Bus Reducing Service to Small Markets to focus on larger markets. A study released this month by the Massachusetts Institute of Technology found that, from 2007 to 2012, 1.4 million yearly scheduled domestic flights have been cut from the U.S. air transportation system—a decline of 14%.

The nation's small-hub and medium-hub airports have been disproportionally affected by these cuts, with 18% and 26% service reductions, respectively. Small, non-hub airports have been hit the hardest, with a 21% drop in domestic departures. The study predicts further consolidation of air service to larger hubs and markets.

"Discount king Southwest, known for its frequent service to midsize airports, is behaving more like the larger network airlines, exacerbating the downward trend, according to the MIT study. Southwest expanded by 6% at the busiest airports while cutting nearly 10% of its flights from smaller airports from 2007 through 2012, according to the MIT researchers" (*Wall Street Journal*, May 8, 2013).

According to a September 28, 2011, *Wall Street Journal* report headlined "Airline Mergers Leave Airports off the Radar," "Since 2005, the number of flights from Cleveland's Hopkins International airport are off 23%; Pittsburgh's are down 49% and St. Louis's are 36% lower."

An estimated 3.5 million rural residents lost intercity transportation access between 2005 and 2010; an additional 3.7 million lost access to at least one transportation mode. America's senior citizens are especially vulnerable. By 2015, more than 15.5 million Americans 65 and older will live in communities where public transportation is small or non-existent (*The U.S. Rural Population and Scheduled Intercity Transportation in 2010: A Five-Year Decline in Transportation Access*, U.S. DOT Bureau of Transportation Statistics, February 2011).

Polls: A DFM Research poll finds strong support for Amtrak in three conservative districts: IL-13 in February (Champaign/Decatur/etc.), MO-8 in March (includes Poplar Bluff), and the state of North Dakota in October 2012.

- 65% [52% of R's]: Amtrak funding should continue or increase;
- 21% [31% of R's]: Eliminate Amtrak funding.

From the survey: "While the surveys were done at different times during the past five months, and often asked questions that were unique to the district, the one universal thread in all three districts is the strong level of support for Amtrak government funding, and the desire for additional options for passenger rail service in their communities."

Other notable findings include:

- By a 4-to-1 ratio (72-17%), constituents under age 45 support keeping/increasing government funding of Amtrak, versus eliminating funding; the 55 percent positive gap is the highest among all age groups. Those over-age-65 show a 43 percent positive gap, and age 45-64 show a 35 percent positive gap. The gap refers to the difference between those who want to keep/increase funding as opposed to those who want to eliminate funding.
- Women are more likely to support government funding of Amtrak, with a 50 percent positive gap (68-18% support level) than men, who have a 35 percent positive gap (62-27% support level)
- By a 3.5-to-1 ratio (69-21%), self-indentified Independents support keeping/increasing government funding. Democrats have a 70 percent positive gap (80-10% support level), and over 50 percent of self-identified Republicans show support for Amtrak funding.

The train questions were asked for the United Transportation Union. The poll is at http://dfmresearch.com/Projects.html

A September, 2012, national poll of 800 Americans done for Natural Resources Defense Council found:

- Majority wants more travel options and is aware that the transportation system needs major change
- 58% would use transit more often, but it's not conveniently available
- 64% believe their community would benefit from expanded rail or bus systems.
- To reduce traffic congestion, 42% favor improving public transportation; 21% favored development of less car-dependent communities; only 20% favored building more roads; 17% said "all of the above" or "not sure."

On-Board Food and Beverage Service

This committee has a long history of interest in this aspect of Amtrak's business. At this subcommittee's June 9, 2005, hearing on this subject, then-Amtrak Senior Vice President—Operations William L. Crosbie testified, "Amtrak's food and beverage service is a fundamental part of the service that we offer on board the majority of the trains that we operate on a daily basis. Its primary purpose is to enhance ticket sales and ridership, not serve as a profit center. Food service in the travel industry is not meant to make a profit. The business model, price elasticity, and regulatory and statutory hurdles are too great for Amtrak, or any other entity of the size and reach of Amtrak, for that matter, to ever break even on a consistent basis, let alone make a profit. … The passenger often has a level of expectation based on the length of the trip and the first-class passenger expects premium service for the premium price he or she pays."

Much has been made of Amtrak's selling hamburgers for more than they cost at a Major League Baseball park. On April 1, Amtrak informed me, "The selling price of our Angus Cheeseburger on all café cars is $6.25. This menu item is a 4.5 oz burger on a kaiser roll. The selling price of our Angus Steak Burger on all long distance service menus is $9.75 [for] a

4.5 oz burger on a sesame bun, with or without cheese, served with lettuce, tomato, red onion, dill pickle and kettle chips. It is served with coffee, tea or milk."

It is sometimes represented that, since Amtrak has a captive market, food service should be profitable. The problem is that the vendor is equally captive – the market is restricted to people who are riding the train long enough to want to buy food. Passengers also can minimize or eliminate the need to purchase on-board by bringing their own food with them.

Finally, comments are made about labor costs. One reason labor costs are higher is that on-board personnel have safety training and safety responsibilities that their fast-food counterparts do not. Also, on-board employees often have irregular schedules and long stretches away from home.

Cost Shift to States?

There has been some discussion about shifting cost of the long-distance trains to the states. However well-intentioned this recommendation may be, in practical terms it would be a death sentence for the long-distance trains. In passing the 2008 authorization law, Congress recognized the long-distance trains as a logical, federal responsibility. Simply put, these trains could not survive a mandate that they get state support.

Under Section 209 of the 2008 law (PRIIA), Amtrak and the states are negotiating state take-over of funding responsibility for most of the costs associated with trains with routes up to 750 miles long. This has involved some agreements among up to three states. Given the difficulty of achieving those agreements – and none are 'cast in concrete' yet – one Amtrak official close to the process told me he could not begin to imagine achieving agreement among a larger number of states, let alone the seven or eight that the Chicago-West Coast trains traverse. The New York-New Orleans *Crescent* serves 12 states plus the District of Columbia.

For a route to survive, every state would have to agree not only to fund the service but also on schedules, service amenities, and cost allocations among the states. That means funding service in the middle of the night in most of Nebraska because of the crucial marketing importance of hitting the Chicago, Denver and Bay Area markets at attractive hours.

Any single state not cooperating would torpedo an entire route, and—as noted above—any route dropped from the system would shift some costs to surviving routes. As well, the revenue impact on surviving routes would mainly be negative, due to loss of connecting traffic.

<u>Massachusetts:</u> Through most of the 1970s, the commuter rail system in Eastern Massachusetts was funded by the 79 cities and towns that comprised the MBTA. They paid for the system under a formula that discouraged efforts to promote ridership, since the more riders a community had the more it had to pay for the service. This arrangement also made service extensions outside "the 79" difficult and inefficient. For example, Newburyport and Haverhill/Lawrence service consisted of single weekday round-trips to/from Boston's North

Station; these trains generally did not make intermediate stops inside the MBTA region – this kept the accounting clear even though it made for a less efficient operation.

This makeshift arrangement partly reflected lack of commitment by transportation planners to keeping commuter rail. The master plan was to do what had been accomplished in the Southeast of Boston – replace commuter rail with heavy rapid transit lines inside Route 128 (Boston's Beltway) and eliminate rail service beyond 128.

Finally, the Commonwealth made a commitment to keeping and developing commuter rail. It became a state responsibility. Today, frequent service is offered well beyond the MBTA region, including to Worcester, Fitchburg, Haverhill/Lawrence and Newburyport, as well as Providence and three other Rhode Island stations under an agreement with Rhode Island. The system is regarded as highly successful and, in blizzard conditions, more resilient than other public transportation in the area. The relevant point here is that state- rather than city-based funding is appropriate for commuter rail in Massachusetts, so also is federal rather than state-based funding appropriate for Amtrak's long-distance trains. As a side note, I take some pride in having authored—in my previous job in Massachusetts—a white paper on commuter rail for the Gov. Francis W. Sargent's (R) assistant secretary of transportation & construction. This paper helped lay the groundwork for saving and subsequently developing that commuter rail network.

Cost Drivers on Other Modes

Our members are bemused by the intense focus inside the Beltway on "subsidies to passenger trains" while highways and aviation appear to get a free pass. Starting in 2008, a total of $53.3 billion in general funds have been transferred to the Highway Trust Fund (HTF). That's about three times what the federal government has spent on Amtrak operating grants over 42 years.

What's worse, once this money is transferred to the HTF, it takes on the same restrictions as if it had been paid by highway users – in general, railroads need not apply. This is but one example of transportation policy out of touch with demand trends cited above, and one reason why we frequently hear that "the public is ahead of the politicians."

For aviation and highways, subsidies are scattered over many different balance sheets; they are less concentrated and less obvious than Amtrak's. For example, the September, 2011, WSJ story quoted above has this: "Pittsburgh continues to pay a $62 million annual debt service on its airport, where large sections are blocked off and unused…."

Proposed Funding

We support the budget requests of the Administration and Amtrak and are pleased to note that they are consistent. Amtrak has requested $2.6 billion and the Administration's $6.7 billion request includes $2.7 billion for Amtrak.

The major reason for the different numbers is that the Administration includes work beyond Amtrak – both high speed rail projects that might be operated by someone other than Amtrak and capital grants to states to upgrade routes that Amtrak uses or could use in the future.

As we understand it, the Administration's request, which they submitted by function, is:

- $2.7 billion for Current Passenger Rail Service, including:
  - $675 million for the Northeast Corridor
  - $300 million for state corridors
  - $800 million for Amtrak's long-distance routes
  - $925 million for National Assets
- $3.7 billion for the Rail Service Improvement Program, including:
  - $3.25 billion for Passenger Corridors
  - $150 million for Congestion Mitigation (Freight and Passenger)
  - $190 million for Freight Capacity
  - $70 million for Planning

We also would like to highlight $1 million for the continued work of the Next Generation Equipment Committee.

Amtrak's $2.65 billion request includes:

- $373 million for operations
- $1,271 million for general capital
- $75 million for Americans with Disabilities Act work
- $356 million for badly needed rolling stock acquisitions
- $196 million for "equipment lease buyouts funded in previous years by the U.S. Department of the Treasury"
- $167 million for the Gateway Project to increase capacity, redundancy and resiliency between New York City and New Jersey (including new Portal Bridge over the Hackensack River)
- $212 million for debt service

Energy Efficiency

Already, Amtrak is:

- 41% more energy efficient per passenger-mile than personal trucks;
- 34% more than automobiles;
- 17% more than commercial aviation.

Commuter trains are 16% more energy efficient per passenger-mile than cars and 25% more energy efficient than personal trucks.
(Source: Oak Ridge National Laboratory, *Transportation Energy Data Book, Edition 31*[2012])

Even undercapitalized Amtrak is improving its energy efficiency with improved operating practices and higher load factors. Proper funding allowing Amtrak to modernize its fleet will further boost its energy advantage. The next step in improving fleet efficiency is delivery of 70 new electric locomotives from Siemens, the first of which was unveiled in Sacramento on May 13. This acquisition was procured by a RRIF loan. *Trains are the only form of transportation with a demonstrated ability to move large numbers of people long distances using only electricity.*

Already, Amtrak helps mitigate direct and indirect air pollution by:

- Running electric locomotives on the Northeast Corridor and fuel-efficient diesels elsewhere
- Removing tens of millions of passengers a year from highways
- Encouraging denser development around many of its stations.
- Adding to the attractiveness and cost-effectiveness of transit systems by serving passengers making connections and by sharing facilities

The value of passenger train investment is underlined by the May 10 report that the concentration of carbon dioxide in the atmosphere has risen above 400 parts per million, and the rate of increase in atmospheric CO2 concentrations has accelerated from about 0.7 ppm per year in the late 1950s to 2.1 ppm over the past ten years (Hawaii's Maua Loa Observatory). "The evidence is conclusive that the strong growth of global carbon dioxide emissions from the burning of coal, oil and natural gas is driving the acceleration," according to National Oceanic and Atmospheric Administration climatologist Pieter Tans (*Financial Times*, May 11).

The last time atmospheric CO2 concentrations were as high as they are now, Earth's average temperature was 3-4°C warmer than it is today. "Many scientists fear warming of 2°C or more will cause a far less predictable climate, with many more incidents of extreme weather such as the disastrous floods and droughts many countries have experienced in recent years," according to the *FT* report.

Thank you for considering our views.

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Answers by Ross Capon, President & CEO, National Association of Railroad Passengers, to questions submitted by Chairman Denham and Rep. Brown, plus supplementary comments on Northeast Corridor fares and capacity, and on government indirect support for aviation

Questions from Rep. Denham

1) ***Does NARP believe there is a maximum subsidy per passenger at which point it no longer makes economic or transportation sense to continue intercity passenger rail service?***

How to measure a threshold and what should the number be?: As I testified in answer to a question from Chairman Denham at the hearing, the goal should be to have an efficient system that serves the public well. This means providing the American people with the mobility they need and want to live productive and enjoyable lives—in a manner that delivers good value for the taxpayer funds expended. We strongly oppose eliminating services that the public uses, and this includes everything Amtrak is currently operating.

For intercity service, the standard measure is "passenger-*mile*" not "passenger." A passenger-mile is one passenger traveling one mile.

- Passenger-*mile* statistics reflect the vast differences between, for example, a Washington-Wilmington trip and a Washington-Florida trip; per-passenger statistics do not.
- If a route is broken into two segments, the apparent cost per *passenger* would drop by 50% but there would be no change in the underlying economic reality.

Based on what Amtrak has reported for Fiscal 2012, 40 cents per passenger-mile appears to be a reasonable threshold for what we call "net cost of service." This assumes use of Amtrak's current methodology with one important exception: *Texas Eagle* and *Sunset Limited* must be considered as a single route (see discussion below).

It is noteworthy that no Amtrak service by any stretch of methodology comes anywhere near the current $1,000 *per passenger* statutory limit for the Essential Air Service program.
http://www.dot.gov/policy/aviation-policy/small-community-rural-air-service/essential-air-service

Measuring Individual Routes: As noted above and in my testimony, the fundamental limitation of Amtrak's network is that it is too small, not too large. Any measure applied to individual routes will result in one route performing worse than all the others; this would be true so long as more than one route continues to exist. Moreover, for Amtrak's long-distance network as a whole, from FY 2008 to FY 2012, economic performance improved:

a. The net cost per passenger mile decreased 8.1%;
b. The net cost per passenger decreased 9.2%.

The most significant driving force over this period has been strong ridership and revenues.

Any review of individual route financial statements must be conducted in full appreciation of the following limiting factors, particularly if the review is aiming to identify routes to be discontinued.

- Amtrak's routes function as interdependent and interactive components of a total mobility system.

- **Revenues:** A significant number of passengers use more than one route to make a trip, that is, they change trains at least once en route. Many such passengers, deprived of one link in their trip, would abandon Amtrak with the result that their revenue would be lost on trains other than the one discontinued. Financial statements for individual routes do not reflect this.

- **Costs:** A significant portion of fully allocated costs shown in route-by-route statements are system fixed costs or costs shared with other routes. These costs would remain even if Amtrak discontinued all long distance services. We estimate that *allocations of fixed costs and costs shared with short distance trains represented roughly half of the financial "loss"* that Amtrak reported for its long distance services in FY 2012.

  ***Sunset Limited/Texas Eagle* costs and revenues:** These two routes, which Amtrak reports separately, are Siamese twins, with Chicago-San Antonio-Los Angeles through-cars that transfer between the trains at San Antonio. The *Sunset* carries these cars for over 70% of its route [1,423 miles San Antonio-Los Angeles as a percentage of the *Sunset's* 1,995-mile New Orleans-Los Angeles run]. Amtrak's accounting credits the *Eagle* with 100% of the revenue and all of the passengers but charges the *Sunset* with most of the San Antonio-Los Angeles costs (including all fuel and maintenance). In the most extreme example, the revenue from an Austin-Los Angeles passenger all goes to the *Eagle* even though this passenger travels just 82 miles on the *Eagle* and 1,423 miles on the *Sunset.* While Amtrak could alter its methodology to be less "unfair" to the *Sunset*—shifting some revenues to and some costs away from *Sunset*—<u>this would not change the fundamental reality that the trains operate combined over a huge distance (1,423 miles) and the economics of either route would be drastically altered if the other was discontinued. We recommend reporting these two routes as a single route.</u> (The *Empire Builder* and the *Lake Shore Limited* have two branches at one end but Amtrak reports them as single routes.)
  If Amtrak reported the *Sunset/Eagle* as a single route, the reported results would be very different: net cost per passenger mile would be 28.2 cents for the combined route instead of the current 49.4 cents reported for the Sunset and 18.5 cents reported for the Eagle.
  The *trends* on both trains were sharply positive from FY 2008 to FY 2012. The net cost per passenger dropped 16% on the *Sunset* and 23% on the *Eagle.* We need an analysis to learn what was done here that might produce similar benefits elsewhere for other routes.

- **Accounting transition:** An additional, presumably temporary factor is that Amtrak recently transitioned to a new accounting system as mandated by PRIIA and is still working out the "bugs." This became most obvious when looking at Auto Train over the 2008-to-2012 period—the bottom line worsened significantly even though revenues rose 27%, because costs jumped 34.2%, vs. only 12.5% for all long-distance trains.

Making service changes: Service discontinuance should be the last option. Because of previous route eliminations, the current network is too small to meet the public's mobility needs in many important travel markets; any further route eliminations would reduce the utility of the network exponentially and make resumption of any service in the future extremely expensive. The most cost effective way to maintain national network routes for future service is to continue operating service on them today. In compliance with PRIIA directives to improve route performance, Amtrak examined many appropriate options relating to stimulating demand and expanding capacity. This includes, for example, adding more cars or frequencies to increase volume and revenue, spread fixed costs over a larger base, improve connections with other routes and increase revenue for the entire system.

Host railroad opposition has been a problem. For example, Amtrak's September 2010 *Sunset Limited/Texas Eagle* Performance Improvement Plan would have increased service to daily on the New Orleans-Los Angeles segment, improved farebox recovery by two percentage points, and reduced public cost per passenger mile by 19%. However, Union Pacific demanded an exorbitant $700 million just to increase service from three to seven round-trips a week. To improve the farebox recovery of long distance trains, Congress must require railroads to justify their capacity demands.

Cross-modal subsidy comparisons: Huge indirect subsidies to aviation and highways complicate comparisons with rail. Indirect subsidies (see appendix on aviation at the end of this document) make direct subsidies mostly unnecessary. Indirect subsidies heavily come from all levels of government, though encouraged by federal policy. Thus, studies can wind up comparing subsidies given to the small slice of the aviation/bus industries that are *directly* subsidized with subsidies to all intercity passenger rail service. Also, studies often do not reflect the environmental benefits of developing rail service.

With regard to indirect subsidies, one huge problem for cities—not airlines—is the surplus of airport space no longer needed. *The New York Times*, in a July 10, 2012 article headlined, "As They Lose Traffic, Once Bustling Airport Have Space to Rent," included this, quoting Boulder-based airline consultant Lois S. Kramer, "'Nobody wants to talk about it, but vacant space at airports is more widespread than one would think.' Unlike airlines, many of whose assets are movable, 'the airport industry is primarily a business of fixed assets, terminals, parking garages, roadways and airfields,' Ms. Kramer said. 'When an airline vacates a terminal, the airport still has to cover the cost of operating the building and pay on any outstanding debt service.'"

2) ***Your report advocates expanding long-distance services to meet demand. Have you evaluated what the expansions of service would cost? Who would cover those additional costs?***

If Amtrak acquired 240 new bi-level cars @ $3.5 million and 150 single-level cars @ $3.0 million, the cost would be $1.29 billion. This of course would be paid out over the several years it would take for the cars to be built, delivered and accepted. This would create a roughly 50% increase in the size of the long-distance fleet, which—ignoring the elderly Heritage cars to be retired—today includes 479 Superliners (bi level), 150 Amfleet II coaches, and 51 Viewliners.

There are two important caveats. First, a much smaller acquisition would permit capacity expansion on trains already running, as discussed in the next paragraph. Second, it is likely that unit costs of new equipment could be lowered significantly based on the size of the order and length of commitment. Also, if the performance of the manufacturers currently building single and bi level cars is satisfactory, the total could be reduced even further due to savings achieved by extending the use of existing production lines.

Lengthening existing trains can produce meaningful increases in revenue and improve the bottom line (reduce the net operating cost of service) between 10-15% and in some cases up to 20%. Assuming the addition of two to four cars per train set, the capital cost would be about $547 million, given the above unit costs. Train expansion is a scalable exercise so that a smaller augmentation would still produce benefits.

Adding frequencies to existing routes: NARP recently retained a professional consultant to estimate the cost and benefit of increasing long-distance train frequencies, using the New York-Buffalo-Cleveland-Chicago *Lake Shore Limited* route as an example. The study projected that increasing departures from one to four trains a day would generate 3.6 times more passengers and 3.8 times more revenue while raising the required operating grant by a factor of about 2.9. The capital cost for the new equipment, track and station improvements required ranged between $0.9 and $2.0 billion.

Adding new routes: NARP has a 40-year vision that would double (to 45,000 miles) the route miles with passenger service, establishing service in all major metropolitan areas and a majority of the smaller ones. http://www.narprail.org/resources/narps-vision-for-the-future

Our view is that the long-distance network is a federal responsibility. However, service expansion currently in the works is coming at state initiatives. Meanwhile, many cities have developed or are developing multimodal terminals that will enhance revenues and usefulness of intercity trains.

3) ***PRIIA required a Gulf Coast Service Plan Report on re activating service along the Gulf Coast that was discontinued after Hurricane Katrina. That report by Amtrak estimated re-activation capital costs of $32 to $97 million depending on the option and an annual operating loss each year of $4.6 to $18.4 million. Are these costs worth the expanded service? Who would cover these costs?***

Restoring service between New Orleans and Florida is important. It closes a major gap in the national intercity network, restoring the ability of people in the South and Southwest to reach the most popular destination state in the nation without needing to detour north via Washington. We see this as a federal responsibility, as it was from its inception. In our view, Hurricane Katrina did not alter that responsibility. We were appalled that Amtrak used this hurricane as an excuse to effectively discontinue service even though CSX restored the destroyed railroad to "better than new" in about six months.

Katrina delivered a devastating blow to Gulf Coast. The federal government spent billions to help the region recover but omitted passenger rail service, even though it was needed and is wanted. The time has come to correct this error. In the context of what has already been spent on storm recovery, the extra cost of restoring passenger rail service is insignificant.

The route serves four states. State funding for an interstate service is neither a reasonable expectation nor a responsible federal policy. States have different constituencies and competing interests. The risk of failure with a multi-state passenger train rises exponentially as the number of states involved increases. That is why the federal government is constitutionally responsible for interstate commerce. It does what states cannot do. (See also my response to Rep. Brown's question 2.)

We believe Amtrak's reports overstated the costs. For example, as the law required, the report includes the cost of restoring a "non-Auto Train" station at Sanford even though Amtrak's New York-Florida trains no longer serve Sanford. Passenger revenue estimates may have been low because they were unduly influenced by historical ridership that was hurt by severe reliability problems, which CSX and other railroads since have made significant progress in correcting. As well, overall demand for intercity passenger train service has grown significantly over the past eight years.

I am attaching our 2006 letter to Amtrak on this issue, including a discussion about the significance of revenue from "cross-New Orleans" trips that was lost with elimination of the service east of New Orleans.

4) ***Given the significant difference between intercity bus and Amtrak, why would we not just subsidize intercity bus service? Wouldn't that be more cost-effective, even if we subsidize operations as well?***

Intercity bus services should be an important component of a comprehensive mobility system. Buses represent an effective and vital supplement to passenger rail service because they can connect lower volume, short distance markets with passenger rail trunk lines, and can serve cities lacking direct rail lines. A big part of the success of the Amtrak California corridors is based on their excellent network of dedicated connecting buses. Also, a significant segment of the public either will not accept buses or will accept them only as part of an integrated bus-rail option.

Multi-modalism is essential to a comprehensive national mobility system. That is the why NARP has made the construction of intermodal stations providing travelers with seamless connections among rail, transit, intercity bus and air as one of our top four priorities. The US has made good progress in creation of non-airport multimodal terminals, but lags far behind world standards in creating direct interfaces between air and intercity passenger rail services.

Trains serve town and city cores more efficiently than do busses, which increasingly stop near highway interchanges except in the largest cities. Trains are thus far more accessible. Intercity bus terminals are rarely sought for to achieve economic development, whereas train stations are – even as in Meridian MS where there is only one train a day in each direction.

Unlike trains, buses cannot carry hundreds of passengers at a time. Legal speeds on roads are far lower than the speeds at which trains can safely operate. Further, after adding stops to serve the same number of city pair markets, buses become even less time competitive with the train. Most important, buses do not provide the space, comfort and amenities that middle class Americans expect and demand. The superiority of the train increases with the length of the trip.

Take, for example, the Sprinter trains linking Escondido and Oceanside CA. With 13 intermediate stops, the trains serve 105 origin/destination pairs. When mechanical troubles forced North County Transit temporarily to substitute buses for the trains, the service lost 2/3 of its riders. This decrease in public use involved a trip that took only 53 minutes between end points. For longer trips that take many hours or even overnight travel, it is likely that the drop in public use would be significantly greater if Congress replaced trains with buses.

Consequently, we do not see buses as a cost effective replacement for trains.

Questions from Rep. Corrine Brown

1) ***There have been numerous times in the past to eliminate or outsource Amtrak's long-distance routes. Can you talk about the importance of these routes?***

Long-distance routes are the glue that holds Amtrak together as a network. Without them, what is left is not a network at all, but rather an assemblage of disconnected segments. Each route's utility to the public, and thus its ridership, grows the more convenient connections there are to other routes.

Additionally, eliminating long-distance trains would end all Amtrak service to 23 states and several hundred stations, each of which serves at least a 50-mile radius. These include both major population centers such as those in Texas and Florida and cities like Denver, Salt Lake City and Phoenix, as well as many smaller communities and rural areas with virtually no travel choices other than driving. More than half of all Americans – roughly 173 million people – live within 25 miles of a station that is served by one of Amtrak's long-distance trains.

People in all these places deserve to have a safe, comfortable, and more environmentally friendly public transportation choice—especially since vehicle miles driven in America are on the decline as both seniors and young adults opt for less car-dependent lifestyles.

2) In your testimony you talk about why shifting the costs to states for Amtrak's long-distance routes would be a "death sentence for long-distance trains." Why?

The death sentence is because it is so unlikely that many states could agree on all of the necessary elements.

1) Decision to fund.
2) Different legislative session schedules could mean the route is under constant threat of elimination as one or another re-funding deadline will always be approaching.
3) Agreement on each state's share of the cost.
4) Agreement on schedules, recognizing some cities will be served at undesirable hours.
5) Agreement on service amenities.

As noted in my prepared testimony, any single state not cooperating could torpedo the entire route.

The unstated assumption has been that Section 209 – generally requiring state payments or increases thereof – is a relative "cakewalk," partly because it involves services mostly within one state and mostly with states that already are paying something to Amtrak. The most difficult negotiating challenges faced under Section 209 have involved routes serving three states. However, even with single state agreements, negotiating the details remains a complicated process and no 209 agreements have yet been signed. In addition, we have just learned that Harrisburg-Altoona-Pittsburgh service is newly in jeopardy. Gov. Tom Corbett (R) requested a transportation bill, "but House Republicans, short on votes, said transportation funding would wait for the fall...." http://www.post-gazette.com/stories/local/state/pa-senate-advances-state-budget-693773/#ixzz2XolUQwsF

3) What would happen to Amtrak costs and revenues if we discontinued long-distance service?

As noted in my testimony, many costs would not disappear but would be reallocated to the state corridors and the Northeast Corridor. States already struggling to pay the increased costs required under PRIIA Section 209 would see their costs escalate even further. Two simple examples: the cost of operating station buildings such as those in Chicago, Los Angeles, Seattle, New York and Washington will not change with loss of the long-distance trains, nor will the cost of President Boardman's salary.

The surviving trains would also be hit by lost connecting revenue. In FY 2012, $13 million of revenue for state corridor and NEC trains was attributed to passengers making connections with long-distance

trains. Total long-distance revenues were $570 million, composed of $557 million on those trains plus the above-referenced $13 million.
Costs avoided would be about $820 million, resulting in a net annual savings of about $290 million, which we consider a small amount compared to the value the service delivers to the American people. We think it is a sound investment to preserve passenger capability and access for system expansion.

It is worth reviewing this from President Boardman's testimony: "Seven of the 15 LD trains use the Northeast Corridor for some part of their run, and they bring about half a million passengers onto the NEC every year. The LD trains also help feed riders onto our rapidly growing state-supported services. Figure 3 shows a chart of the passenger traffic flows move for those *California Zephyr* passengers who passed through Chicago Union Station, one of the train's termini. These riders constitute about 36% of the train's total ridership. You can see that 43% of those riders connected to or from another train at Chicago."

4) ***In your written testimony, you talked about eliminating individual routes. Why would this not help lower Amtrak's costs? Would this save taxpayers' money? Would eliminating routes impact other long-distance or state-supported routes?***

Definitely there would be an impact, mostly negative, on other routes. As discussed in my answer to Chairman Denham's first question, sizable fixed costs and shared-route costs would not be avoided and would be shifted to other routes. This would create even bigger problems for states already challenged to come up with the increased payments required under Section 209.

5) ***The Brookings Institution, which is testifying here today, published a report that recommends that Congress (1) reduce the Federal role in supporting long distance routes; (2) make Amtrak and the States takeover the costs and other responsibilities of the other routes; and (3) give States the flexibility to use sources such as their Highway Trust Fund dollars to use for financing Amtrak and other rail projects. What concerns do you have with this proposal?***

Sometimes the proposal for states to take over long-distance funding simply masks a desire to get rid of the long-distance trains. In the case of Brookings, my sense is that this is a well-intentioned proposal made by people with little experience with the long-distance trains. As noted above, it is not even clear how many short-distance trains will survive implementation of Section 209. Item (2) in your question appears restate what PRIIA already mandates. With regard to item (3), we have long supported giving states the greatest flexibility possible because that generally has the potential to increase funding available for trains. However, as reflected in various comments at the May 21 hearing, this is unlikely to be the case so long as revenue into the Highway Trust Fund is governed by current law and not increased. I am particularly aware of the disconnect between current law and reality on the ground because my oldest son—motivated by the desire not to pollute—is one of the increasing numbers of people driving an all-electric vehicle and thus is paying zero for use of the highways.

6) ***As we begin to reauthorize the Passenger Rail Investment and Improvement Act, what issues would you recommend we address in our reauthorization bill? proposal?***

Key issues are adequate funding, including for expansion of the fleet, and of capital grants for states program. Elimination of "micro-managing" language regarding food and beverage service and fare discounts so that Amtrak management can focus on the bottom line. Re-examine whether the fate of

Amtrak's *Sunset Limited* proposal argues for tipping the scales in favor of Amtrak in issues involving host railroads. The huge increase in Amtrak OIG budget proposed by the House Appropriations Committee may warrant an examination of whether Amtrak OIG and US DOT OIG are duplicating efforts.

Follow-up to my dialogue with Rep. Hanna at the May 21 hearing: Northeast Corridor fares and capacity

My testimony included this statement about the Northeast Corridor: "Because tracks at critical segments, key stations, and the overall fleet are near or at capacity, fares continually rise and the proportion of the population who can afford to ride Amtrak's NEC trains continually falls."

The aim here is not to increase the operating grant requirement, but rather to enable the Corridor to serve more people, by coming closer to its capacity. This should improve the bottom line. Today, Amtrak trains are well-filled but are short by world standards—*Acela Express* is fixed at five revenue cars and the *Regionals* rarely exceed eight cars. In effect, capacity is artificially constrained, so Amtrak can charge very high fares, still have high load factors, and price many people off the trains. Thus the service is not realizing its potential to mitigate air pollution and highway and aviation congestion. Public policy should recognize the need to fix this.

In an elaborate implementation of the principle I am advocating, the French earlier this year launched low-fare Ouigo http://www.ouigo.com/fr. To avoid capacity constraints at the major Paris stations, Ouigo serves Paris from suburban Marne-la-Vallée.

Our association's employees and volunteers, when they speak to people who live along the Northeast Corridor—particularly younger professionals—often hear complaints about how expensive Amtrak is, particularly between Washington and New York. "I would rather take the train," many say, "but I can't afford it, so I take the bus." While there will always be a role for intercity buses along the Corridor, particularly for suburban locations the train doesn't serve, the railroad can and should handle many more passengers. What's most needed, in addition to increased capacity around bottlenecks such as the Hudson River tunnels, is more rolling stock so that Amtrak can increase train lengths, as well as capital investment to lengthen station platforms. The first step in enhancing capacity could come within a few years by adding cars to existing Northeast Regional trains.

Again, the goal is to enable more people to benefit from the public investment in this Corridor—both actual riders and those who benefit from the positive impact on air quality that results from more intensive use of trains, as well as some reduction in road and air congestion.

Government Support for Aviation – Huge indirect subsidies

Chairman Denham asked me whether I would favor subsidizing Amtrak the same way aviation is funded. My answer at the hearing centered on the Essential Air Service program, which provides about $110 million a year to subsidize scheduled air service to small communities and is the most obvious form of aviation subsidy. However, there are many more ways in which taxpayers cover aviation costs.

Airport authorities enjoy and require tax-free financing of infrastructure projects. Robert J. Aaronson, then Director of Aviation at the Port Authority of New York and New Jersey, said "It is inconceivable that a modern airport, which under the existing tax code includes such public service accommodations as terminals and their related retail stores, runways, hangars, loading facilities, cargo buildings, parking areas and maintenance bases, as well as appropriately sized in-flight meal facilities, hotels and meeting facilities, could be provided on any adequate scale by taxable financing" (Aviation Week & Space Technology, Sept. 16, 1985).

Historically, "Airport and airway development costs incurred prior to the assessment of user charges in 1971 have been treated as sunk costs, none of which have been or will be paid for by air carriers and other system users...these sunk costs total $15.8 billion" (U.S. Department of Transportation, *Study of Federal Aid to Rail Transportation*, January, 1977 [Secretary Coleman under President Ford]). Air passengers paid no ticket tax at all from 1963 to 1970. Prior to 1963, they did pay the federal passenger ticket tax imposed during World War II, but the federal government was investing in air facilities at almost five times the rate at which air ticket tax revenues were collected. Meanwhile, rail passengers' wartime ticket tax—along with many other taxes railroads paid to all levels of government—went into general funds and sometimes into investing in air and road facilities.

Here are a few other examples of aviation subsidies:

- Federal Aviation Administration (FAA) Operations costs are partly funded by general revenues, to a greater proportion than the costs imposed by government aircraft.
- Many highway and transit projects built to improve access to airports are funded from the Highway Trust Fund.
- The National Weather Service provides free information vital to airlines.
- The National Aeronautics and Space Administration (NASA) spends $700 million to $1 billion each year on aviation-related research. Much of the work is related to making passenger jets more energy efficient. "NASA is flying a DC-8 'flying laboratory' out of its Dryden facility [in southern California] to conduct biofuel tests that aim to collect data on emissions, engine performance and contrails with biofuels, the agency announced Friday....According to NASA, 'We believe this study will improve understanding of contrails formation and quantify potential benefits of renewable alternate fuels in terms of aviation's impact on the environment'" (AVweb, March 1, 2013).
- The FAA Aviation Insurance Program, instituted after 9/11, offers below-market rates for airlines' war risk, hull loss, and passenger, crew and third-party liability insurance. The sunset date for this program is regularly postponed, most recently to December 31, 2013.
- Support for airline workers' pensions through takeover of pension plans by the federal Pension Benefit Guaranty Corporation (PBGC). For example, "by the time UAL Corporation [parent of United Airlines] turned over its plan to the [PBGC], the shortfall was $10.2 billion" (*New York Times*, July 31, 2005). Even before takeovers of the big UAL and US Airways plans, "claims by airlines accounted for 20% of [PBGC's] total claims, according to the agency, and five of the 10 largest claims have come from struggling airlines" (*San Francisco Chronicle*, Dec. 31, 2004).
- Support for airline workers' pensions through special provisions. For example, "a pension measure tucked into last month's Iraq war spending bill is causing some leading members of Congress to complain that American Airlines got a break worth almost $2 billion without proper scrutiny" (*New York Times*, June 21, 2007). And "Northwest and Delta are getting an astonishing 17 years in which to fund their pension promises, and they are allowed to assume that the investment returns on their pension assets will be 8.85%—about a third higher than other companies are permitted to assume" (*Washington Post* editorial, August 2, 2006).

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National Association of Railroad Passengers

March 2, 2006

David M. Laney
Chairman of the Board
Amtrak
60 Massachusetts Avenue, NE
Washington, DC 20002

Dear David:

NARP strongly urges Amtrak to restore service between New Orleans and Orlando as soon as it is operationally feasible. We understand that CSX has rebuilt the railroad to a higher standard than existed before Katrina and will be in a position to operate the train in the near future.

We base our recommendation on four key factors.

1) **Market potential**

This route should be thriving. It connects eight states with a combined population of 89 million (nearly 1/3 of US total) that has grown by 39 million people in the last 30 years (1/2 of total US population growth). It serves Florida, a major tourist destination that is ideally suited for long distance train travel. The seven states that the Sunset connects with Florida account for over 20% of all travel by all modes into and out of Florida. The market is there. Amtrak needs to exploit it.

2) **Network Efficiency**

The Eastern segment more than triples the number of city pair markets that the Sunset Route serves from 231 to 780. Prior to Katrina, the Eastern segment generated 41% of the route's revenue and 39% of its ridership but accounted for only 28% of its train miles.

	#	Revenue
Trips New Orleans & East	17,568	$837,206
Trips New Orleans & West	57,005	$6,402,692
Trips Thru NOL	19,807	$3,727,170
O/D Unknown	2,046	$141,463
Sunset Total	96,426	$11,108,532

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3) Positive Incremental Impact

Put another way, restoring the Eastern segment adds 240,000 train miles a year (769 x 6 x 52), but earns $19 in incremental revenue per incremental train mile.

	Annual Train Miles	Rev per TM
NOL-ORL Local	239,928	$3.49
NOL-LAX Local	622,440	$10.29
Thru Route	862,368	$12.88

Bottom line: the two segments perform better together than alone. The extension not only improves the route's financial performance, it provides a foundation that can serve a valuable transportation function for the American people. We are concerned that failure to restore the Eastern segment would be all pain and no gain—both economically and politically.

4) Improvement Efforts Will Produce Results

We believe the Sunset's current performance reflects decades of neglect, not future potential. Amtrak inherited a tri-weekly train more than 30 years ago; it is still a tri-weekly train even though the population of the service area has grown by 78%. Both the market and the economics justify the board's support for improvement and growth, not amputation, of this route.

Here are just a few examples of actions Amtrak that could take that would generate growth and improve performance.

- Begin small scale marketing efforts in small towns where community interest and support for trains can be high. Examples: Palm Springs (Coachella Valley population 3.3 million), Yuma AZ (Pop. 160,000), Benson AZ (117,000), Deming NM (25,000), Del Rio TX (45,000), New Iberia LA (73,000), Chipley FL (21,000), Lake City FL (57,000).
- Intensify efforts to get UP and CSX to improve on time performance. This is the primary reason why volume has declined in the last few years.
- Integrate train based GPS with Arrow so passengers waiting at unstaffed stations can obtain accurate train time information (this is a serious problem today).
- Establish suburban stops in large, congested Metropolitan areas. Example: Sugarland in Houston.
- At the west end of the route, shift from the congested line through Ontario to UP's Riverside line, thereby reducing many delays currently caused by freight congestion. Long term, reroute via Fullerton to tap the large Orange County market when BNSF completes its triple track project.
- Establish direct connections to South Florida at Orlando using a dedicated Thruway bus and, longer term, either by extending the train to Miami or establishing short distance corridor train.
- Restore service to Phoenix – an option that becomes feasible now that Union Pacific has almost completed its initial rehabilitation of the West line between Phoenix and Welton. In addition to the Tempe station (which serves downtown Phoenix), Amtrak should consider a stop in the heavily populated western suburbs.

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- Establish daily service, the single biggest action that Amtrak could take to improve financial performance. It would achieve economies of scale and increase revenue by making the service more relevant to more people for more trips, especially in the higher volume, short to medium distance markets. This option becomes more feasible as UP advances its double tracking of the Sunset Route.
- Consider the possibility of a cross platform transfer at New Orleans to a different, possibly smaller train. The Sunset has undeservedly been made a budget cutting target because of adverse publicity regarding "loss per passenger," a politically charged but economically irrelevant performance metric. Amtrak can cut that loss virtually in half by treating the Western and Eastern segments as completely different trains. While this doesn't change the financial outcomes, it does make the route a much lower profile political target.

The Strategic Plan that the Board approved last year states that Amtrak will take steps to improve the performance of "underperforming" long distance routes before approaching states for assistance or discontinuing service. Specifically, the plan identified this action: "Continue aggressive long distance financial performance improvement program..." (page 26).

One of the reasons we supported what became know as "The Laney Plan" was the reasonable and measured process you set forth for making decisions about restructuring routes in the future. We believe strongly that a natural disaster must not be used to circumvent this process. Amtrak should restore the eastern segment as quickly as possible and make a concerted effort to develop its true potential.

As always, I am available to meet with you at your convenience.

Sincerely,

George Chilson

George Chilson
President
National Association of Railroad Passengers

cc: David Hughes, Amtrak Acting President and CEO

Position Paper: Restore the Gulf Coast Connector Now

Recommended Action

The National Association of Railroad Passengers (NARP) urges Congress and the U. S. Department of Transportation to take the following actions in response to Amtrak's report on resuming passenger train service over the route segment between New Orleans and Florida ("The Gulf Coast Connector").[1] Instruct Amtrak to:

1. Implement Option #1 – restore the tri-weekly service between Los Angeles and Orlando that Amtrak summarily "suspended" after Katrina – immediately. This action would re-establish passenger train service on the Gulf Coast Connector and lay the foundation for daily service. Amtrak should be able to fund the estimated $4.8 million incremental operating cost of restoring this service if Congress appropriates Amtrak's full operating grant request for FY 2010.

2. Implement Option #2 – daily service by extending the City of New Orleans to Orlando – as soon as Amtrak restores the needed, stimulus-funded Superliner cars to service. These repaired cars will give Amtrak sufficient equipment both to implement daily service between Chicago and Florida and to implement its plan to increase frequency between New Orleans and Los Angeles from tri-weekly to daily. Instruct Amtrak to include the incremental cost of these services in its operating grant request for FY 2011.

3. Coordinate the implementation of Option #2 with the implementation of its plan for daily service between New Orleans and California to ensure convenient connections in New Orleans as well as the operation of through cars to and from the west.

4. Incorporate the capital costs of the Gulf Coast Connector for such long-term projects as station improvements, ADA compliance and Positive Train Control in its long term capital plan for the national system.

5. Release for public review and comment the assumptions, methodology and data used to project volume, revenue, operating and capital costs.

Justification

- The Gulf Coast Connector between New Orleans and Jacksonville is a strategically important component of the national intercity passenger train system. This route segment completes the busy I-10 corridor that connects the eight southernmost states. Together, these states have one of every three Americans and account for half the nation's population growth since 1970.[2]

- The Connector is the only part of Amtrak's national system that is not operating even though it appeared on the map that President Obama used when he unveiled his *Vision for High-Speed Rail in America* on April 16.[3] Part of the line was destroyed by Hurricane Katrina in 2005. CSX restored and upgraded the damaged sections within six months. Amtrak, however, never restarted service. The huge human and economic costs Katrina imposed along the Gulf Coast, together with the renaissance that passenger train travel has experienced in the rest of the nation since then, makes

Amtrak's use of Katrina as a pretext for failing to restart service especially unjustified and unfair.

- During the administration of President George H. W. Bush, the Federal Railroad Administration (under Administrator Gilbert E. Carmichael) and Amtrak (then led by President W. Graham Claytor Jr.) issued a report on March 6, 1991, *Potential Jacksonville-New Orleans Service Options*, which stated at page 1, "The Jacksonville-New Orleans route has often been referred to as the 'missing link' in the Amtrak system because, if operated, it would join the sunbelt cities of Los Angeles, Phoenix, Tucson, El Paso, and Houston with major Florida markets through New Orleans. These areas contain some of the fastest growing population centers in the United States, and represent important tourist destinations."

- In addition to linking major population centers west of New Orleans and those in the Southeast, the Gulf Coast Connector also connects Florida and the Gulf Coast with population centers north of New Orleans to the Midwest. The Connector greatly expands the number of city pair markets where passenger trains can provide a convenient and attractive travel choice. Without the Gulf Coast Connector, those traveling between Western and Midwestern points on the one hand and Florida and Southeastern markets on the other must make a circuitous trip through Chicago and Washington, DC. Thus, the value of the "Gulf Coast Connector" as part of the national passenger train network far exceeds its value and potential on a standalone basis.

- A large market exists for passenger train service that traverses The Gulf Coast Connector. Florida represents the third largest travel market in the nation after California and Texas, generating nearly 78 million person round trips a year. [4]

Table 1
Annual Person Round Trips To, From and Within State

California	126,809,974
Texas	99,471,208
Florida	77,987,712

- Of the total trips, almost one third are Florida residents traveling within the state; approximately one fourth are Florida residents travelling to other states; *and nearly half (45%) are visitors coming to Florida from other states. Florida is by far the largest destination state in the nation – generating nearly 10 million more visits than the second largest destination state, Nevada.* [5]

Table 2
Annual Person Route Trips to State from Other States

Florida	35,059,970
Nevada	25,170,272
New York	24,823,589
California	24,443,231

- Florida now has the fourth largest population of any state in the nation, after California, Texas and New York. [6]

Table 3
<u>Population by State 2008</u>

California	36,756,666
Texas	24,326,974
New York	19,490,297
Florida	18,328,340

- Florida also is growing. Between 2000 and 2008, Florida's population grew by 2.3 million people – more than all other states except Texas and California – and 700,000 more than the eight northeastern states (and District of Columbia) that are the primary beneficiaries of Amtrak's attention, service and federal funding. [7]

- Because of the long distances involved and motor vehicles' dominant share of the travel market to and from Florida, passenger trains can be particularly competitive.

  - The majority of trips to and from other states (54%) are by motor vehicle even though three fourths of all trips involve very long one-way distances of 500 to 1,000 miles or more. The share for air travel is 10 points lower (44%). [8]
  - The high share for motor vehicles undoubtedly reflects the fact that personal travel represents 80% of the Florida market and business travel only 20%. As a result, this market is more likely to be price sensitive than time sensitive. [9]
  - Because of the long distances involved, overnight train service is especially attractive and competitive compared to motor vehicles, which typically involve overnight stays and frequent stops.
  - The train's advantage over road and air will increase with the long term increase most experts predict in oil prices.

- The Gulf Coast Connector serves two of the three primary markets between Florida and the rest of the nation. Of the approximately 54 million interstate trips that have Florida as an origin or a destination:

  - 10% are from states west of New Orleans that were served by the Florida-California route, which Amtrak severed by suspending service east of New Orleans in 2005.
  - 37% are from 16 Midwestern and Southern states that would be served by a Chicago-New Orleans-Florida service.
  - 50% are from 17 states (and the District of Columbia) served by Amtrak's Atlantic Coast routes. [10]

- NARP believes that "phased implementation" – starting with Option #1 and moving to Option #2 – represents the most feasible way to resume service quickly while providing Amtrak with the lead times it says it needs to obtain the staff and equipment necessary for daily service.

- The increased revenue that the Gulf Coast Connector could generate for Amtrak is significant and far greater, we believe, than Amtrak estimates.
    - Before on time performance deteriorated and track work caused service frequency to be reduced from three to two weekly round-trips, travelers going east of New Orleans generated 47% of the total revenue of the Los Angeles-Orlando route.[11] Since the New Orleans-Los Angeles route generated $8 million in ticket revenue in FY 2008, implementing Option #1 as an interim measure suggests potential additional annual revenue of as much as $6 to $7 million.
    - Instituting through service north to Chicago, where the market is almost four times larger, could yield as much as $15 to $20 million more.
    - Daily service has the potential to double revenue on each leg (west and north), bringing the total additional revenue that the "Gulf Coast Connector" could generate to as much as $40 to $50 million a year.

Short Critique of Amtrak's Report

We are concerned that Amtrak's report reflects a negative attitude about this service:

- Cites declining ridership in the period prior to service suspension but fails to mention that CSX track maintenance forced cancellation of as many as one out of every three scheduled trips for months. Ridership declines reflected reduced service far more than any decline in demand. On time performance was poor, as Amtrak's report notes at page 11. However, the reliability of other Amtrak trains on CSX has improved dramatically since 2005, as the report notes (less conspicuously) at page 31.
- Makes pessimistic estimates of volume and revenue but fails to articulate any justification for these projections – much less any explanation of the assumptions, data and methodology used – thus making impossible an independent assessment of the accuracy and reasonableness of the estimates.
- Claims the train is not time competitive with the automobile because the train will average only 41 mph while a car can average 67 mph but ignores the fact that the actual average speed of a car will be far lower because a 650-mile car trip for most people requires down time for sleeping, eating, fueling and rest stops. It also ignores the fact that the train makes a significant portion of its trip at night when most motorists would be sleeping, and that people traveling longer distances are less time sensitive.
- Exaggerates start up costs by implying that all previous stations would initially be served.

Also, the law required Amtrak to seek input, but – as reflected in the appendices to their report – did so only with rail labor. The standard outreach letter – including the one to the National Association of Railroad Passengers – concluded, "I hope this information is helpful in your evaluation of the possibilities for restoring service east of New Orleans" (see, in Amtrak's report, Exhibits G, H, and I). The outreach letter to labor organizations, Exhibit M, is the only one that shows a clear interest in stakeholder views: "We are soliciting your initial views and input on these options."

Conclusion

For decades, the federal government correctly has funded the mobility needs of Americans in the Northeast. The Northeast Corridor (NEC) is an interstate route, connecting eight states and the District of Columbia, entirely funded by the federal government. Although this model has worked, a different model has been established for the rest of the nation – expecting states to provide significant funding for new services.

As a result of this difference in approach, Amtrak has not only failed to respond to the needs and opportunities of the large and growing Florida market, but has actually cut service and capacity. In late 2004, it reduced service between Florida and the Northeast from three to two trains a day (plus Auto Train); then in 2005, as noted, Amtrak "suspended" all service west of Jacksonville.

While individual states can supplement a federally funded national system (just as states supplement service in the Northeast), they cannot create and operate the effective interstate system that American mobility requires. That is why interstate commerce – and transportation – is a federal, not a state responsibility.

The time has come for Congress and the Administration to push and fund Amtrak to expand service by applying nationally the funding model that has been successfully used for the NEC. The 85% of Americans living outside the NEC service area want and need modern, reliable passenger train service. Restoring the Gulf Coast Connector should be a first step.

The tone of the report on restoring Gulf Coast Connector service suggests that Amtrak explores service expansion grudgingly and without enthusiasm—perhaps because they are cautious about embarking on what they fear might become an unfunded mandate. The National Association of Railroad Passengers is very concerned that without firm direction and funding from Congress and the Administration, Amtrak will do nothing. Therefore, we respectfully request that Congress and the Secretary of Transportation adopt the five recommendations outlined at the beginning of this paper.

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[1] *P.R.I.I.A. Section 226 Gulf Coast Service Plan Report* at www.amtrak.com/pdf/PRIAA/GulfCoastServicePlanReport.pdf

[2] Population growth 1970 to 2000: U.S. Department of Commerce, U.S. Census Bureau, Internet Release date: December 28, 2000. Population data for 2000: http://factfinder.census.gov/servlet/GCTTable?_bm=y&-geo_id=01000US&-_box_head_nbr=GCT-PH1&-ds_name=DEC_2000_SF1_U&-format=US-9

[3] http://www.fra.dot.gov/Downloads/Final%20FRA%20HSR%20Strat%20Plan.pdf (figure 6 on page 7).

[4] Statistics for travel within and between each of the 50 states drawn from an Origin & Destination trip matrix provided by Bureau of Transportation Statistics, American Travel Survey, 1995.

[5] Ibid.

[6] Population growth 2000 to 2008 by state: http://factfinder.census.gov/servlet/GCTTable?_bm=y&-geo_id=01000US&-_box_head_nbr=GCT-T1-R&-ds_name=PEP_2008_EST&-format=US-40S

[7] Ibid.

[8] Distance and principle means of transportation to, from and within Florida: http://www.bts.gov/publications/1995_american_travel_survey/summary_travel_characteristics/states/florida/index.html "Table 6. Person Trips to, from, and within Florida by Selected Trip Characteristics"

[9] Ibid.

[10] BTS O&D matrix (note #3).

[11] Amtrak, FY01 City Pair Data by Route and Class.

Chair, *Patricia Quinn*, NNEPRA
Vice Chair, *Jennifer Moczygemba*, Texas DOT
Secretary, *Johnson Bridgewater*, Oklahoma DOT

SPRC
States for Passenger Rail Coalition

S4PRC.org

April 25, 2013

The Honorable Bill Shuster
Chair, Committee on
Transportation & Infrastructure
2165 Rayburn HOB
Washington, D.C. 20515

The Honorable Nick J. Rahall, III
Ranking Member, Committee on
Transportation & Infrastructure
2163 Rayburn HOB
Washington, DC 20515

The Honorable Jeff Denham
Chair, Subcommittee on Railroads,
Pipelines & Hazardous Materials
1730 Longworth HOB
Washington, D.C. 20515

The Honorable Corrine Brown
Ranking Member, Subcommittee on
Railroads, Pipelines & Hazardous Materials
2111 Rayburn HOB
Washington, D.C. 20515

Dear Chairs Shuster and Denham and Ranking Members Rahall and Brown:

On behalf of the States for Passenger Rail Coalition (SPRC), an organization representing 34 member states across the nation, I am submitting this letter in regard to the April 11, 2013 hearing on Amtrak's Fiscal Year (FY) 2014 budget. Specifically, I would like to address the implementation of the Passenger Rail Investment and Improvement Act (PRIIA) Section 209 pricing policy.

As you know, a total of nineteen (19) states and twenty-seven (27) Amtrak Intercity Passenger Rail routes of 750 miles or less are affected by the implementation of PRIIA Section 209. These routes represent nearly fifty percent (50%) of Amtrak's ridership. In September 2010, states and AASHTO formed a group consisting of individuals representing these various state intercity passenger rail (IPR) routes to develop a policy in conjunction with Amtrak that would meet the requirements of PRIIA Section 209. The State Working Group (SWG) included representatives from California, Maine, Virginia, North Carolina and Wisconsin. An overview and timeline of the cooperative development of the policy between Amtrak and the SWG is attached.

Tremendous progress was achieved and a policy was cooperatively developed by the SWG and Amtrak. The Amtrak Board of Directors and Governors from 18 of the 19 affected states concurred and approved the policy, cementing the states' commitment to fulfill the requirements of PRIIA Section 209. The Surface Transportation Board (STB) then approved the methodology used to develop the policy i in March 2012. Since last March when the methodology was approved, the affected states have been working diligently with Amtrak to come to agreement over the costs the states will each take over.

SPRC.org
Alabama
Arizona
California
Connecticut
Delaware
Florida
Georgia
Illinois
Indiana
Iowa
Kansas
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Mississippi
Missouri
New Hampshire
New York
Nevada
North Carolina
Oklahoma
Oregon
Pennsylvania
Rhode Island
South Carolina
Tennessee
Texas
Vermont
Virginia
Washington
Wisconsin

California Capitol Corridor

Northern New England Passenger Rail Authority

Southern High Speed Rail Commission

States have remained committed to the October 2013 implementation date, five years following the enactment of PRIIA. Most states included "placeholders" in their budgets, based on previously supplied cost estimates, while awaiting final FY2014 pricing. Those final FY2014 numbers were just finally transmitted to states on April 18, 2013, though states still have many questions for Amtrak regarding those numbers and whether or not they are justified. Although it is not comprehensive, provided below is a snapshot of actions taken or proposed by a few states to secure additional state funds to support cost increases associated with the implementation of the Section 209 Policy:

- **California:** PRIIA Section 209 required that California fully support the Pacific Surfliner route in addition to the Capitol Corridor and San Joaquin routes. The increase in state contributions, based on information provided in previous estimates, is estimated to be approximately $25 million. Final operating costs will be incorporated into the state's budget revision process for consideration in the final state budget act for FY2014.

- **New York:** PRIIA Section 209 required that New York fully support the Empire and Maple Leaf routes, in addition to the Adirondack. The increase in state contributions, based on information provided in previous estimates, is projected to be approximately $17 million, which has been included in the preliminary state budget, pending the final forecasted amount.

- **Northern New England Passenger Rail Authority (Downeaster – MAINE):** Maine has paid Amtrak for 100% of operating costs to support the Downeaster since 2001, including funding for overhaul of rolling stock. Section 209 pricing estimates reflected amounts reasonable consistent with historic payments and funding to continue to support Downeaster operations has been included in the State budget.

- **Vermont:** PRIIA 209 requires Vermont to develop completely new processes as it transitions its two Amtrak services, the Vermonter and the Ethan Allen Express, from a single state's decision making process to multi-state operational systems. Each route has different State partners and different Amtrak supervisory regions. Vermont has supported both services for more than 15 years. For the Vermonter route, Vermont worked with its new partners, Massachusetts and Connecticut, to craft the first multi-jurisdictional MOA in late 2012, based on cost estimates provided by Amtrak, and have put a place holder amount in their State budget (currently in the legislature) to cover both services, based on those estimates.

- **Virginia:** The Commonwealth of Virginia began its internal discussions in preparation for PRIIA Section 209 in 2009. To formalize discussions and alternatives, during its 2010 session, the Virginia General Assembly, directed the Virginia Department of Rail and Public Transportation to study funding strategies for State Sponsored Intercity and High Speed Passenger Rail to meet the requirements of PRIIA Section 209 and to provide for the expansion of intercity and high speed passenger rail. The report document recommended the creation of an Intercity Passenger Rail Operating and Capital Fund. In its 2011 session, the Virginia General Assembly created the Intercity Operating and Capital Fund (IPROC). In its 2012 session, the Virginia General Assembly appropriated sufficient funding to meet the estimated first two years of PRIIA Section 209 implementation; and, in its 2013 session, the Virginia General Assembly adopted a landmark transportation funding proposal that provided a reliable and sustainable source of dedicated revenue for IPROC sufficient to cover the costs of regional PRIIA Section 209 Amtrak intercity train service and to contribute to the costs of expanded intercity passenger service. IPROC has been included in the Commonwealth's Six Year Transportation Improvement Program since FY2012 and will be updated to reflect the FY2014 Amtrak operating and capital equipment estimates once finalized with Amtrak. Beginning in 2009, the Commonwealth became the 15th state to join Amtrak in state supported services. Under the *AmtrakVirginia* service, Virginia funds two regional trains today and will be supporting four additional regional trains currently provided by Amtrak upon implementation of PRIIA Section 209.

- **Washington:** Washington state has been a cost-sharing partner in *Amtrak Cascades* service since 1994 and has worked diligently with Amtrak to implement Section 209. For FY2012, Washington paid \$9.6 million in operating costs for *Cascades* service, while it is estimated Oregon paid \$6 million and Amtrak paid \$4.2 million. After receiving the Amtrak forecast for FY2014 on April 18th, the projection for Washington's share of the *Cascades* service is reported to be \$17.4 million; an 81.3 percent increase from the actual cost (of \$9.6 million) the State spent in FY2012. The State is working with Amtrak to understand how they came to that cost estimate. While the Washington State Department of Transportation worked to include additional funding to accommodate the estimated increased 209 costs in the Governor's FY2014 Budget, the Washington State Legislature made the decision to wait until the 2014 legislative session to provide additional funding so the Amtrak PRIIA 209 Workbooks can be reviewed and validated, and to ensure the increased costs are accurate and fair.

- **Wisconsin:** The State of Wisconsin began discussing preparations for PRIIA Section 209 costing of the Hiawatha Service, jointly supported with the State of Illinois, as part of its biennial budget preparation efforts in early 2012. The proposed State budget for the biennium from July 1, 2013 to June 30, 2015 that was submitted by Governor Walker to the Wisconsin Legislature in early 2013 was crafted to include sufficient funding to allow Wisconsin to continue to provide its share of the costs of operating the current level of Hiawatha Service based on the best information available.

During the development of the Section 209 policy and the current implementation efforts, the SWG and Amtrak continued to provide the Federal Railroad Administration (FRA) with updates on the Section 209 Policy, identifying progress and areas of concern. One notable concern expressed by the SWG on behalf of the states was the lump-sum, one-year shift of approximately \$58 million in operating costs and \$42 million in equipment capital charges to states in FY2014 with the implementation of the Section 209 Policy (based estimates provided in an Amtrak update in January 2013). The SWG supports federal transitional operating assistance, as proposed in the FRA FY2014 budget request, which would begin in FY2014 and be phased out in 20% increments over a 5-year period. This would lessen federal support each subsequent year resulting in full responsibility for operating costs assumed by states in FY2018.

In closing, I want to emphatically state that states have been actively involved in the development and implementation of the PRIIA Section 209 pricing policy and have prepared for its implementation based on the information provided by Amtrak. States have a long history in the development and growth of IPR routes and their investment in these IPR corridors has strengthened the state and national surface transportation network. To that end, states have a vested interest in the outcome and implementation of the Section 209 pricing policy so that their citizens can continue to use these IPR trains as a safe, viable, convenient and affordable mode of transportation. However, as I am sure you can appreciate, we are accountable to taxpayers and must be sure that before we take on any additional costs that those costs are justified.

The SPRC looks forward to working with you on this critical issue. We will soon provide you with a more detailed analysis of the FY2014 Section 209 pricing policy proposal that the states received late last week, which will help frame the progress and issues for states as they attempt to implement Section 209 policy for their IPR services.

Sincerely,

Patricia Quinn

Patricia Quinn
Chair, States for Passenger Rail Coalition

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75 W. Commercial Street, Suite 104 Portland, Maine 04101 ph 207-780-1000 x105 fax 207-780-1001

PRIIA SECTION 209

POLICY OVERVIEW

Background

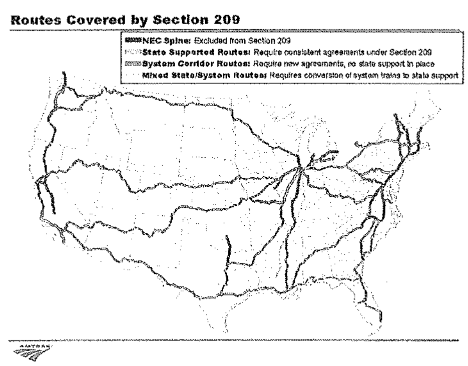
Overview of PRIIA Section 209

- Section 209 (S209) of the Passenger Rail Improvement and Investment Act (PRIIA) (P.L. 110-432, Division B):
    - Adopted October 16, 2008.
    - Requires the Amtrak Board of Directors, in consultation with the US Secretary of Transportation, and the governors of each relevant state, to develop and implement a single, nationwide standardized methodology for establishing and allocating the operating and capital costs among the states and Amtrak associated with trains operated on each of the state-supported Intercity Passenger Rail (IPR) routes under 750 miles.
- Implementation of S209 pricing methodology is required by FY2014 (October 1, 2013).

Overview of State-Supported Intercity Passenger Rail Routes/Services

- Currently, Amtrak operates IPR routes in 19 states. Those routes are fully or partially supported by 15 states including: California, Illinois, Maine, Michigan, Missouri, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Texas, Vermont, Virginia, Washington and Wisconsin.
- 16 routes are fully supported by states
- 5 routes are partially supported by states
- 6 route are not supported by states at all

- These 27 state-supported routes represent 48 percent of Amtrak's total ridership and 25 percent of Amtrak's revenue.



Policy Overview, cont'd

PRIIA 209 Policy Elements

The PRIIA S209 policy is a standard methodology for calculating state contributions for IPR routes and is not a budget commitment. The PRIIA S209 policy states that:

- **States will reimburse Amtrak for the verifiable Route Costs associated with operating their services.**
  - States reimburse Amtrak for route-specific operating expenses in 15 standard cost categories.
  - States will reimburse Amtrak for administrative costs (G&A) based on a standard percentage of Route Costs.
  - States will not reimburse Amtrak for certain costs associated with operating a national passenger rail network if they are not directly associated with the operation of a specific State route. These costs are included in the pool of Amtrak costs "allocated" to State routes.
  - States will reimburse Amtrak for actual 3rd Party Costs associated with operating their services, including fuel, host railroad maintenance and performance.
  - Operating Revenues will be credited against costs.

- **States will reimburse Amtrak for each state's fair share cost to keep Amtrak assets, such as rolling stock and stations, used to support the operation of a State Route in a state of good repair.**
  - Amtrak and States will agree upon 5-year capital programs required to maintain specific assets.
  - The amount reimbursed by states will be based on "units used" of an asset by a particular State route.

IPR service is a critical component to a comprehensive transportation network and through this policy states recognize their role in supporting and sustaining their IPR services. States do depend, however, on Amtrak and their ability to support backbone operations which benefit all states and the nation as a whole by reducing congestion, saving fuel, creating jobs and stimulating economic development.

PRIIA S209 Policy Attributes

- Mutually developed by Amtrak and states.
- A transparent, consistent and equitable methodology for states to reimburse Amtrak the cost of operating routes in their state(s).
- Enhances partnership between Amtrak and states and provides states with the ability to control direct (Route) and indirect (Support Fees) costs.
- Provides a reliable budget planning process and financial forecast to help stabilize Amtrak costs.
- Creates a state-supported capital investment program to maintain Amtrak assets with verifiable and tangible results.

PRIIA SECTION 209

POLICY DEVELOPMENT & IMPLEMENTATION TIMELINE

Spring/Summer 2010

Amtrak presented initial Section 209 Pricing Policy proposals to states.

- The original deadline to concur with a policy was October 16, 2010. Amtrak hosted its first state partners meeting in Chicago in April 2010 to unveil the new APT (Amtrak Performance Tracking) accounting/cost allocation system to current and prospective Section 209 states. Regional meetings were held throughout the next few months to provide and explain new APT system and provide examples of fully allocated operating costs using APT. Amtrak presented two proposals for a 209 cost methodology for operating and capital expenses to states, which were not accepted by the states.
- Amtrak states & Amtrak agreed to extend the deadline to April 16, 2011 and (then to June 16, 2011) to allow more time for negotiation.

Fall 2010

State Working Group Formed

A State Working Group (SWG) was established in September 2010 to work with Amtrak to develop a fair, equitable and transparent policy. The States collectively developed principles which would be required in an acceptable policy and shared them with Amtrak :

- The policy needed to be transparent & easy to understand.
- The direct relationship to services needed to be provided.
- States wanted the ability to control costs.
- The policy should include performance guarantees & standards.

Discussions, detailed analyses of costs and negotiations continued with Amtrak through March 2011 with significant input from all Section 209 states. During that time, the SWG made detailed side-by-side comparisons of cost elements, by various metrics, to help identify both consistencies and inconsistencies in Amtrak's past and current pricing models. The SWG then developed and presented a PRIIA 209 cost proposal to Amtrak which introduced the concept of three cost categories: 3rd Party Costs, Route Costs and Support Fees based on Additives. The Amtrak Board approved the policy concept and Amtrak staff evaluated additive rates and made a counter-proposal to SWG.

June 2011

A draft policy was jointly developed by Amtrak and the SWG

The draft policy was presented to states for comment in June 2011. A final policy was adopted by the Amtrak Board and presented to states for concurrence in August 2011.

November 2011

A final policy is adopted by states.

Eighteen of nineteen impacted states adopted the PRIIA Section 209 Cost Methodology Policy, which was then sent to the Surface Transportation Board (STB) for final adaptation. The STB finalized its decision to adopt the jointly-determined final policy on March 13, 2012.

June 2012

Amtrak provided FY2011 cost data to states for budgeting purposes.

APT workbooks reflecting FY2011 operating costs provided to states along with equipment capital forecasts for FY2012-FY2015 by Amtrak. States posed many questions regarding clarity and accuracy of costs.

November 2012

Amtrak provides revised FY2011 cost data to states for budgeting purposes.

States continued to pose questions to Amtrak regarding clarity and accuracy of costs.

January 2013

SWG and Amtrak met to discuss data needs and implementation challenges.

February 2013

Amtrak provided update at AASHTO/SCORT meeting.

Amtrak management provided overviews of the equipment overhaul process, food & beverage operations and various marketing related cost centers to states present at a Washington conference.

March 2013

Amtrak provided FY2012 cost data to states for budgeting purposes.

Amtrak hosted a conference call to update states on policy implementation. States presented written list of questions/issues to Amtrak for review.

April 2013

Amtrak provided FY2014 forecasts for PRIIA 209 operating costs and updated equipment maintenance capital costs to states.

The first forecasts for FY2014 operating and capital costs were transmitted to states along with a letter notifying states they have 180 days to reach agreement on final costs or face service cancellation.