

GAO

Report to the Chairman, Committee on
Transportation and Infrastructure, House
of Representatives

November 2006

INTERCITY PASSENGER RAIL

National Policy and Strategies Needed to Maximize Public Benefits from Federal Expenditures





Highlights of [GAO-07-15](#), a report to Chairman, Committee on Transportation and Infrastructure, House of Representatives

Why GAO Did This Study

Intercity passenger rail service is at a critical juncture in the United States. Amtrak, the current service provider, requires \$1 billion a year in federal subsidies to stay financially viable but cannot keep pace with its deteriorating infrastructure. At the same time, the federal government faces growing fiscal challenges. To assist the Congress, GAO reviewed (1) the existing U.S. system and its potential benefits, (2) how foreign countries have handled passenger rail reform and how well the United States is positioned to consider reform, (3) challenges inherent in attempting reform efforts, and (4) potential options for the federal role in intercity passenger rail. GAO analyzed data on intercity passenger rail performance and studied reform efforts in Canada, France, Germany, Japan, and the United Kingdom.

What GAO Recommends

GAO recommends that Congress consider restructuring the nation's intercity passenger rail system. Any change should include establishing clear goals for the system, defining the roles of key stakeholders, and developing funding mechanisms that include cost sharing between the federal government and other beneficiaries. Amtrak agreed intercity passenger rail is at a critical juncture and said that reform includes establishing national policy goals, stakeholder roles, and committed funding.

www.gao.gov/cgi-bin/getrpt?GAO-07-15.

To view the full product, including the scope and methodology, click on the link above. For more information, contact JayEtta Z. Hecker at (202) 512-2834 or heckerj@gao.gov.

INTERCITY PASSENGER RAIL

National Policy and Strategies Needed to Maximize Public Benefits from Federal Expenditures

What GAO Found

The existing intercity passenger rail system is in poor financial condition and the current structure does not effectively target federal funds to where they provide the greatest public benefits, such as transportation congestion relief. Routes of 750 miles or more, while providing service for some rural areas and connections between regions, show limited public benefits for dollars expended. These routes account for 15 percent of riders but 80 percent of financial losses. “Corridor” routes (generally less than 500 miles in length) have higher ridership, perform better financially, and appear to offer greater potential for public benefits.

The countries GAO studied varied in their reform approach, but their experience shows the United States needs to consider three key elements in attempting any reform: (1) define national policy goals, (2) define the roles of government and other participants, and (3) establish stable funding. Countries found these elements important in setting the role of passenger rail in the national transportation system and increasing the benefit from investing in passenger rail. Currently, however, the United States is not well positioned to address these key elements. The goals or expected outcomes of intercity passenger rail policies are ambiguous, participants' roles are unclear, and there is widespread disagreement about the level of funding to devote to this effort. Amtrak is taking actions within its authority to reduce costs and increase efficiency, but Amtrak is not in a position to address all key elements. To undertake reform, federal leadership is needed.

Addressing key elements of reform poses many challenges, because those who have a stake in the process have divergent goals or points of view. Amtrak workers, freight railroads that own much of the rail system over which passenger trains operate, and federal and state governments would be among those affected. The diversity of viewpoints poses challenges for determining both the overall goal for passenger rail in the United States and the federal role in achieving this goal. Funding-related challenges include identifying how to pay for achieving these goals and how to overcome disadvantages intercity passenger rail faces relative to leveraging of federal funds. Although federal-state cost sharing is common in highway and transit programs, states face difficulty leveraging their expenditures on rail service.

There are four main options for the federal role in intercity passenger rail service: (1) keep the existing structure and funding, (2) make incremental changes to improve financial or operational performance, (3) discontinue federal involvement, or (4) fundamentally restructure the system. Each option has advantages and disadvantages, and each faces its own challenges. Each requires some level of federal funding, a clear articulation of expected goals, and, except for the status quo option, substantial time to implement. Of these options, the fourth—fundamental restructuring—would allow for effectively integrating rail into the national transportation system and substantially improving overall performance and accountability.

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Abbreviations

ATDA	Accountability of Tax Dollars Act of 2002
ARC	Appalachian Regional Commission
CBO	Congressional Budget Office
CEO	chief executive officer
CFO Act	Chief Financial Officers Act of 1990
CFO	chief financial officer
CRS	Congressional Research Service
DB	DeutscheBahn AG
DOT	Department of Transportation
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FRA	Federal Railroad Administration
GAAP	generally accepted accounting principles
GFOA	Government Finance Officers Association
GMRA	Government Management Reform Act of 1994
GPRA	Government Performance and Results Act of 1993
JR	Japan Railway
MBCR	Massachusetts Bay Commuter Railroad
MD&A	management's discussion and analysis
NASD	National Association of Securities Dealers
NEC	Northeast Corridor
NYSE	New York Stock Exchange
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	performance and accountability report
RFF	Réseau Ferré de France
RPS	Route Profitability System
SEC	Securities and Exchange Commission
SNCF	Société Nationale des Chemins de Fer Français
U.K.	United Kingdom
WMATA	Washington Metropolitan Area Transit Authority

Contents

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United States Government Accountability Office
Washington, D.C. 20548

November 13, 2006

The Honorable Don Young
Chairman
Committee on Transportation and Infrastructure
House of Representatives

Dear Mr. Chairman:

The future of intercity passenger rail service in the United States has come to a critical juncture. The National Railroad Passenger Corporation (Amtrak) continues to rely heavily on federal subsidies—over \$1 billion annually in recent years—and operating losses have remained high. In addition, Amtrak will require billions of dollars to address deferred maintenance and achieve a “state of good repair.”¹ These needs for Amtrak come at a time when the nation faces long-term fiscal challenges. As we reported in February 2005, the federal government’s financial condition and long-term fiscal outlook present enormous challenges to the nation’s ability to respond to emerging forces reshaping American society, the United States’ place in the world, and the future role of the federal government.² Addressing the projected fiscal gaps will require policy makers to examine the affordability and sustainability of all existing programs, policies, functions, and activities throughout the federal budget.

Our February 2005 report outlines some of the criteria that should be considered in reexamining the future federal role toward intercity passenger rail in this country. These criteria include: (1) the relevance of and purpose for the federal role, (2) measures of success, (3) targeted benefits, and (4) the affordability and cost effectiveness of federal expenditures. A reexamination will include asking questions such as: Does intercity passenger rail have a clear federal role and mission? Does intercity passenger rail have outcome-based performance measures? Do intercity passenger rail expenditures target areas with the greatest needs and least capacity? Do federal expenditures and investments encourage state and local governments, and the private sector, to invest resources? Do

¹“State of good repair” is the outcome expected from the capital investment needed to restore Amtrak’s right-of-way (track, signals, and auxiliary structures), other infrastructure (e.g., stations), and equipment to a condition that requires only routine maintenance.

²GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: Feb. 2005).

these expenditures appear affordable and sustainable in the long term? Considering the performance of the current system relative to all these factors will be critical in deciding the future of intercity passenger rail, the federal role in intercity passenger rail, and how intercity passenger rail is structured, operated, and funded in the United States.

Reexamining the federal role and expenditures on intercity passenger rail service will be particularly difficult because of the divergent opinions about what this service should be. Some advocate a greatly expanded federal role and the expansion of intercity passenger rail to relieve growing congestion on highways and airways and (as energy prices increase) to provide more fuel-efficient transport; others believe the federal role should be scaled back, and that at least some federal operating subsidies should be eliminated. Specific proposals vary—while one proposal would keep Amtrak largely intact and provide more funding for capital and other improvements, another proposal would significantly restructure the management and accountability for intercity passenger rail with regional, state, and local entities making fundamental decisions about what intercity passenger rail services are justified and will receive public financial support. Amtrak itself has proposed a new vision for intercity passenger rail service that would include a greater role for states in planning and developing passenger rail corridors. The acting president of Amtrak told us that, in his view, Amtrak itself is not a substitute for a national intercity passenger rail policy and that Congress needs to develop such a policy. One of the primary difficulties in developing a clear national intercity passenger rail policy will be reconciling the wide diversity of views about what intercity passenger rail service should be and what it should achieve.

To assist Congress as it assesses the future of intercity passenger rail service in the U. S., and the federal role in such service, you asked us to identify critical issues and options that Congress should consider in deciding the future federal role. In response to your request, this report addresses the following:

-
- the characteristics of the current U.S. intercity passenger rail system and the potential benefits obtained from this system³;
 - foreign experiences with passenger rail reform and observations for the United States;
 - how well the United States is positioned for reforming⁴ its intercity passenger rail system;
 - challenges the United States faces in overcoming obstacles to reform; and
 - potential options for the future of intercity passenger rail service.

To address these issues, we collected information on the characteristics of Amtrak's routes, including ridership, costs, and the extent of public subsidies provided on routes. We conducted extensive analyses of both long-distance routes and short-distance corridor routes.⁵ We analyzed data on passenger demographics, financial performance, on-time performance, and connectivity between routes, and synthesized the results to determine the actual and potential benefits provided by both types of routes. We also collected and analyzed data on passenger rail operations and restructuring efforts in Canada, France, Germany, Japan, and the United Kingdom (U.K.).

³The benefits that might be obtained from use of the intercity passenger rail system include both private transportation benefits and public benefits. By transportation benefits, we mean the benefits that individuals receive from completing trips from their origin to their destination. Because passenger rail trips have value to the individuals making them, economic reasoning suggests that the individuals would be willing to pay fares to make these trips, as long as the fares do not exceed the benefits that they receive. These trips may also generate public benefits, such as reductions in highway congestion, air congestion, or air pollution; or the social benefits of connecting individuals throughout the country. These are considered public benefits because they do not accrue specifically to the travelers themselves and travelers do not have an economic incentive to consider public benefits in making their travel decisions. For this reason, government subsidies would be needed to help fund the system if the fares passengers are willing to pay to obtain private transportation benefits are not sufficient to cover the cost of providing the service.

⁴For purposes of this report, the word reform is intended to cover both incremental changes that might be made within the current structure of intercity passenger rail, as well as more significant changes that could be made, including wholesale restructuring in how intercity passenger rail service is provided.

⁵We defined long-distance routes to be 750 miles or more and to generally involve an overnight trip; we defined short-distance corridor routes to generally be 500 miles or less.

This included interviews with government and private sector officials in these countries, and reviews of passenger-rail-related policies and funding. We interviewed officials from Amtrak as well as the Federal Railroad Administration (FRA), states, various travel and tour associations, rail labor unions, freight railroads, and the operator of a luxury passenger rail service in the United States. We also compared Amtrak's current accountability and financial reporting mechanisms to the basic requirements and practices for federal entities and public companies in the United States. Finally, we reviewed studies on passenger rail reform efforts around the world and consulted with international rail experts knowledgeable about passenger rail reform efforts. Our work was conducted from January 2006 to October 2006 in accordance with generally accepted government auditing standards.

Results in Brief

The existing U.S. intercity passenger rail system remains in poor financial condition, characterized by continued high operating losses and substantial levels of deferred capital and maintenance projects. Moreover, the current structure does not appear to effectively target federal funds where they may provide the greatest level of public benefits, such as reduced traffic congestion and pollution. Amtrak currently operates two types of intercity routes—long distance and corridors—that provide service to a wide range of passengers in urban and rural communities across the country. These routes exhibit markedly different financial characteristics and operating characteristics. Long-distance routes account for about 80 percent of Amtrak's financial losses although they serve 15 percent of Amtrak's total ridership, and are characterized by poor on-time performance. Support for these routes is often linked to a number of potential public benefits—one public benefit is the provision of transportation for rural residents located along the route who might have few, if any, other transportation options; another is the national connectivity between regional rail corridors. However, these benefits may be limited by infrequent or inconvenient service, and are provided at high cost to the federal government. In contrast, corridor routes account for most of Amtrak's ridership and growth in recent years, account for about 20 percent of the financial losses (which do not include federal capital grants to maintain Amtrak-owned infrastructure in the Northeast), and appear to offer greater potential to provide public benefits. For example, these services tend to be more time- and cost-competitive with other modes of transportation—potentially mitigating highway and air congestion—and they offer increased flexibility over long-distance rail services to adapt schedules and services to meet potentially shifting demographics and trends in passenger travel. To

maximize the public benefits for federal expenditures for intercity passenger rail services in this country, a reevaluation of the existing structure may be required to better target federal funding to services where rail may have a comparative advantage, is more effectively positioned to provide public benefits, and is better integrated into the national transportation system.

Intercity passenger rail reform efforts in other countries illustrate that, to be more cost effective and offer increased benefits in relation to expenditures, there are a variety of approaches—and several key reform elements—that need to be addressed when implementing any approach. Over the past 20 years, several countries have employed a variety of approaches in reforming their intercity passenger rail systems to meet national intercity passenger rail objectives—that is, primarily achieving more cost effective, value-added passenger service for the level of subsidies spent. These approaches, alone or in combination with each other, have been used to support other national objectives as well, such as increasing transparency in the use of public funds and providing transportation benefits and public benefits. Prior to, or during, implementation of these various approaches, several elements key to comprehensive reform were addressed. The national governments of most countries we visited focused their efforts on the following elements: (1) clearly defining national policy goals; (2) clearly defining the various roles and responsibilities of all government entities involved; and (3) establishing stable, sustainable funding for intercity passenger rail. These elements were important to determining how passenger rail fit into the national transportation system and to increase the value of both federal and nonfederal expenditures on such systems.

The United States is not well positioned to undertake any reform of intercity passenger rail. The experience of the countries we studied indicates that U.S. reform will require a more fundamental reexamination of the goals and performance of the system by policymakers than has taken place to date. Specifically, the United States will need to address the three reform elements—clearly defined national policy goals, clear definition of government and stakeholder roles, and establishing consistent funding devoted to these goals—to better position itself for improving the performance and benefits of intercity passenger rail system. The goals and expected outcomes of the current passenger rail policy are ambiguous, stakeholder roles are unclear, and funding has been constrained due to competing priorities and a lack of consensus on the level of funding to devote to these goals. The primary provider of U.S. intercity passenger rail,

Amtrak, has the authority to take a number of actions, but has a history of poor financial and operating performance. Recently, Amtrak has proposed a reform strategy and is undertaking efforts to reduce costs and increase efficiency within Amtrak's authority. However, the benefits Amtrak can achieve are limited by constraints. For example, possible route and service changes could trigger expensive labor protections payments. Even if Amtrak could manage its operations more efficiently, Amtrak is not in a position to address the key elements of reform we observed in other countries. Federal leadership will be needed to fundamentally improve the performance of intercity passenger rail.

There are a number of challenges associated with addressing the key elements of reform for intercity passenger rail. The variety of stakeholders, all with different interests and issues, makes reaching consensus on any change difficult. Central among federal challenges is determining what the vision and role for intercity passenger rail in the U.S. should be and the federal role, if any, within this vision and reconciling the wide diversity of views about intercity passenger rail service. Challenges in promoting a more equitable federal-state partnership include the varying ability and willingness of states to participate in funding intercity passenger rail and identifying appropriate policy changes to overcome the disadvantages intercity passenger rail faces relative to leveraging of federal funds. Currently, states are challenged to leverage their expenditures on such service. However, federal-state cost sharing is common in highway and transit programs where investment is encouraged through matching grants. Other challenges include freight railroad concerns about infrastructure access and capacity, workforce issues, and defining the role of the private sector. Addressing important funding issues will also present challenges. This includes identifying funding sources to achieve national policy goals and developing incentives for state participation. Each of these challenges presents opportunities to increase the benefits of federal and nonfederal expenditures on intercity passenger rail and not addressing them will likely continue the stalemate in moving toward a well defined role for federal subsidies for intercity passenger rail in the U.S.

For simplicity in outlining the choices, we discuss four possible options for the future of the federal role in intercity passenger rail service. The first option would be no change in the current structure or funding of intercity passenger rail. The second option would focus on incremental reforms within the current intercity passenger rail structure. The third option would discontinue federal involvement and devolve responsibility for intercity passenger rail service to states and others. The fourth option would

reexamine the entire structure of intercity passenger rail service with the focus on optimizing its performance and benefits for both federal and nonfederal expenditures. All four options for the future of intercity passenger rail present challenges that could impede both their selection and their effectiveness once chosen. Of the four options, however, restructuring presents the opportunity to substantially improve the intercity passenger rail system. This option would allow Congress and policymakers to establish intercity passenger rail's goals, define the roles of stakeholders, and develop funding mechanisms that could provide improved performance and accountability for intercity passenger rail expenditures.

To maximize the transportation benefits and public benefits of intercity passenger rail service and any federal funds expended on this service, we recommend that Congress consider restructuring the current intercity passenger rail system in the United States. In restructuring the intercity passenger rail system, Congress should establish clear goals for the system, define the roles of government and other stakeholders, and develop funding mechanisms that include sharing costs between the federal government and other beneficiaries. Due to the complex nature of intercity passenger rail issues and the wide diversity of views about its future, an independent and properly designed commission may be effective in developing a consensus on the approach for changing its structure. We also recommend bringing Amtrak's financial reporting, internal control, and governance practices in line with basic requirements for federal entities or public companies.

We provided draft copies of this report to Amtrak and the Department of Transportation for their review and comment. In general, Amtrak did not take an overall position on the report. However, Amtrak did agree that intercity passenger rail in the United States has come to a critical juncture and that a national dialogue about the future direction of rail service is needed. Amtrak also strongly agreed that the three key elements to comprehensive reform of intercity passenger rail are establishing clearly defined national policy goals, clearly defining government and stakeholder roles, and establishing committed funding. In response to our recommendation, Amtrak offered comments about specific steps that could be taken in that regard. For example, Amtrak agreed that including a Management Discussion and Analysis with its annual audited financial statements is reasonable. Amtrak took exception to other examples of oversight such as the chief executive officer and chief financial officer certifying Amtrak's financial statements similar to requirements in the

Sarbanes-Oxley Act. Amtrak also took exception to bringing its reporting under the Securities and Exchange Commission and believes such an effort would not be an effective use of federal funds given the oversight currently provided by FRA and the Amtrak and Department of Transportation Inspector Generals'. While we recognize that Amtrak is subject to oversight already, we believe there are opportunities to improve current reporting practices, while identifying opportunities for potential streamlining. The Department of Transportation did not indicate agreement or disagreement with the report or its recommendations. Instead, it provided primarily technical comments that we incorporated where appropriate.

Background

The Rail Passenger Service Act of 1970 created Amtrak to provide U.S. intercity passenger rail service because existing railroads found such service unprofitable. Today, Amtrak continues to be the main provider of intercity passenger rail service in the United States, operating a 22,000-mile network that provides service to 46 states and Washington, D.C., primarily over tracks owned by freight railroads.⁶ Federal law requires that freight railroads typically give Amtrak trains priority access and, in general, charge Amtrak the incremental cost—rather than the full cost—associated with the use of their tracks. Amtrak also owns about 650 miles of track, primarily on the Northeast Corridor (NEC), which runs between Boston, Massachusetts, and Washington, D.C. Access to this corridor is also critical for the operations of nine commuter railroads run by state and local governments serving 1.2 million passengers each work day. According to Amtrak, four freight railroads also use the corridor each day. Amtrak employs about 19,000 people.

The Amtrak Reform and Accountability Act of 1997 gave Amtrak significant flexibility with respect to its route system, but directed it to continue to operate “a national passenger rail transportation system which ties together existing and emergent regional rail passenger service and other intermodal passenger service.”⁷ To meet this mandate, Amtrak currently operates 41 intercity passenger rail routes that fall into two distinct types,

⁶Intercity passenger rail service is also provided by the state of Alaska via the Alaska Railroad. For the purposes of this report, intercity passenger rail service does not include commuter rail service between cities in metropolitan areas or service provided by the Alaska Railroad.

⁷49 U.S.C. §24701.

long-distance routes and short-distance corridors (see fig. 1). There are 14 long-distance routes, which generally travel over 750 miles and include an overnight component.⁸ Twenty-seven routes are short distance, or “corridor” services, and are further classified into two distinct categories. The first is the NEC. According to Amtrak, about two-thirds of its ridership is either wholly or partially on this corridor. The second category of corridor service is primarily comprised of routes partly funded by states, but also includes several other routes that Amtrak continues to operate as part of the original or “legacy” system.⁹ These corridor services have several similarities, such as a relatively high frequency of service and route distances generally under 500 miles.

⁸Amtrak runs 15 long-distance trains on 14 routes. One of the 14 long-distance routes, the Silver Service, is comprised of three different trains: The *Silver Star*, *Silver Meteor*, and the *Palmetto*, with service between New York City, Georgia, and Florida.

⁹“Legacy routes” refer to routes that were established when Amtrak began operating a basic system in 1971. In this report, the term “state supported” refers to routes that receive financial assistance from a state for some or all of its distance.

Figure 1: Amtrak's Route Map, Fiscal Year 2005



- Long-distance service
- Corridor service (may also include long distance)
- States currently providing financial support for Amtrak services

Source: GAO, Corel (map).

The 1997 act also established a Reform Board (to assume the responsibilities of Amtrak's Board of Directors) and a Reform Council (to review and recommend changes in Amtrak's route structure). The act provided for the Reform Board to serve for 5 years and then be replaced by a new Amtrak Board of Directors; meanwhile, the Reform Council's mandate was to look at "Amtrak's operation as a national passenger rail

system which provides access to all regions of the country and ties together existing and emerging rail passenger corridors.”¹⁰ In November 2001, the Reform Council reported that Amtrak would not achieve operational self-sufficiency by December 2, 2002, as envisioned by the act and, in 2002, the Reform Council recommended restructuring and rationalizing the national intercity passenger rail system—a move that envisioned, among other things, breaking up Amtrak and introducing competition to provide rail service. As of October 2006, Congress was still considering Amtrak issues, such as its funding level, the size of its network, the introduction of competition for routes, and Amtrak restructuring.

Since Amtrak’s inception, it has struggled to become financially solvent. Amtrak has run a deficit each year and required federal assistance to cover operating losses and capital investment. Amtrak has received approximately \$1.2 billion in annual appropriations since fiscal year 2003 for operational support, capital improvements, and debt obligations. Amtrak, like other intercity transportation systems, is capital-intensive. From fiscal years 1971 through 2006, Amtrak has received just over \$30 billion in federal support, of which about \$11 billion has been for infrastructure improvements and equipment overhauls.¹¹ Additional capital funding has also been obtained from state and local governments, generally for specific capital investments required to support corridor routes operating within their jurisdiction.

The Amtrak Reform and Accountability Act of 1997¹² removed Amtrak from the list of government corporations under 31 U.S.C. § 9101. While listed, Amtrak was required to submit annual management reports to Congress under the Government Corporation Control Act of 1945. Relieved from this requirement, Amtrak remains a government-established private corporation which is neither an agency nor instrumentality of the U.S. government, nor an issuer of securities to the public. Therefore, since 1997, Amtrak has not been subject to the basic accountability requirements of either federal entities or public companies. Such requirements cover financial reporting, internal control, and governance. Through its loan agreement and grant agreements for operating and capital expenses,

¹⁰49 U.S.C. § 24101 Note § 203(g).

¹¹Amount in nominal dollars and includes about \$4 billion for the Northeast Corridor Improvement Project.

¹²Pub. L. No. 105-134, § 415, 111 Stat. 2570, 2590 (1997).

Amtrak is subject to a variety of reporting requirements—including providing a monthly performance report to its board, the Department of Transportation (DOT), and Congress; providing FRA with a daily cash balance report; and providing FRA with a monthly progress report on actions addressing our previous recommendations. Due to Amtrak’s long-term challenges, several reform proposals and legislation have recently been introduced to address Amtrak’s financial problems. The suggested reforms vary in the level of federal subsidies proposed and the extent to which the current U.S. intercity passenger rail system would be restructured. Among these proposals is the administration’s 2005 proposal, which would phase out federal operating subsidies for long-distance trains and split Amtrak into three entities: an oversight company to manage the restructuring process, a private infrastructure management company, and a train operating company.¹³ This proposal would ultimately give states greater decision-making authority with respect to rail service and capital improvements. Conversely, the Senate Committee on Commerce, Science, and Transportation proposed a reauthorization bill in 2005 that would authorize just under \$2 billion per year over a 6-year period to fund Amtrak’s capital and operating expenses to maintain current operations, upgrade equipment, and return the NEC to a state of good repair. Although operating subsidies over the life of this bill would be reduced 40 percent through cost cutting and other actions, capital funding to Amtrak and states would increase. See table 1 for key aspects of recent intercity passenger rail reform proposals and legislation.

¹³The administration’s proposal was introduced as H.R. 1713, Passenger Rail Investment Reform Act.

Table 1: Key Aspects of Selected Recent Intercity Passenger Rail Reform Proposals

Proposal	Key aspects
Amtrak Reauthorization Act of 2005 (H.R. 1630)	<ul style="list-style-type: none"> • Authorizes \$2 billion per year for FY 2006–2008 with funds set aside for retirement and commuter rail obligations • Requires no restructuring, but allows Amtrak to continue with its current 5-year plan • Requires periodic reporting by Amtrak on its annual business plan
Passenger Rail Investment and Improvement Act of 2005 (S. 1516)	<ul style="list-style-type: none"> • Authorizes \$11.4 billion in appropriations for 6 years (FY 2006–2011) • Authorizes the issuance of \$13 billion in federal bonds for additional capital improvements • Reduces operating subsidies by 40 percent over 6 years • Requires Amtrak to evaluate long-distance routes to improve performance • Allows transfer of Amtrak operating rights to host freight railroads • Allows the Surface Transportation Board to levy penalties against freight railroads for failing to give scheduling priorities to Amtrak trains on freight railroad tracks
Passenger Rail Investment Reform Act (H.R. 1713). (This is the administration’s bill.)	<ul style="list-style-type: none"> • Subjects Amtrak to annual appropriations with specific reform requirements • Authorizes appropriation of funds for the purposes of the act over a 6-year period • Phases out operating subsidies • Reorganizes Amtrak into three functional entities: (1) an oversight company to manage the restructuring process, (2) a private infrastructure company, and (3) a train operating company • Proposes to create an interstate compact to operate the NEC • Gives states greater participation with respect to provision of rail service and capital improvements • Establishes a matching grant program for capital projects • Allows potential operators to bid to operate intercity passenger rail service • Authorizes buyouts for current employment contracts
Systemic Passenger Infrastructure and Network Overhaul through Financial Freedom Act (H.R. 3851)	<ul style="list-style-type: none"> • Transfer ownership of property along the NEC to the Secretary of Transportation • Allow companies to compete for the maintenance and operation of services on the NEC

Source: GAO analysis.

The U.S. system is not the only intercity passenger rail system that has experienced financial deficits and economic inefficiencies. Many countries have undertaken efforts to reform their systems in order to alleviate financial and structural problems. While the intercity passenger rail experiences of other countries are often cited in the debate over the U.S. system, there are some key differences between the U.S. system and other foreign systems, including:

- *Infrastructure ownership.* In the United States, nearly all of the infrastructure that intercity passenger rail operates on is owned by private freight rail companies and is located on private land. Although Amtrak, by law, has a statutory right of access to infrastructure at incremental cost, it enters into operating agreements with freight and other railroads to use their lines. In contrast, in most of the countries in Europe, infrastructure is publicly owned.

-
- *Freight and passenger railroad industry.* In addition to owning the infrastructure, freight rail dominates the rail industry in the United States. This is a stark contrast to most other countries, where passenger rail is the primary component of the rail industry and freight plays a more secondary role.
 - *Geography and demographics.* Geographic and demographic factors also make the United States significantly different from other countries, in particular those in Europe and Japan. The United States is relatively larger geographically than most of these other countries. Europe and Japan are more compact than the United States, making more intercity travel by rail between major cities as fast as by air. Additionally, experts and prior research highlight the greater population density of European cities—making rail a more attractive option for transportation.

Existing U.S. Intercity Passenger Rail System Is in Poor Financial Condition and Appears to Provide Limited Benefits for Federal Expenditures

The existing U.S. intercity passenger rail system remains in poor financial condition, characterized by continued high operating losses and substantial levels of deferred capital and maintenance projects. Moreover, the current structure does not appear to effectively target federal funds where they may achieve the greatest level of public benefits.¹⁴ That is, many services are not focused on the markets where rail may have a comparative advantage over other modes and is most likely to be a viable and cost-effective option to meet public transportation demands.

Amtrak operates two types of intercity routes—long distance and corridors—that provide service to a wide range of passengers across the country; however, each of these route types exhibit markedly different financial and operating characteristics. Long-distance routes account for about 80 percent of Amtrak’s financial losses although they serve about 15 percent of Amtrak’s total ridership, and are characterized by poor on-time performance. These routes are often associated with a number of public benefits, including offering service to a number of rural residents and providing national connectivity; however, these benefits may be limited by infrequent or inconvenient service and are provided at high cost to the federal government. In contrast, corridor routes account for most of Amtrak’s ridership and appear to offer greater potential to provide passenger transportation benefits and public benefits. For example, these

¹⁴DOT, in comments on a draft of this report, observed that this is not one of the existing goals for Amtrak.

services tend to be more time- and cost-competitive with other modes of transportation—potentially mitigating highway and air congestion—and they offer greater flexibility over long-distance rail services to adapt schedules and services to the demands of the traveling public. While several challenges related to funding and capacity constraints exist, corridors appear to be where the comparative strength for intercity passenger rail services lies and where the greatest potential exists for rail to provide increased public benefits for federal expenditures. Corridors could also facilitate integrating intercity passenger rail into the national transportation system.

Existing U.S. Intercity Passenger Rail System Appears Unsustainable at Current Levels of Federal Funding

Although the Amtrak Reform and Accountability Act of 1997 proposed that Amtrak reach operational self-sufficiency by December 2002, Amtrak did not achieve this goal and its financial condition since this legislation was enacted remains precarious.¹⁵ In addition, to stabilize and sustain the existing system, Amtrak is likely to need increased levels of funding. Amtrak continues to incur substantial operating deficits and is faced with billions of dollars in deferred capital maintenance and debt obligations. No combination of service cuts or productivity improvements can fully eliminate the need for public operating and capital subsidies, particularly if Congress continues to mandate that Amtrak operate a national system. However, at a time when the federal government faces a long-term structural fiscal imbalance, these poor financial characteristics lead to questions about how the system should be structured and funded in the future.

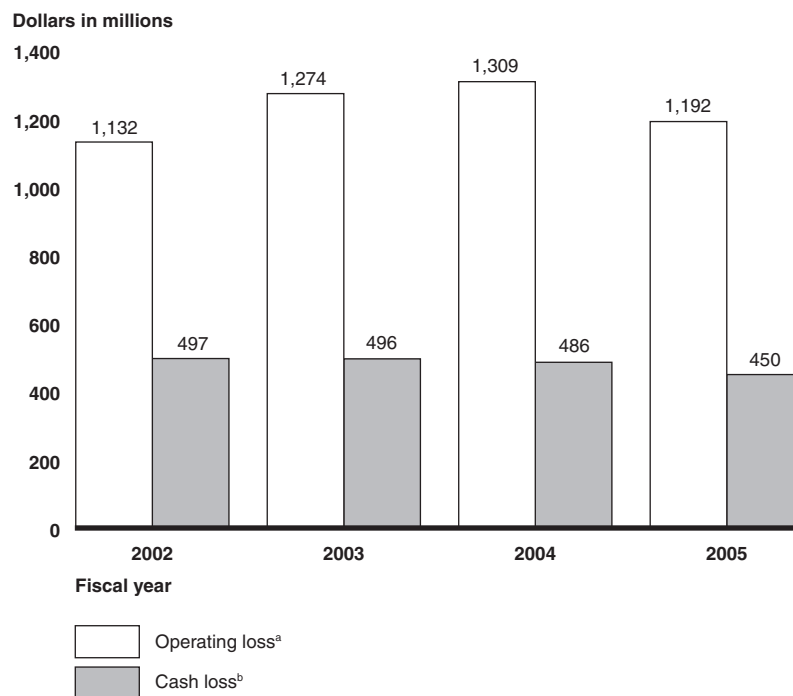
Operating Losses

The U.S. intercity passenger rail system ends each fiscal year with substantial operating losses. Although Amtrak has made some progress in containing operating expenses in recent years, it continues to run an annual operating deficit (total operating revenues minus operating expenses) of over \$1 billion dollars and relies heavily on federal subsidies to cover this deficit. In fiscal year 2005, Amtrak reported a net operating

¹⁵The Amtrak Reform and Accountability Act of 1997 placed Amtrak on notice that it was expected not to use federal funds for operating expenses after 2002. However, Congress has opted to specifically appropriate funds to Amtrak for operating expenses each fiscal year beyond that date, through fiscal year 2007.

loss of \$1.2 billion, including an annual cash loss of \$450 million (see fig. 2).¹⁶ Although exhibiting a slight decrease from the record deficit in fiscal year 2004, operating losses have shown few signs of substantial long-term improvement. In fact, Amtrak projected in its 2005–2009 Strategic Plan that, under the existing structure, annual operating losses will increase to over \$1.5 billion by 2009.¹⁷

Figure 2: Amtrak Annual Operating Losses and Cash Losses, Fiscal Years 2002 through 2005



Source: GAO analysis of Amtrak data.

¹⁶The operating loss is the net result per Amtrak's statement of operations. This figure includes additional income and expenses, such as capital depreciation, employee benefits, state capital payments, and net interest expenses. The cash loss excludes depreciation expenses and other non-cash items.

¹⁷Amtrak, *Amtrak Strategic Plan, FY 2005–2009* (June 29, 2004). Amtrak officials have since stated that the 2005 Strategic Reform Initiatives, and subsequent reports on these initiatives, indicate that the company has taken, and plans to take, actions to reduce annual operating losses.

^aOperating losses represent the net results reported per Statement of Operations in Amtrak's audited financial statements

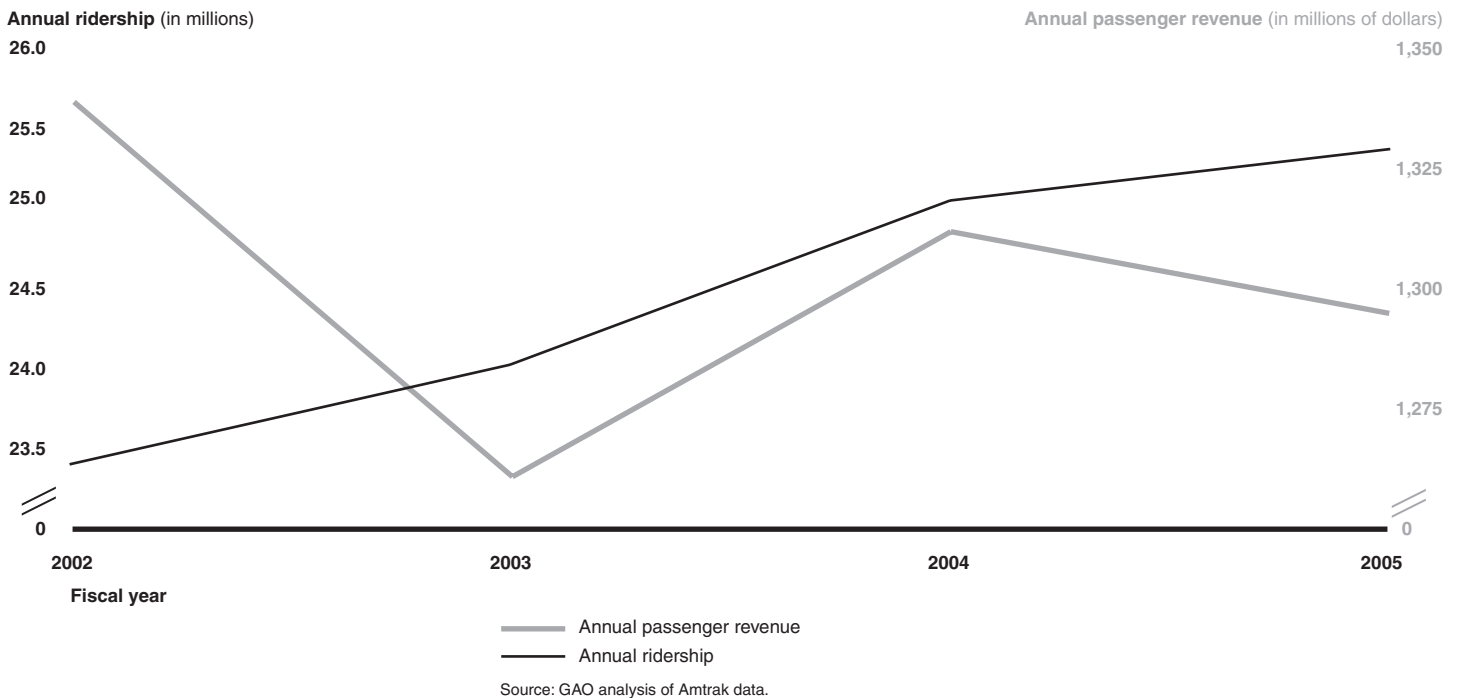
^bCash losses include Amtrak reported earnings before interest, taxes, depreciation, and other post-employee benefits.

While Amtrak has experienced a steady increase in ridership over the last decade, there has not been a corresponding increase in total annual revenues. Between fiscal years 2002 and 2005, passenger revenues remained relatively stable—declining from \$1.34 billion to \$1.29 billion (3.3 percent)—despite growth in annual ridership of nearly 2 million passengers during this period, an increase of 8.2 percent (see fig. 3).¹⁸ These results suggest that it is unlikely that Amtrak can grow its way out of financial difficulty through additional increases in ridership. Further, these trends of continued high operating losses and stagnating passenger revenues, despite a number of cost-cutting efforts, have led the DOT Inspector General and others to conclude that Amtrak also cannot “save its way to financial health” and—in the absence of increased federal funding—may require long-term structural operating reforms.¹⁹

¹⁸As of September 2006 Amtrak estimated that revenues for fiscal year 2006 will be approximately 10 percent above fiscal year 2005 levels (\$1.29 billion).

¹⁹Mark R. Dayton, Senior Economist, U.S. Department of Transportation, Office of Inspector General, *Intercity Passenger Rail and Amtrak*. Testimony before the House Committee on Appropriations, Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies, March 16, 2006. Jeffrey A Rosen, General Counsel, U.S. Department of Transportation. Testimony before the Subcommittee on Railroads, Committee on Transportation and Infrastructure, House of Representatives, September 21, 2005.

Figure 3: Amtrak Annual Passenger Revenue and Ridership, Fiscal Years 2002 through 2005



Substantial Capital Needs and Debt Obligations

In addition to the burden of its annual operating deficit, the intercity passenger rail system is faced with substantial financial obligations related to capital repairs and infrastructure maintenance, as well as accumulated debt. Both of these obligations have received substantial federal subsidies each year and are likely to continue affecting the financial outlook of Amtrak into the foreseeable future.

- *Capital needs and deferred maintenance.* Lacking the funds to complete all of its identified capital repair and maintenance projects, Amtrak has deferred an estimated \$6 billion in capital and infrastructure maintenance spending.²⁰ In addition to increasing the risk of a major failure on the system, the deteriorated condition of Amtrak’s rolling

²⁰GAO, *Intercity Passenger Rail: Issues for Consideration in Developing an Intercity Passenger Rail Policy*, [GAO-03-712T](#) (Washington, D.C.: Apr. 30, 2003). In April 2005, the Department of Transportation Office of Inspector General estimated this backlog at about \$5 billion.

stock and infrastructure may contribute to higher operating costs and reduced reliability of service.²¹ Further, over 60 percent of this deferred maintenance is attributable to Amtrak's mainstay NEC service. Disruptions of service on this corridor, due to needed repairs or safety concerns, would have significant financial impacts. While Amtrak has identified the restoration of rail infrastructure to a state of good repair as one of its primary goals, the cost and extent of the needed improvements remain a significant burden to the financial viability of the existing intercity passenger rail system. Although the level of federal capital funding has increased in recent years, there remains a fundamental mismatch between the level of investment Amtrak and the DOT Office of Inspector General (DOT OIG) have estimated is needed to maintain the existing network and the amount of funding provided. For example, in fiscal years 2005 and 2006, Amtrak identified capital funding needs of nearly \$800 million dollars annually; however, actual funds appropriated for capital projects in those years totaled \$369 million and \$495 million, respectively.

- *Debt obligations.* Significant federal funds are also spent each year to service Amtrak's substantial debt burden. At the end of fiscal year 2005, Amtrak carried a total of \$3.6 billion in debt and capital lease obligations.²² Principal and interest payments on these accumulated debts is estimated at \$295 million for fiscal year 2007 and will likely remain at about this level for the foreseeable future. These payments accounted for over 20 percent of Amtrak's total federal appropriation for fiscal year 2006 and, in light of Amtrak's other financial obligations, are likely to continue to require funding from other sources.

Federal Funding

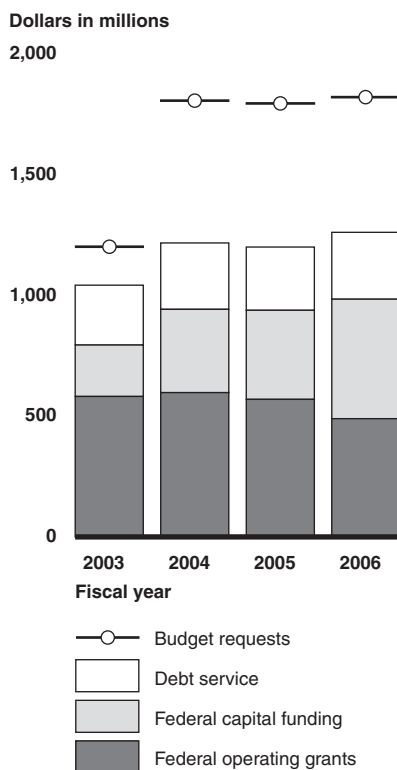
Given high annual deficits, deferred capital spending, and debt obligations, the current levels of federal subsidies are likely insufficient to maintain the existing level of passenger rail service being provided by Amtrak. Since Amtrak's authorizing legislation expired in 2002, federal funding for intercity passenger rail has been far below what Amtrak and others have estimated is needed to sustain and stabilize the current system. For example, Amtrak submitted budget requests of approximately \$1.8 billion

²¹Rolling stock refers to locomotives and passenger or other cars, such as sleeping or dining cars.

²²This amount includes long-term debt and capital lease obligations (about \$3.5 billion) plus the current maturities of long-term debt and capital lease obligations (about \$138 million).

for fiscal years 2004 through 2006. However, the average amount of federal funding received over this period totaled about \$1.24 billion per year—enough to keep the system operating but not enough to meet the level Amtrak estimated is needed to prevent the continued deferral of significant maintenance projects (see fig. 4). The President’s budget in fiscal year 2006 proposed no funding for Amtrak in the absence of significant operating and structural reforms; however, Amtrak eventually received federal funding in the amount of \$1.29 billion.

Figure 4: Amtrak’s Annual Budget Request and Appropriation Levels, Fiscal Years 2003 through 2006



Source: GAO analysis of Amtrak data.

For fiscal year 2007, Amtrak’s budget request totaled \$1.6 billion. This figure included \$498 million to support cash operating losses, \$730 million for capital spending, \$295 million for debt service, and \$75 million for

working capital.²³ The DOT OIG issued estimates similar to those proposed by Amtrak, reporting that \$1.4 billion would be required in fiscal year 2007 just to maintain the currently configured system in a steady state, without addressing the backlog of infrastructure projects or investing in new corridor development.²⁴ This report also identified that up to \$125 million in additional working capital may be needed to protect Amtrak from insolvency risks posed by any significant unforeseeable events, such as the *Acela* brake problem experienced in 2005.²⁵

Current Intercity Passenger Rail Network Appears to Provide Limited Public Benefits at a High Cost to the Federal Government

The nation's intercity passenger rail system serves a variety of purposes, but many routes appear to provide limited public benefits for the level of federal expenditures required to operate them. While none of the 41 routes comprising the current U.S. intercity passenger rail network earn sufficient revenue to fully cover the operating and capital costs of providing the service, the two types of routes that Amtrak operates—long distance and corridors—have markedly different operating and financial characteristics. Some of these differences include annual ridership and passenger demographics, financial performance, and the scope of potential transportation benefits and public benefits that the service is likely to provide.

Long-Distance Routes are Characterized by Relatively High Costs and Potentially Limited Benefits

While Amtrak's 14 long-distance routes serve a number of different geographical and traveler markets, they often do so inefficiently and at a high cost to the federal government. That is, long-distance routes account for nearly 80 percent of Amtrak's financial losses although they serve 15

²³Working capital is generally defined as current assets minus current liabilities. Amtrak and DOT officials indicate additional working capital may also function similar to a line of credit, bolstering cash reserves and reducing the risk to the corporation as a result of unexpected events.

²⁴Dayton, p. 2.

²⁵In April 2005, Amtrak removed all *Acela* services on the NEC following the discovery of cracks in many of the trains' brake discs. The service did not return to full operation until September 26, 2005. Amtrak's premium *Acela* service and its companion *Metroliner* service are Amtrak's only train operations that make a positive financial contribution (excluding depreciation and capital expenses).

percent of Amtrak's annual ridership.²⁶ In addition, long-distance rail services also tend to be infrequent and exhibit poor dependability—as measured by on-time performance—due to increased trip distances and potential issues associated with operating on freight-owned infrastructure. As a result, actual transportation and public benefits potentially deriving from these routes, such as rural transportation and national connectivity, may be limited.

Ridership and Financial Characteristics

Long-distance routes comprise a relatively small percentage of total Amtrak ridership, yet they consume a disproportionate amount of federal subsidies. Ridership on Amtrak's long-distance routes has remained relatively stable, averaging approximately 3.8 million passengers per year between fiscal years 2002 and 2005. This figure represents approximately 15 percent of Amtrak's total reported ridership of 25.4 million passengers in fiscal year 2005. Since many of these passengers travel longer distances than passengers on corridor routes, long-distance routes accounted for 47 percent (2.5 billion) of Amtrak's total of 5.4 billion passenger miles in fiscal year 2005.²⁷ However, many of the trips taken on these routes are for relatively shorter distances as opposed to end-to-end trips, with riders often traveling between city pairs on existing Amtrak corridors or planned corridor routes. For example, the DOT OIG issued a statement in 2003 which estimated that the share of trips taken on long-distance routes that were corridor in nature was 34 percent.²⁸ In fiscal year 2005, nearly 30 percent of all trips on long-distance routes were for fewer than 300 miles and 46 percent were for fewer than 500 miles (see fig. 5). In this regard, many passenger trips on long-distance routes may be similar to those on Amtrak's corridor services, where rail service is more likely to be time- and cost-competitive with other modes of intercity transportation. For

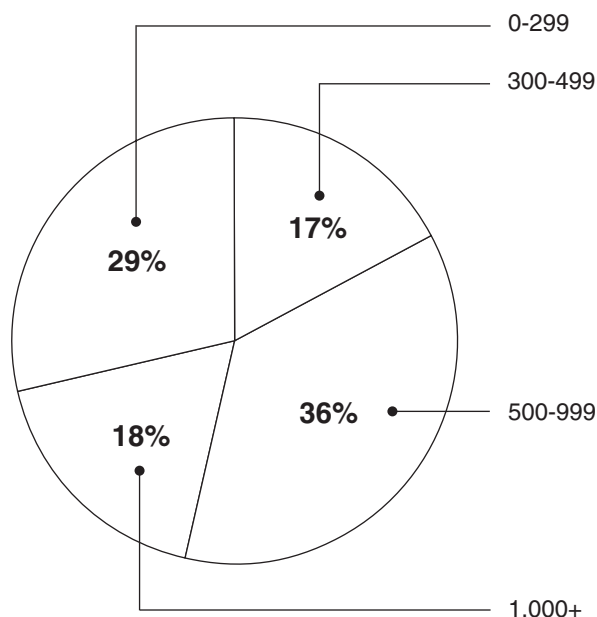
²⁶Data on route financial performance are based on Amtrak's Route Profitability System (RPS). We have previously identified concerns with this database related to the reliability of cost-allocation methods for individual routes. See GAO, *Amtrak Management: Systemic Problems Require Actions to Improve Efficiency, Effectiveness, and Accountability*, GAO-06-145 (Washington D.C.: Oct. 4, 2005). However, we believe the data are reasonably sufficient to illustrate aggregate financial trends and make general comparisons between route types for the purposes of this report.

²⁷A passenger mile is one passenger traveling one mile.

²⁸Kenneth M. Mead, *The Future of Intercity Passenger Rail Service and Amtrak*, Statement before the Committee on Commerce, Science, and Transportation, U.S. Senate, Oct. 2, 2003. In this analysis, the *Pennsylvanian* is included as a long-distance train; however, Amtrak currently classifies this route as a corridor service. Omitting this route revises the estimate to 30 percent.

example, on the *Empire Builder*—one of Amtrak’s best-performing long-distance routes—over 24 percent of all passenger trips on the 2,200-mile route take place on the 417-mile stretch between Chicago, Illinois, and Minneapolis/St. Paul, Minnesota; this stretch represents 1 of 10 potential high-speed rail corridors designated by FRA.²⁹

Figure 5: Trip Distance on Long-Distance Routes, Fiscal Year 2005



Source: GAO analysis of Amtrak data.

Ridership demographic data also indicate that Amtrak’s long-distance routes serve a large percentage of vacation and leisure travelers. According to Amtrak passenger profile surveys, most passengers (over 80 percent) report utilizing long-distance routes for recreational and “leisure” trips, including visits with family and friends and for personal business, compared with other types of travel, such as business or commuting. In addition, Amtrak passenger data indicate that, overall, many long-distance

²⁹FRA does not define high-speed rail transportation in terms of the speed of travel, but in terms of an intercity passenger service that is time-competitive with airplanes or automobiles on a door-to-door basis for trips ranging from 100 to 500 miles. The 10 designated corridors are generally in various stages of planning.

customers tend to be retirees—33 percent versus 16 percent for the total travel market.³⁰

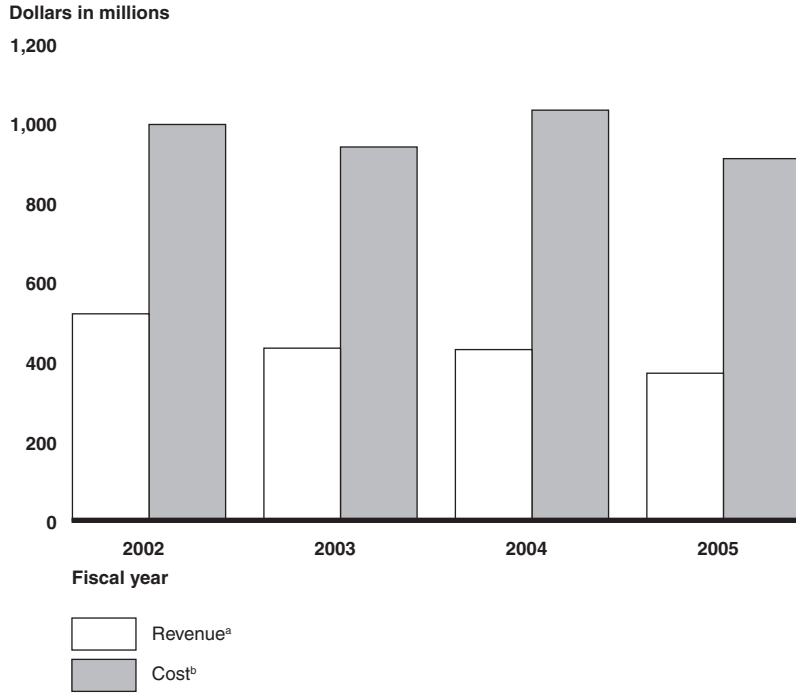
Long-distance routes operate with substantial financial losses and consume a disproportionate amount of federal operating subsidies. Financial losses allocated to long-distance routes amounted to \$539 million in fiscal year 2005, accounting for approximately 80 percent of Amtrak's total reported loss of \$659 million. This figure also accounts for nearly 95 percent of the total federal appropriated operating grant of \$570 million provided to Amtrak for that year. Based on data provided by Amtrak, operating losses on long-distance routes averaged \$154 per passenger with considerable variation illustrated between the individual routes.³¹ Financial performance over the past several years also indicates that Amtrak is unlikely to substantially reduce these losses through increased revenue or cost reductions. Between fiscal years 2002 and 2005, Amtrak reported a nearly 30 percent decline in annual long distance revenue.³² However, during this time period, operating costs decreased only about 9 percent. As a result, the budget gap between revenues and costs shows no sign of improvement (see fig. 6).

³⁰Survey data were collected by a third-party contractor in 2005, via 5,400 phone interviews sampled among customers who traveled on each of Amtrak's long-distance routes in each of the four seasons of the year. We did not assess the accuracy or precision of these estimates.

³¹Amtrak reported financial losses on individual long-distance routes ranging from \$84 to \$433 in fiscal year 2005. However, we have previously identified concerns related to the accuracy of Amtrak's allocation of costs to individual routes (See [GAO-06-145](#)).

³²According to Amtrak, most of the decrease in revenue is attributable to the elimination of mail and express business. Express is the transportation of higher-value, time-sensitive merchandise, such as food and automobile parts. In addition, Amtrak attributed revenue decreases to the elimination or truncation of three long distance routes, deterioration in on-time performance on some host railroads, and excessive bad weather events.

Figure 6: Annual Revenues and Costs of Amtrak’s Long-Distance Routes, Fiscal Years 2002 through 2005



Source: GAO analysis of Amtrak data.

^aRevenues were calculated as the aggregate of all reported revenues for individual long-distance routes in Amtrak’s Route Profitability System (RPS).

^bCosts include FRA-defined train costs (primarily train crews, food and beverage, fuel, railroad costs, commissions, and certain shared costs—primarily equipment maintenance and reserves), as well as additional direct and non-direct costs identified by Amtrak, such as training, infrastructure repair and maintenance, and overhead costs allocated to individual routes.

Contributing to the high operating losses on many of Amtrak’s long-distance trains are the costs of extra services and amenities, such as sleeper services and dining cars.³³ While these auxiliary services generate additional revenue over coach-class seats, the additional revenues do not cover incremental costs. In fact, passengers traveling in first-class sleeper cabins on Amtrak long-distance trains are actually more heavily subsidized

³³Sleeper-class service includes a sleeping room and prepaid meals in the train’s dining car; coach-class passengers on long-distance trains sleep in their seats on overnight trips and generally purchase food in the train’s lounge car.

Transportation Benefits and Public Benefits

than coach passengers. The DOT OIG estimated that sleeper services increase the operational loss over coach class seats by an average of \$109 per passenger.³⁴ When capital costs for providing such services are also included, these additional losses average \$206, with losses on some routes as high as \$358 per passenger (see app. II). Amtrak is currently evaluating several alternatives to their existing sleeper services in an aim to eliminate incremental financial losses. Some of these alternatives include making equipment and service enhancements on the *Empire Builder* to reposition it as a luxury service and potentially outsourcing premium sleeper services on select routes for passengers seeking a luxury “land cruise” experience.³⁵

Amtrak’s long-distance routes are generally associated with a number of transportation benefits and public benefits; however, these benefits are obtained at high cost to the federal government and may be limited by infrequent or undependable service. In addition to offering a relatively safe mode of transportation, long-distance routes are commonly associated with their role in providing (1) an intercity transportation option for a number of rural passengers, and (2) national connectivity to link regional corridors and other long-distance routes. While there are public benefits associated with filling these roles, it appears that other transport modes may be better positioned to provide these benefits at reduced cost to the federal government. Moreover, the infrequent service and poor on-time performance of many of Amtrak’s long-distance trains may further limit the benefits provided by intercity passenger rail along these routes.

Intercity passenger rail provides access to many of the nation’s rural residents but air and bus services continue to be the principal modes of public or common carrier transportation for these residents. In 2005, the Bureau of Transportation Statistics estimated that scheduled intercity public transportation (e.g., by air, bus, rail, or ferry) provides coverage to

³⁴Inspector General, Department of Transportation, *Analysis of Cost-Savings on Amtrak’s Long-Distance Services*, Report Number CR-2005-068, July 22, 2005.

³⁵As part of the rail reforms implemented in Canada, VIA Rail, the primary operator of intercity passenger rail, largely remarketed the *Canadian*—its principal long distance route—as a premium service for a premium price, which led to improvements in cost-recovery for that route. Amtrak initiated a similar effort in fiscal year 2005 to improve operating margins by relaunching the *Empire Builder* with upgraded equipment and improved customer service. As of April 2006, operating losses on this route were \$4.2 million below the prior year level, likely indicating positive financial impact from these changes; however, the route continued to post a \$29.2 million loss over this period.

93 percent of the 82.4 million residents classified as rural.³⁶ Intercity bus and air services have the deepest penetration within rural America—at 89 and 71 percent of the population, respectively—and rail services were reported to cover approximately 42 percent of the rural population. While many of these residents have access to more than one transportation option, the Bureau of Transportation Statistics estimated that intercity passenger rail (i.e., Amtrak) is the sole public transportation option for approximately 350,000 people nationwide.³⁷ Georgia and South Carolina were reported as the two states with the largest number of rural residents (with a combined total of 94,000) that were solely dependent on scheduled intercity passenger rail. In contrast, scheduled intercity air and bus services provide the sole transportation option for 2.4 million and 14.4 million rural residents nationwide, respectively. In addition, it appears that if rural transportation were a targeted public policy objective, other modes of transport could be better positioned to provide this benefit to a greater number of residents at lower cost. For example, in fiscal year 2004, federal grants available to the intercity bus industry to support rural service amounted to just \$22 million, with rural coverage for that mode exceeding twice the level provided by rail. However, as the DOT reported in 2005, the goal of rural mobility should be to offer flexible and sustainable travel options to those with the greatest mobility needs—and not necessarily to preserve or promote use of any specific transportation mode.³⁸ Achieving this goal may require the establishment of objective criteria by which to evaluate the needs of these communities. It may also require the awarding of competitive franchise agreements to whatever mode that could provide service with the least amount of subsidy.³⁹

³⁶For this analysis, the Bureau of Transportation Statistics defined as rural any area that the Census Bureau did not identify as either an “urbanized area” or an “urban cluster.”

³⁷DOT, Bureau of Transportation Statistics, *Scheduled Intercity Transportation: Rural Service Areas in the United States*, June 2005.

³⁸DOT, *Study of Intercity Bus Service*, Report to the United States Congress, July 2005.

³⁹We have previously reported on potential options to improve the long-term viability and effectiveness of other federal programs targeted to smaller communities, such as the Essential Air Service program. These options included redefining or clarifying program criteria and potentially shifting federal subsidies from air carriers to local grants administered directly to communities with identified needs. See GAO, *Options to Enhance the Long-Term Viability of the Essential Air Service Program*, [GAO-02-997R](#) (Washington, D.C.: Aug. 30, 2002).

Intercity passenger rail also provides connectivity between different regions of the country and other rail routes; however, alternatives may exist to meet passenger demands at reduced cost. Federal law currently directs Amtrak to tie together existing and emerging regional rail passenger service. On a system wide basis, relatively few passenger trips (8 percent) include a train-to-train connection—that is, a passenger changing from one train to another. However, on long-distance routes the percentage of train-to-train connections is somewhat higher (an estimated 22.6 percent in fiscal year 2004). Consequently, national interconnectivity provided by long-distance routes appears to be a potential benefit to approximately 3.5 percent of Amtrak’s total annual passengers. While this population is a very small proportion of the overall intercity passenger market, some rail proponents believe national connectivity may also provide public benefits by providing transportation redundancy to the country. Such redundancy may be important, particularly if air services were grounded as they were in the immediate aftermath of the September 11, 2001, terrorist attacks. However, to the extent that transportation redundancy is a meaningful policy option, intercity passenger rail may not be positioned to provide cost-effective service to the greatest number of people. As previously cited, intercity buses currently provide much greater coverage across the United States without federal operating assistance. Therefore, determining whether these public benefits warrant federal subsidies involves consideration of the substantial costs required to achieve them, as well as evaluation of alternative options, such as intercity buses, that may be better positioned to provide these benefits.

Amtrak’s long-distance services are often infrequent and hindered by poor on-time performance, which may further diminish the benefits provided by these services and offer reduced potential to meet the public’s transportation demands. For example, nearly all of the long-distance trains have limited frequencies—typically one daily departure in each direction—and, due to increased travel times, they are often scheduled to arrive outside of convenient traveling hours.⁴⁰ For example, many of Amtrak’s long-distance trains operating within Georgia and South Carolina—the states with the most rural residents dependent solely on rail—are scheduled to arrive at the station between 3:20 a.m. and 6:50 a.m. The infrequent and inconvenient nature of many long-distance schedules is likely to severely limit rail as a viable transportation option for many

⁴⁰All long-distance trains are currently scheduled for one daily departure except the *Cardinal* and the *Sunset Limited*, which have three weekly departures.

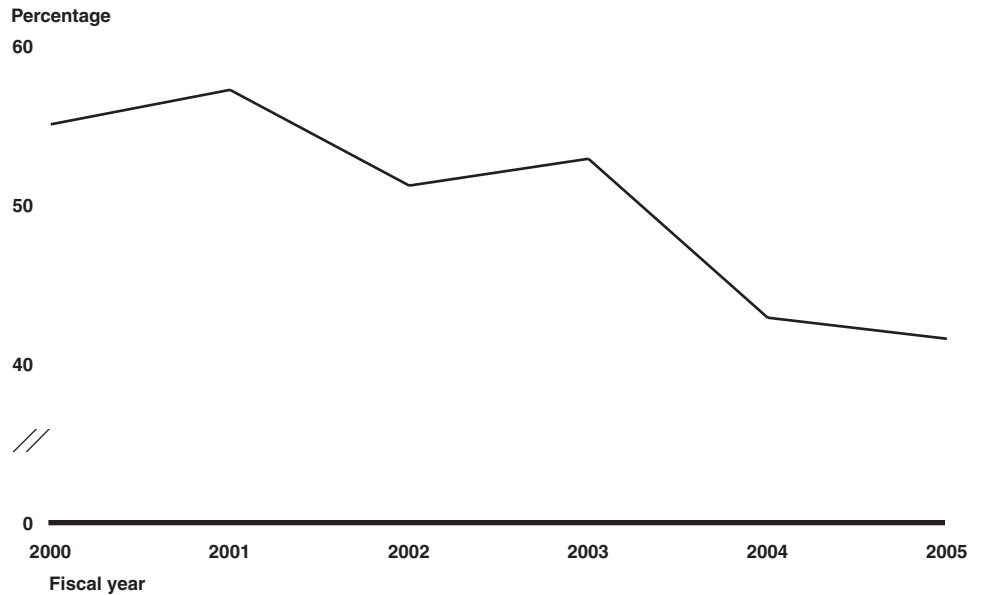
passengers. While increased frequency of service may potentially address these limitations, this option could be costly due to the increased level of federal subsidies that more frequent service would entail if the population and other characteristics of long-distance corridors did not warrant increased frequency of service.

On-time performance also continues to be a major limitation affecting the potential benefits provided by Amtrak's long-distance services. In fiscal year 2005, Amtrak reported an average on-time performance of 41.4 percent for long-distance routes, ranging from a low of 7.1 percent on the *Sunset Limited* to a high of 83 percent on the *City of New Orleans* (see app. II). While several factors contribute to the wide variation in performance, Amtrak attributes operating delays on the six host railroads—on which Amtrak trains operate—as the largest single factor affecting Amtrak on-time performance, contributing as much as 75 to 80 percent of the delay minutes.⁴¹ Since fiscal year 2000, average on-time performance for all long-distance trains has been in decline (see fig. 7).⁴²

⁴¹Delays for which the host railroad is responsible include, among others, delays caused by freight trains; temporary slow orders; meeting up or following other passenger trains; and signal, routing, dispatching, or detour delays.

⁴²In fiscal year 2005, a 30-minute tolerance from scheduled arrivals was used to determine on-time performance for long-distance trains.

Figure 7: Average Annual On-time Performance of Long-Distance Routes, Fiscal Years 2000 through 2005



Source: GAO analysis of Amtrak data.

On average, in fiscal year 2005, trains on long-distance routes arrived at their final destinations approximately 98 minutes late. Trains on the poorest performing route, the *Sunset Limited*, averaged nearly 5 hours late. Such poor on-time performance is likely to significantly affect the extent that passengers choose rail services to meet their transportation needs.

Corridor Services Appear to Provide More Public Benefits at Reduced Cost, but Opportunities for Improvement Remain

Corridor rail services—which include NEC operations, as well as state supported and legacy corridor routes—appear to offer increased potential to provide transportation benefits and public benefits to a greater number of people at reduced cost to the federal government. Corridor routes comprise most of Amtrak’s annual ridership—providing service to a wide variety of business and leisure travelers—and they account for much of the growth in passenger rail in recent years, particularly on the state-supported routes (see app. II for a list of states and associated corridor services). Relative to the long-distance routes, corridor services also operate with lower costs and better on-time performance. They also appear to be better aligned to provide more cost-effective transportation benefits and public benefits. For example, they are generally more time- and cost-competitive

with other transport modes and offer increased flexibility over long-distance rail services, adapting schedules and services to changing demographics and passenger travel demands. However, despite their relative financial and operating performance, many of the corridor routes face challenges such as capacity constraints and funding issues, which may limit opportunities for rail to increase market share and play a more significant role in the nation's transportation system.

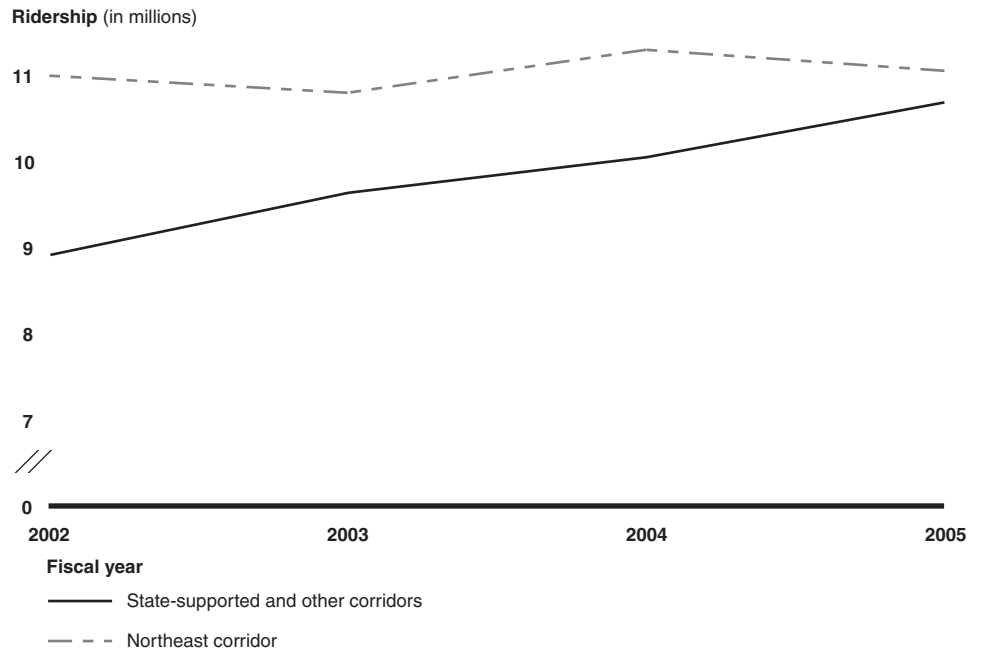
Ridership and Financial Characteristics

Corridor routes account for most of the intercity passenger rail travel in the United States and they illustrate substantially reduced financial losses relative to the long-distance routes. Most intercity passenger rail travel in the United States is comprised of relatively short trips on a small number of corridor routes. In fiscal year 2005, the average trip length for all routes—both long distance and corridor—was 213 miles, with corridor routes servicing approximately 85 percent of the total Amtrak ridership. Among these corridor routes, over half of the ridership in fiscal year 2005—nearly 11 million passengers—occurred on the NEC alone. The Washington–New York City–Boston main line of the NEC remains the most heavily utilized rail route in the country, forming an essential link for intercity passenger and freight transportation, as well as nine different commuter rail operations in the Northeast. On an average weekday, over 1,800 commuter and Amtrak trains operate over the NEC.

On the 26 non-NEC corridors, ridership in fiscal year 2005 was 10.6 million, with 52 percent of this total generated on the four most heavily traveled routes.⁴³ These corridor services, namely the state supported routes, also represent the market that is exhibiting the strongest ridership growth. Since fiscal year 2002, there has been an 18-percent increase in ridership on state-supported routes as states continue to increase spending for operations and capital improvements of corridor rail services (see fig. 8).

⁴³These routes include the *Empire Service* between New York City, New York, and Toronto, Canada; and the *Pacific Surfliner*, *Capitols*, and *San Joaquin* services that operate within California.

Figure 8: Corridor Ridership Trends by Route Class, Fiscal Years 2002 through 2005



Source: GAO analysis of Amtrak data.

Given the high number of passengers and the relative importance of the NEC, passenger profiles for Amtrak-operated trains on this corridor illustrate some clear distinctions from those on long-distance routes. For example, a much higher percentage of ridership is comprised of commuters and business travelers in comparison to the long-distance routes, particularly on the higher-end NEC trains, the *Acela Express* and *Metroliner*. Amtrak survey data indicates that in fiscal year 2004, 82 percent of travel on these services was business-related. Passengers on Amtrak’s *Regional Service*—the other primary NEC trains—reported that 49 percent were traveling or commuting for business or school; 50 percent reported traveling for personal or family business, or traveling primarily for leisure purposes.⁴⁴

⁴⁴Amtrak’s *Regional Service* operates primarily on sections of the NEC between Newport News, Virginia, and Boston, Massachusetts.

For non-NEC corridors, the designated trip purpose varied widely between the routes because they operate in a number of different states and passenger markets. For example, the *Empire* service in New York caters to a number of business travelers and commuters, while the California corridor routes are characterized by a larger share of leisure and personal travel.

As for financial performance, the *Acela Express* and *Metroliner* trains operating on the NEC are Amtrak's only services in which passenger revenues cover the cost of operation (excluding depreciation and interest). In fiscal year 2005, Amtrak reported a positive total annual contribution of \$65.3 million for this service. However, Amtrak's other scheduled trains on the NEC ended the year with operating losses, resulting in a net contribution of approximately \$45 million for intercity passenger rail service on this corridor. While these results indicate relative financial success, they do not take into account the substantial amount of capital spending invested to fund infrastructure improvements and maintain operations on the NEC. For example, in fiscal year 2005, Amtrak reported a capital allocation to the NEC of \$190.4 million—over four times the reported operating contribution. In addition, Amtrak has an estimated system backlog of up to \$6 billion in deferred maintenance and infrastructure improvements, with the NEC comprising more than 60 percent of this total.

All of the non-NEC corridor routes also incur financial losses to Amtrak; however, considerable variation exists among them. In fiscal year 2005, Amtrak reported a total annual loss from all non-NEC corridor services of approximately \$164 million, with losses on individual services ranging from a low of \$200,000 (*Illinois Zephyr*) to a high of \$23.3 million (*Empire Service*).⁴⁵ In the aggregate, these losses represent an average operating subsidy of about \$20 per passenger for non-NEC operations. One reason for the wide variance in Amtrak's financial performance among these corridor routes is the level of state support provided. Overall, state payments to Amtrak for operating and capital costs have increased considerably in recent years—rising from \$148 million to \$272 million between fiscal years 2000 and 2005 (see fig. 9). However, states have generally not been required

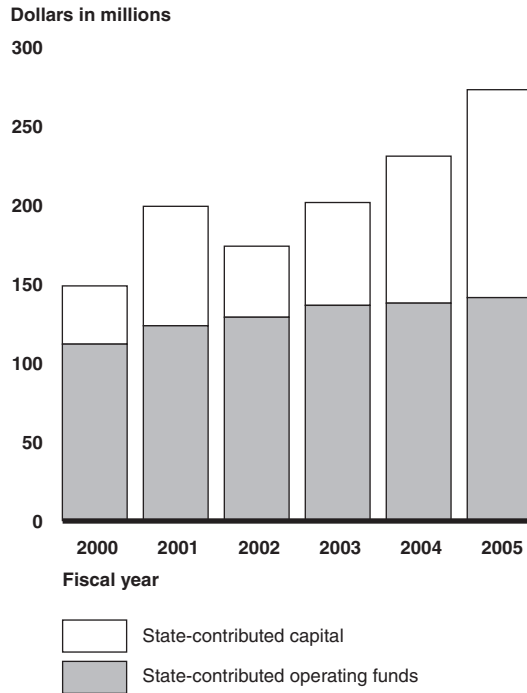
⁴⁵We have previously identified potential data reliability concerns related to Amtrak's allocation of costs to individual routes (see [GAO-06-145](#)). However, for the purposes of this report, we believe the data are the best available and reasonably sufficient to illustrate general financial trends between Amtrak's different routes.

to pay the full subsidies for these routes.⁴⁶ Moreover, many states that have corridor services have not paid anything at all, thus producing issues of equity among states. For example, Amtrak operates a number of weekly departures of the *Hoosier State* service—between Indianapolis and Chicago—although it has the lowest cost recovery of any short-distance route and neither state contributes any level of operating support.⁴⁷

⁴⁶As part of its Strategic Reform Initiatives, Amtrak is currently undertaking efforts to transition the states to paying the full subsidy of operating corridor services, which would include allocation of additional overhead costs and other shared costs (excluding depreciation and interest), as well as an applicable equipment charge that Amtrak envisions will be eligible for a federal capital match (if one were enacted). Under this initiative, starting in fiscal year 2008, state funding requirements would be stepped up by 25 percent each year over a 4-year period until the full subsidy for operating these routes is recovered.

⁴⁷Amtrak officials indicated that the *Hoosier Service* also operates for the purpose of moving equipment to and from Amtrak's Beech Grove maintenance facility near Indianapolis. According to Amtrak, there have been preliminary discussions with the Indiana Department of Transportation about making this a state-supported route.

Figure 9: Annual State Operating and Capital Contributions, Fiscal Years 2000 through 2005



Source: GAO analysis of Amtrak data.

Potential Transportation Benefits and Public Benefits

Both types of Amtrak’s corridor routes illustrate significant potential to provide transportation benefits and public benefits, but they each illustrate a number of unique attributes and opportunities for improvement. Transportation experts generally agree that intercity passenger rail services that serve large, relatively close population centers—and that are time- and cost-competitive with other transportation modes—represent the greatest potential markets for rail worldwide. Moreover, these markets are the ones most likely to offer the greatest opportunity to mitigate pollution and reduce the growth of highway congestion through increased rail use. However, the ability of intercity passenger rail to generate these benefits depends on the likelihood that travelers will choose rail service over other modes of transportation. As we have reported previously, congestion is most likely to be alleviated when rail routes run parallel to congested roadways and where travelers view rail as a more attractive “door-to-door”

travel option (in terms of price, time, comfort, and safety) than driving.⁴⁸ Similarly, rail becomes less competitive with other modes of transportation, particularly air services, as travel time and prices increase over longer distances (see app. II). For these reasons, corridor services appear to be most competitive with automobile and air travel in markets between 100 and 300 miles. In this regard, many existing and developing corridor rail services appear to be well positioned to provide a viable alternative to other modes of transport and potentially offer a number of public benefits:

- *NEC*. With over 30 million metropolitan residents, the NEC has a population density of over 65,000 residents per route mile. According to the American Association of State Highway and Transportation Officials, such a large population density helps to explain why the NEC accounts for such a large proportion of Amtrak's total corridor ridership.⁴⁹ Many of the rail services on the NEC are very competitive with air and auto travel in several markets. For example, Amtrak serves 50 percent of the combined air/rail market between Washington, D.C., and New York, and 40 percent between New York and Boston. Moreover, in fiscal year 2005, Amtrak reported air/rail market shares greater than 90 percent for other shorter distance city pairs such as Philadelphia–New York and Philadelphia–Washington, D.C. The Northeast region also illustrates characteristics of the type of urban congestion and capacity constraints that may benefit the most from travelers being diverted away from the highways and onto rail.
- *State-Supported Corridors*. State-supported routes are the fastest growing routes and illustrate significant potential to provide a viable transportation option; however, further development of new and existing rail corridors may require funding beyond what has been previously provided. A growing number of individual states and groups of states have made the public policy decision to utilize state funds to subsidize additional corridor rail service and invest in related capital projects. Some of the potential benefits cited for such expenditures include the potential for rail to accommodate regional growth and enhance economic competitiveness. Over 80 percent of the nation's

⁴⁸GAO, *Intercity Passenger Rail: Congress Faces Critical Decisions in Developing a National Policy*, [GAO-02-522T](#) (Washington, D.C.: Apr. 11, 2002).

⁴⁹American Association of State Highway and Transportation Officials, *Intercity Passenger Rail Transportation*, Standing Committee on Rail Transportation, 2002.

population now lives in a metropolitan area. Officials in many states are interested in identifying and developing regional rail corridors that link these economies and provide a viable transportation option to large numbers of residents. Officials in several states with whom we spoke also indicated that corridor rail services are an important component of state and local transportation plans. For example, in Washington State, corridor rail service between Seattle, Washington, and Portland, Oregon, comprised over 60 percent of the air/rail market share in fiscal year 2005 and was identified for its potential role in reducing the growth rate of highway congestion within the region. The nine member states of the Midwest Regional Rail Initiative also identified where potential public benefits may be provided through additional funding for increased train frequencies and extensions of existing corridor routes.⁵⁰ In addition, this group has set out a “grand vision” to link all of the major industrial centers in the region with high-speed rail service (operating at speeds up to 110 miles per hour). If completed, this network would reach over 35 million residents—a number that exceeds the entire metropolitan population of the NEC. An additional benefit attributed to increased development of corridor services is that the state (or other public authority) has the ability to contract for the specific services that it chooses to subsidize, including scheduling, frequency, and the stations served. In this manner, services can be adjusted over time according to regional growth patterns and changing population demographics.

Potential Opportunities for Improvement

While Amtrak’s corridor routes serve millions of passengers each year and appear to provide a number of public benefits, there may be additional opportunities to further develop rail corridors to improve existing services and reach new markets. For example, a number of issues associated with infrastructure improvements and capacity constraints may need to be addressed to ensure that rail services continue to provide an effective alternative to other transport modes. To be successful, corridor trains must operate with adequate on-time performance to provide competitive travel times and reasonably predictable schedules. In addition, overcoming funding issues will likely be required in order to realize the opportunities identified by states for the further development of regional rail corridors.

Infrastructure improvements and capacity constraints are critical issues on the NEC. Although it is Amtrak’s most viable route, the NEC faces a high

⁵⁰The nine member states of the Midwest Regional Rail Initiative include: Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin.

level of unmet infrastructure spending, maintenance spending, and growing capacity constraints, which may affect its ability to effectively compete with other transportation modes in the future. Amtrak's most recent legislative grant request asks for \$730 million in fiscal year 2007 to complete major projects such as replacing bridges, ties, power supply systems, and overhauling the existing fleet of rolling stock, with the NEC being targeted as a critical priority for such investments. In addition, the many users operating on the NEC present a constraint on capacity that may impact the ability of Amtrak trains to reach their destinations on time. Backups are becoming more common among freight, commuter, and Amtrak trains, causing delays that result in dissatisfaction among riders. Delays affecting on-time performance may be particularly important on the NEC, where a high number of business and commuter travelers rely on these services.

In fiscal year 2005, Amtrak reported that train services on the NEC reached their destinations on time an average of 78 percent of the time.⁵¹ While this represents a slight improvement over fiscal year 2004 levels, this indicator has decreased from fiscal year 2000 levels (see fig. 10).⁵² Recognizing that the deteriorated condition of the infrastructure contributes to increased operating costs and reduced reliability of services, Amtrak has committed to developing a NEC master plan in conjunction with the states and commuter agencies that utilize it. This effort aims to identify long-term needs and service improvements, and work together to fund such projects.⁵³ An example of such a project designed to address capacity constraints and improve service is illustrated by Amtrak's current efforts working with the state of Virginia to develop an additional track dedicated

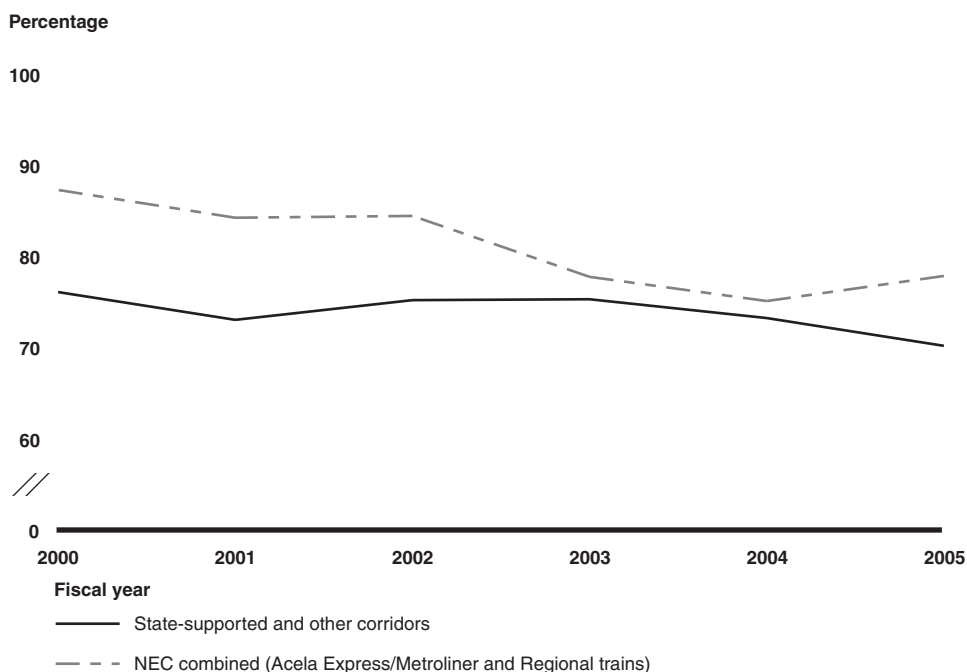
⁵¹Amtrak defines *Acela Express* trains as "on-time" if they arrive within 10 minutes of their scheduled time. *Regional* trains are defined with a higher degree of tolerance based on route mileage: 10 minutes for trips less than 250 miles, up to a maximum of 30 minutes for trips exceeding 551 miles.

⁵²Amtrak officials indicated that on-time performance of the primary trains operating on the NEC was 81 percent for fiscal year 2006 (as of September 8, 2006).

⁵³We have previously reported shortcomings in Amtrak's coordination with applicable states along the NEC to effectively identify and prioritize capital projects. See GAO, *Intercity Passenger Rail: Amtrak's Management of Northeast Corridor Improvements Demonstrates Need for Applying Best Practices*, [GAO-04-94](#) (Washington, D.C.: Feb. 27, 2004).

to passenger trains between Washington, D.C., and Richmond, Virginia.⁵⁴ The benefits identified by Amtrak for projects such as this one include increased capacity, potentially higher speeds, reduced trip times, and overall improvement in reliability and on-time performance.

Figure 10: Annual On-time Performance of Corridor Routes, Fiscal Years 2000 through 2005



Source: GAO analysis of Amtrak data.

Non-NEC corridor routes also face a number of the same infrastructure and capacity challenges affecting train speeds and the predictability of travel times as the NEC services. In fiscal year 2005, on-time performance for these services was reported at 70.4 percent, reflecting a 6-percent decline since fiscal year 2000. A state official in New York cited the *Empire Service* as an example of one such corridor facing significant congestion and capacity constraints associated with heavy use by freight trains, commuter

⁵⁴Amtrak does not own the track between Washington, D.C., and Richmond, Virginia, but operates both corridor and long-distance trains along this route.

services, and Amtrak trains. A recent study estimated that \$700 million would be needed just to complete infrastructure improvement projects on one segment of this corridor, the 141-mile line between Albany and New York City. Similar projects to reduce congestion and increase speeds have been identified on a number of other state supported and “legacy” corridors in Pennsylvania, California, and the Midwest.

Overcoming funding challenges is another issue that needs to be addressed if Amtrak and state partners are going to work together to continue developing and expanding intercity passenger rail services. Although some states have identified where additional corridor services may provide significant transportation benefits and public benefits, these projects often require substantial levels of public funding. For example, the total cost required to develop the 3,000-mile high-speed rail network as envisioned by the Midwest Regional Rail Initiative is estimated at \$4.8 billion. All the state officials with whom we spoke indicated that any additional state funding for rail will require some type of federal match program similar to other transportation modes. Moreover, Amtrak’s plans to recover additional overhead and other shared costs expended on state-supported corridor routes beginning in 2008 will place further demands on limited state funding for rail. Undertaking the significant infrastructure improvement projects needed to expand capacity and improve operational performance on existing corridors would also be expensive. For example, a report issued by a coalition of rail stakeholders in the Mid-Atlantic region estimated that funding to address major congestion bottlenecks in that region would cost approximately \$6.2 billion over 20 years.⁵⁵ In addition, a report issued by state transportation officials in 2002 estimated that capital investment projects outlined for 21 corridors across the country could cost as much as \$60 billion over a 20-year period.⁵⁶ Regardless of which projects are ultimately funded, it appears that, if rail is to play a more significant role in the nation’s transportation system, overcoming issues of funding and capacity will be an important component.

⁵⁵I-95 Corridor Coalition, *Mid-Atlantic Rail Operations Study – Summary Report*, April 2002.

⁵⁶The American Association of State Highway and Transportation Officials, 2002.

Current Intercity Passenger Rail System Is Not Adequately Focused Where It Can Be the Most Financially Viable and Provide the Most Public Benefits

The current intercity passenger rail system is not adequately focused on its comparative strengths; it exists much as it did when Amtrak began over 35 years ago. While Amtrak has made notable upgrades along the NEC and implemented a number of contractions and expansions of its route structure over the years, the system remains similar in its size and endpoints as the original “basic system” that the DOT designated in 1971 (see app. II for a map of Amtrak’s routes in 1971). As the DOT General Counsel recently testified, this system has not effectively adapted to shifting demographics and market demands over time, as other transportation modes have done.⁵⁷ While the current model may provide limited service offerings across the country’s broad geography, it does so at a very high cost to the federal government. Amidst a number of fiscal constraints and increased pressure to reduce or better target federal rail subsidies in the future, this model may no longer be viable. However, intercity passenger rail continues to illustrate the potential to become an important element with greater integration into the nation’s overall transportation system if it is focused on the markets where rail exhibits comparative strength. As reported by the Congressional Budget Office (CBO) in September 2003, these opportunities are most likely to be found on routes of about 100 to 300 miles that connect cities with large populations. In these markets, rail is most likely to be both time- and cost-competitive with highway and air travel, and may be best positioned to meet both the demands of the traveling public and the demands of sponsoring public authorities.⁵⁸

As our work illustrates, the current intercity passenger rail system targets substantial resources toward the operation of long-distance services, which the CBO and others have reported is an area of comparative weakness for rail services. In addition to accounting for about 80 percent of Amtrak’s operating losses, these services do not appear to be meeting Amtrak’s goal of providing “basic transportation” very effectively. Services are often unreliable—averaging 41 percent on-time performance—and serve communities infrequently or at inconvenient times (often one train daily in each direction).

While these characteristics do not serve Amtrak’s long-distance passengers well, the several distinct “client” markets on these routes are also not

⁵⁷Rosen, 2005.

⁵⁸CBO, *The Past and Present of U.S. Passenger Rail Service*, Sept. 2003.

efficiently targeted. For example, many passengers on long-distance trains travel relatively short distances—400 miles or less—suggesting that a substantial share of long-distance service may actually be corridor service. However, these services are not managed like corridors, which are characterized by higher speeds and more frequent train service. Passengers in rural communities along these routes also do not appear to be effectively targeted by rail services. These services are inherently limited to those communities fortunate enough to be located next to historical rail lines. Further, there is reason to believe that alternative modes of transportation may be better positioned to provide much greater rural coverage at potentially lower cost to the government. Finally, for those passengers traveling longer distances, Amtrak often operates costly amenities (e.g., sleeper and dining cars) which account for even higher levels of federal subsidies than coach-class seats. Amtrak survey data also suggests that, on average, the 16 percent of riders on long distance trains who utilize sleeper services are typically the most affluent passengers. For example, passengers in Sleeper/First Class reported an average household income over one-third higher than coach-class passengers.⁵⁹ Consequently, substantial federal dollars are currently being spent to subsidize costly services to individuals with higher-than-average incomes. All of these characteristics raise questions about the appropriate federal role in long-distance service, such as whether federal expenditures should be used to subsidize leisure services to affluent travelers, and whether there may be more cost-effective alternatives to provide corridor services and efficient rural transportation.

In contrast, the current intercity passenger rail system also includes corridor services, which have been identified as the comparative strength of passenger rail and where passenger rail services hold the most promise to be financially viable and provide a number of potential public benefits. There has been a relative growth of passenger rail ridership on corridor routes, especially state-supported corridors, and 85 percent of Amtrak's riders live and work along corridors. Aside from the heavily populated NEC where Amtrak has achieved its best results, a number of other corridors—such as those in California, New York, the Midwest, and the Pacific Northwest—exhibit many of the key characteristics that indicate there may

⁵⁹Amtrak survey data indicates an average household income of \$83,000 per year for Sleeper/First Class passengers compared with \$60,000 for coach-class passengers. However, we have not assessed the accuracy or precision of these estimates. In comparison, the U.S. Census Bureau reported that the median household income in 2005 was about \$46,200 (in 2005 inflation-adjusted dollars).

be potential public benefits that could justify public subsidies for passenger rail services, namely clusters of densely populated areas within 300 miles of each other. Moreover, many officials with whom we spoke agreed that the promise of intercity passenger rail is likely along corridors, not over long distances. States have further supported this view by providing substantial funds to support corridor operations and/or capital investments on these routes.

Foreign Experiences Illustrate Various Approaches to Restructuring and Key Reform Elements

Over the past 20 years, several countries have employed a variety of approaches in reforming their intercity passenger rail systems in order to meet national intercity passenger rail objectives. These approaches—alone or in combination with each other—have been used to support national objectives such as increasing the cost effectiveness of public subsidies, increasing transparency in the use of public funds, and providing transportation benefits and public benefits. Despite the variation or combination of approaches used, during the restructuring process these countries addressed several key elements of reform, such as establishing clear goals for intercity passenger rail, clearly defining stakeholder roles that are necessary in implementing any approach, and establishing stable sustainable funding.

Prior to implementing these new approaches, many countries' passenger rail systems consisted of "monolithic" state-owned and state run organizations in which customer service and financial performance were not the main concerns of the railroad. Rather, other concerns, such as socioeconomic issues (e.g., providing employment) were more important. Similar to the current situation in the United States, passenger rail in many countries was losing market share to other modes of transportation and this loss of market share, along with mounting dependence on public subsidies and decreasing transparency with respect to where public funds were being spent, prompted change in the passenger rail industry. Table 2 discusses the different passenger rail structures that existed in the five countries in which we conducted site visits for this report. These countries were chosen because they have transitioned from state-owned fully integrated organizations to more consumer driven market-dependent entities.⁶⁰ While it is important to be aware of the key differences between

⁶⁰Rail systems consist of two main functions—infrastructure management and operations. To varying degrees, these two functions can be integrated, that is, conducted by the same entity, or separated from each other.

these countries and the United States (e.g., infrastructure ownership, geography, and political culture) the general catalyst for reform—the need to deliver a better value for the expense of public funds—is the same as the current passenger rail environment in the United States.

Table 2: Summary of State-Owned Rail Services (Pre- and Post-Reform) in Countries We Visited

	Canada	France	Germany	Japan	United Kingdom ^a
Pre-reform structure	Operations integrated with infrastructure.	Operations integrated with infrastructure.	Operations integrated with infrastructure. (Two existed, East Germany and West Germany).	Operations integrated with infrastructure.	Operations integrated with infrastructure.
Reason for reform	To increase focus on cost control and customer service.	To reduce national government debt, deficits, and the rate of public subsidy growth.	To improve efficiency, reduce the federal debt, and reduce the burden on the federal budget.	To improve financial performance and management of the system, and reduce mounting long term debt.	To improve efficiency and cost control, improve the business plan, and depoliticize inconsistent capital funding.
Post-reform operations	Single operator (State-owned private stock company).	Single operator (State-owned company). Multiple private operators after 2012.	Multiple private operators (Primary operator state-owned joint-stock company; infrastructure owner is owned by same holding company).	State-owned split into six passenger operators organized geographically and integrated with infrastructure.	Multiple private operators, which compete for franchises.
Post-reform infrastructure	Multiple owners. (Primarily freight railroads, with 130 miles owned by passenger operator).	Single owner. (State-owned company).	Single owner. (Joint-stock company; primary operator is owned by same holding company).	Multiple owners. (Three largest owners are privatized and three smallest lease some infrastructure from the government). Integrated with operations.	Single owner. (First a public stock company; now, a private corporation governed by members).

Source: GAO analysis of site visit data.

^aOur summary of the railway reform effort in the U.K. encompasses two major efforts in 1993 and 2004. In 1993, the U.K. began privatizing its rail system partly to control cost and improve quality. As part of the continuing effort to improve the rail system, the U.K. undertook another major restructuring effort in 2004. See app. III for further details.

Various Approaches Have Been Used Abroad to Support a Broad Range of National Intercity Passenger Rail Objectives Aimed at Improving Value for Funds Spent

The foreign countries we visited⁶¹ have met a broad range of national objectives by implementing various approaches to improve the cost effectiveness of their intercity passenger rail systems. All the countries we visited reformed their systems in large part to improve the value of service they were receiving for the amount of public money being spent on the service. For example, the desire for increased transparency in the use of public funds, mounting public subsidies and rail-related debt, and a desire for economic efficiency were all key factors in the European Union’s 2001 directive requiring all member states to improve the efficiency of their rail systems. Three of the five countries we visited—France, Germany, and the U.K.—are members of the European Union and have all begun implementing changes to meet these goals. Similarly, Canada and Japan both reformed their systems to increase the value in service they were receiving for the funds being spent. While the countries we studied reformed their systems in order to meet financial objectives, the national governments of these countries still provided heavy financial support to the system after the reforms. Table 3 shows the current levels of financial support provided by these governments.

Table 3: Post-Reform Financial Involvement by National Governments of Five Countries We Visited

	Canada	France	Germany	Japan	U.K.
Debt at time of reform	None	30€ billion debt ^a	35€ billion debt ^b	¥37.1 trillion debt ^c	£540 million ^d
Post-reform debt	None, and operator has no authority to issue debt instruments or to go into the debt market to raise funds	20€ billion ^e transferred to infrastructure company in (estimated value of infrastructure debt); 10€ billion ^f to operations company	35€ billion ^g transferred to national government with all employees of former rail authorities	¥25.5 trillion ^h and all pensions of former national rail employees transferred to a government-owned corporation. Remainder was transferred to a holding company and to the four rail companies	£8 billion ⁱ infrastructure debt accumulated after reform. Current infrastructure debt is about £18 billion. ^j Expected to rise to £21 billion ^k by 2009

⁶¹Canada, France, Germany, Japan, and the U.K.

(Continued From Previous Page)

	Canada	France	Germany	Japan	U.K.
Post-reform operating subsidies	\$170 million CAD/year ^l	2€ billion/year to regions ^m (fixed subsidy). 5.5€ billion/year ⁿ to repay debt; support some pension plans and social fares.	7€ billion/year to regions ^o 10€ billion/year ^p to repay debt and support federal rail employees. (Fixed regional subsidy, but current debate to reduce regional subsidy).	Three of the six passenger rail companies are fully privatized and receive no subsidies. A business/management stabilization fund was set up for the other three to invest and use interest for operating and capital improvements.	Subsidies provided based on contracted franchise agreements. (Remaining costs covered by fares.)
Post-reform infrastructure subsidies	Periodic subsidy (Variable—requested from Parliament)	Annual subsidy provided from national and regional government.	State provided interest free loans and grants to develop/renew infrastructure.	A negotiated cost sharing arrangement between the national and local governments, and the railroads.	Government provides an indemnity for the network manager's debt of up to 50% of income. (Remainder is in access fees.)

Source: GAO analysis of site-visit data.

^aApproximately \$35 billion at the time of reform in 1997. Conversion of France's debt to U.S. dollars was done using the exchange rate for the Euro introduced January 1999, and therefore is not the exact value of the actual debt in 1997.

^bApproximately \$39 billion at the time of reform in 1994.

^cApproximately \$257 billion at the time of reform in 1987.

^dApproximately \$806 million at the time of reform in 1994.

^eApproximately \$24 billion at the time of reform in 1997. Conversion of France's debt to U.S. dollars was done using the exchange rate for the Euro introduced January 1999, and therefore is not the exact value of the actual debt in 1997.

^fApproximately \$12 billion at the time of reform in 1997. Conversion of France's debt to U.S. dollars was done using the exchange rate for the Euro introduced January 1999, and therefore is not the exact value of the actual debt in 1997.

^gApproximately \$39 billion at the time of reform in 1994.

^hApproximately \$176 billion at the time of reform in 1987.

ⁱApproximately \$15 billion in September 2006.

^jApproximately \$34 billion in September 2006.

^kApproximately \$39 billion in September 2006.

^lApproximately \$152 million in September 2006.

^mDue to fluctuations in exchange rate, the subsidy varied from approximately \$1.7–\$2.5 billion between 1999–2006.

ⁿDue to fluctuations in exchange rate, the subsidy varied from approximately \$4.7–\$7 billion between 1999–2006.

^oDue to fluctuations in exchange rate, the subsidy varied from approximately \$5.9–\$8.9 billion between 1999–2006.

^pDue to fluctuations in exchange rate, the subsidy varied from approximately \$8.5–\$12.7 billion between 1999–2006.

Passenger rail reform in the countries we visited was also undertaken to achieve a number of other objectives. For example, reform was used as an opportunity to provide viable transportation benefits and public benefits that might not otherwise be achieved. The Canadian, Japanese, and French governments all financially support passenger rail service to areas of the country that have small or isolated populations and that may not be well served by other means of transport. For the most part, this service is unprofitable and would not otherwise be provided. Another objective was to address growing urban congestion through enhanced passenger rail service. In the European Union member countries we visited passenger rail reform was used to address environment and urban congestion issues. Finally, the countries we visited used reform to improve the operational performance of existing intercity passenger rail systems. For example, in Germany, a large part of its reform was to consolidate the two highly inefficient rail systems that existed after the country was reunified into one cost-efficient rail system. Similarly, in Canada a major reexamination of long-distance intercity passenger rail service took place in order to better market these routes and, therefore improving the routes' financial performance. Additionally, Germany and France have established performance metrics such as on-time performance and train cleanliness, which result in bonuses or penalties for the rail operators based on their ability to meet the standards established in the metrics.

These reform objectives have been addressed through various approaches. Each approach reorganized a different aspect of the existing intercity passenger rail system. See figure 11 for a summary of the approaches each country took. These approaches are not mutually exclusive of each other, and have included, but are not limited to: 1) changing the roles and responsibilities of the various stakeholders involved in the intercity passenger rail system, 2) changing the funding structures of the existing system, 3) changing the organizational structure of the existing passenger rail entity, and 4) the introduction of competition or privatization in rail operations.

Figure 11: Reform Approaches Used by Site Visit Countries

Approach	Canada	France	Germany	Japan	United Kingdom
Clearly establishing the roles and responsibilities of intercity passenger rail stakeholders					
• Shift from service operator to service regulator/oversight			✓	✓	✓
• Shift away from infrastructure manager, yet remaining full owner		✓	✓		
• Devolving decision-making authority to local and regional governments		✓	✓		
• Shift from service operator to customer	✓	✓	✓		✓
Changing the public funding structure used to support intercity passenger rail					
• Changes in government commitment to funding	✓	✓	✓	✓	✓
• Changes to infrastructure funding mechanisms		✓	✓		✓
• Changes to funding dissemination		✓	✓	✓	✓
Restructuring existing passenger rail organizational structure	✓	✓	✓	✓	✓
Introducing competition/privatization in intercity passenger rail operations			✓	✓	✓

Source: GAO analysis of foreign data.

Shifts in the Roles and Responsibilities of Intercity Passenger Rail Stakeholders

One approach taken by the five countries we visited was a shift in the roles and responsibilities of the stakeholders involved in intercity passenger rail—primarily the national and regional governments. This was generally undertaken to remove political and state interests from the operation of the rail system in order to increase efficiency.

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- *Shift from service operator to service regulator/oversight.* In both the U.K. and Germany, the national government shifted from being the operator of intercity passenger rail service to taking on more of a regulatory role, overseeing the competitive bidding process used by private operators.⁶² By taking on an oversight role, these governments are facilitating competition and, in turn, supporting their objective of creating a more cost effective and transparent use of public funds. A more cost effective and transparent use of public funds helps facilitate improved operational performance of intercity passenger rail operators.
 - *Shift away from infrastructure manager, yet remaining owner.* In the countries we visited, some of the national governments no longer provide day-to-day management of the infrastructure; however, they remain the owner of the infrastructure companies in order to ensure that the state's best interests with respect to decision making can be maintained. For example, in France and Germany, government-owned private companies were established to manage and maintain the entire rail infrastructure, including granting access to operators and collecting access fees.⁶³ In the U.K., a member-owned private company handles infrastructure matters. By moving away from the day-to-day management of the infrastructure, governments are able to put those tasks in the hands of individuals best suited to manage the infrastructure, while still being able to set the strategic direction. Shifting away from day-to-day management allows the government to be more of a customer of the infrastructure manager, thereby enhancing transparency in costs as well as accountability in the financial performance of the infrastructure companies.
 - *Devolving decision-making authority to local and regional governments.* One of the most prevalent changes made in two of the three European Union countries we visited was the devolution of specific roles and responsibilities from the national government to local or regional governments. These roles included decision making (e.g., selecting the operator through a bidding process), as well as

⁶²Although the German government no longer operates the intercity passenger rail system, the primary operator, DeutscheBahn AG, is a private state-owned, joint-stock company whose rail components are 100 percent owned by the German government.

⁶³In France, this took the form of a new monopoly company established by the government to manage the infrastructure; in Germany one of the businesses of DeutscheBahn AG is dedicated to infrastructure management.

determining the quantity and frequency of intercity passenger rail service. By letting governments that were geographically closest to the service make decisions about it, the national governments have been able to be more cost effective by targeting public and transportation benefits to the specific preferences of the localities. In cases where the localities are able to select their operator through competitive bidding, service can be purchased for the lowest bid—as opposed to having no choice if there were only one operator to choose from.⁶⁴ For example, in Germany, all of the national operation subsidies are given directly to the Länder (analogous to U.S. states); the Länder are then able to issue a request for proposal outlining specific service needs, and receive competing bids for the level of service they request.

- *Shift from service operator to customer.* The U.K. and Germany, as well as France and Canada, have transitioned their relationships with rail operators from that of operator to that of customer—the governments determine what type of service they want to make available to their citizens, and then purchase that service from the rail operators. Frequently, the governments establish performance metrics to hold the operators accountable. In the U.K. and Germany there are multiple operators that can bid to provide this service, but in France and Canada the service is provided by a single national operator.⁶⁵ By taking on a customer role—even if the national provider is still fully owned by the government—these nations have been better able to define the type of service they want, and then pay for those services. This can lead to more cost-effective service, and better provision of public benefits and transportation benefits. For example, officials in the Ile de-France region (greater Paris area) told us that they have received better service from the national operator since they were able to deal with them directly, and in 2004 the operator received 1.8€ million⁶⁶ in bonus

⁶⁴The European Union directive requires countries to accept the lowest bid despite other possible selection criteria, such as service or quality.

⁶⁵This is expected to change in France after the European Union’s “Third Railway Package” is enacted. This package will require all member states to open their passenger rail services to multiple operators. This process already exists in their freight industry. French officials anticipate that this package will be considered for enactment by 2010. In Canada, while the shift in roles was not as significant as in other countries, the Canadian government mainly determines the supply of rail services it wants VIA Rail to provide to citizens.

⁶⁶Approximately \$1.3 million in December 2004.

payments from the region for meeting metrics such as the handling of passenger claims and station cleanliness.

Changing the Public Funding Structure Used to Support Intercity Passenger Rail

Another approach taken by some of the countries we visited involved changing the public funding structure used to support intercity passenger rail.

- *Changes to government commitment to funding.* In all the countries we visited, the national governments made commitments to fund intercity passenger rail. Four of these countries dedicated annual funding towards investing in the intercity passenger rail system in order to provide the resources needed to achieve a desired level of rail service. Japan established a one-time fund for its railroads that needed financial assistance, allowing the railroads to invest these funds in order to operate off the interest earned on these investments. Changing the commitment to funding allows these countries to get the best value for their money by requiring rail operators to provide specified levels of service for the amount of funds required to conduct these services. Also, as shown by Canada, cuts to the level of annual funding can push an operator to improve its operations, reduce costs, and grow revenues in order to operate within its funding limits.
- *Changes to funding mechanisms for infrastructure.* Another major funding change made in the three European Union countries we visited was the establishment of new funding mechanisms (i.e., grants and loans) for intercity passenger rail operations and infrastructure. By splitting the funding sources for these two distinct functions, the governments are better able to determine what the subsidy is being used for and increase the transparency in the use of public funds; in addition, constant and expensive infrastructure projects now have a specific source of funding, allowing infrastructure managers to better plan for future projects.
- *Changes to funding dissemination.* Another funding change made by both France and Germany occurred in conjunction with the devolution of decision making to local and regional governments. These two countries now provide national funds directly to local and regional governments in order to support the purchase of intercity passenger rail service. By doing this, these countries have enabled local and regional governments to be more flexible and purchase service that best fits the

preferences of the users; funds can therefore be targeted at the transportation benefits and public benefits preferred by local areas.

In addition to these changes in the structure of the public funds, another factor played an important role in changing the funding structure—a national commitment to provide stable sustainable funding. For example, in Germany, part of the motor fuel excise tax was dedicated to rail; meanwhile, Japan created Business Stabilization Funds in order to support operations and capital improvements of the three island railway companies with smaller passenger rail markets. In Canada, officials told us the national government has informally made an ongoing commitment to support intercity passenger rail operations by consistently providing the same level of funding each year.⁶⁷ By committing to provide the funds each year, all the national governments above allowed rail operators to better manage their resources and planning capabilities.

As part of this commitment, four of the five countries we visited transferred or reduced the debt that the railways were carrying. In Germany, reform took place in 1994 and the debt was transferred to the government; a new public agency was then created to take over and pay off the 35€ billion in debt (about \$39 billion)⁶⁸ incurred by the preexisting railways, as well as by the employees of the former railways. In Japan, during the 1987 reform, the national government relieved the railway of its ¥37.1 trillion debt (about \$257 billion)⁶⁹ by transferring most of it—along with part of the railway’s employee pensions—to the national government, and splitting the remainder of the debt among the operators.⁷⁰ In France, the 1997 reform resulted in 20€ billion in debt (about \$24 billion) being

⁶⁷Transport Canada officials said that the government agreed to provide VIA Rail with an annual base subsidy of \$171 million (CAD) per year starting in 1998. This subsidy was subsequently reduced to \$169 million (CAD) in 2003 following a governmentwide expenditure-review exercise. VIA Rail officials said this subsidy is not set in law and can vary from year to year. However, it has remained essentially the same since 1998. VIA Rail officials also noted that this subsidy is fixed and does not include an allowance for inflation. The operating subsidy does not include money for capital improvements.

⁶⁸Congressional Research Service, *Foreign Intercity Passenger Rail: Lessons for Amtrak?* (Washington, D.C.: 2002).

⁶⁹Ibid.

⁷⁰Before Japanese reforms were initiated in 1987, that national railway’s current deficit reached 4.9 percent of the total national budget and 0.9 percent of the gross domestic product.

transferred to the new infrastructure manager. In exchange, the new manager received the country's entire rail infrastructure at no cost; the remaining 10€ billion in debt (about \$12 billion) was transferred to the national operator.⁷¹ While the British government wrote off the initial debt of the railway in 1994, the U.K. is currently carrying an infrastructure debt of about £18 billion (currently about \$34 billion). According to U.K. officials we interviewed, this amount is expected to increase to £21 billion (currently about \$39 billion) by 2009. Officials with U.K.'s infrastructure manager noted, though, that borrowing is limited to 85 percent of the value of its regulatory asset base. Canada did not have debt at the time of their restructurings.⁷² Relieving the debt of the rail operators created a viable capital structure for the new railways to operate in, and has been an important factor in their ability to move forward more cost effectively.

Changing the Organization of Existing Passenger Rail Systems

Restructuring the organization of existing passenger rail systems is another approach often taken by governments when reforming their rail systems. Historically, most national rail systems have been comprised of monolithic government-owned and government-managed entities, where the two major functions—managing infrastructure (e.g., tracks and stations) and managing daily operations—were integrated. The three European countries we visited began their reform by separating the operational and infrastructure functions of their passenger rail systems. Separating these two functions from each other can result in more transparency and a better estimate of what the costs for each function are.

This separation can take place in a variety of ways. For example, the U.K. went from a government monopoly with full control over both functions to a private company owned by “members” that own and manage all of the rail infrastructure; operations were turned over to private operators in 1993. In France, the government monopoly was separated into two separate government-owned companies. One company is responsible for managing all rail operations and the other is responsible for managing the infrastructure. In Germany the government rail monopoly was turned over to a private state-owned holding company, with separate independent

⁷¹Conversion of France's debt to U.S. dollars was done using the exchange rate for the Euro introduced in January 1999, and therefore is not the exact value of the actual debt in 1997.

⁷²In Canada, the operator has no authority to issue debt instruments or to go into debt markets to raise funds.

Introducing Competition and Privatization in Intercity Passenger Rail Operations

subsidiary business units in charge of infrastructure and operations. Additionally, in Germany, although the same holding company that owns the infrastructure also includes the primary passenger rail operator, other private operators are permitted to provide intercity passenger rail service on their tracks. Conversely, in Japan, the infrastructure and operational function of the passenger rail system have remained integrated—instead, the country divided its rail system into six distinct geographic regions allowing each area of the country to address issues specific to its passenger markets. Restructuring the rail system is generally implemented to create more transparency in the costs incurred by the rail companies; once accurate costs are known, companies can better gauge how much to charge for their services, as well as identify opportunities for cost savings.

The introduction of competition and/or privatization in rail operations is another approach to reform intercity passenger rail. This approach was used by some of the countries we visited.⁷³ Over the past two decades, countries have been reforming their railway systems through various forms of privatization in order to improve the quality of service and efficiency offered to customers, and to reduce costs. Competition and privatization are two market mechanisms that are often used to improve service efficiency while meeting financial objectives. The use of competition and privatization can lead to a market that is more responsive to customers as well as investors. However, regardless of the degree of success, deep and continuing government involvement will likely continue to be necessary in order to balance the financial needs of the railways with the transportation coverage desired by the state.

Competition and privatization have been particularly prevalent in Europe, where a European Union directive requires the existence of competition in the freight rail industry; an additional directive has been proposed requiring the allowance of competition in the international passenger rail industry as well, although some countries have already opened their markets to multiple operators. Germany makes extensive use of private operators, with over 300 operators providing rail service on many regional routes. In the U.K., all passenger rail services are franchised and open to competitive bidding by operators. The introduction of competition and privatization is largely dependent on the government changing its role to

⁷³Competition in rail operations can take the form of multiple train operators competing on the same track. However, competition more often takes the form of franchises bidding for government contracts to perform rail services.

that of a customer, with the primary focus on purchasing the best service for the best price. In Germany, the dissemination of national funding to regional governments has facilitated the extensive presence of multiple operators. Japan, meanwhile, aims to have its passenger rail system completely privatized; currently three of Japan's six passenger rail systems are managed by individual private companies. By turning its passenger rails over to the private sector, Japan has improved its quality of service and substantially reduced the number of its employees; the demand for railway service continues to increase.

Foreign Countries Addressed Key Reform Elements in Implementing New Approaches to Intercity Passenger Rail

Several key reform elements were addressed by the five countries we visited as part of their planning and implementation of new approaches to intercity passenger rail. Based on our review, implementing these approaches appears to improve the cost effectiveness of intercity passenger rail service. For example, officials with the primary operator in Germany told us that their company has seen a 187-percent increase in staff productivity between 1993 and 2004; at the same time, the company was able to reduce its workforce by 40 percent.⁷⁴ These officials stated that the German rail reform resulted in taxpayers paying 44€ billion less during this time period than what they would have been expected to pay if there had been no reform. The key reform elements addressed throughout implementation of these approaches include:

- *Establishing clearly defined national policy goals.* In making major changes to an intercity passenger rail system, it is essential that the national government establish a clear vision for what the goals of the system should include while making decisions to implement new approaches to meet these goals. During our review of the five countries we visited, we observed that each country established goals that their reforms were intended to achieve. As we reported in February 2005, a key component in reforming a national program includes determining if there is a clear federal role and mission.⁷⁵ All of the approaches taken by the five countries we visited were tailored to meet the specific national policy goals established by those countries. For example, in the U.K., there was a national goal to reduce the role government played in

⁷⁴DeutscheBahn AG officials define staff productivity in thousand passenger-ton kilometers/individual staff member.

⁷⁵See [GAO-05-325SP](#).

managing the passenger rail system. To meet this national goal, the U.K. used approaches such as introducing competition in its system, and changing the role of the national government from service operator to that of a customer of private rail operating companies.

- *Clearly defining government and stakeholder roles.* The second key reform element we learned about during our site visits is that government and stakeholder roles should be clearly defined prior to (or during) implementation of any reform approach. Deciding what these roles should be was the first step in several of the approaches. For example, in order to shift the national government's role, the responsibilities of the government first needed to be defined; it then had to be decided which of these responsibilities would continue to be government functions, and which would be those of other stakeholders.
- *Establishing consistent, committed funding.* Consistent, committed funding is the final reform element key to successful implementation of a new approach to intercity passenger rail. In the five countries we visited, the national governments made a commitment to provide intercity passenger rail service. The governments also committed to provide the system, on an annual basis, with the funds necessary to maintain this service. Whether the approach taken was to increase the annual subsidy, provide subsidies to regional levels of government, or establish a consistent subsidy for each year, all of these governments made financial commitments to provide intercity passenger rail service.

See app. III for more detailed information about each of the countries we reviewed.

The United States is Not Well Positioned for Reform

The United States is not well positioned to reform or restructure intercity passenger rail service. Based on our review of foreign intercity passenger rail reforms, a more fundamental reexamination of the system by policymakers than has taken place to date will be needed if the United States wants to better position itself to improve the performance and benefits of the intercity passenger rail system in this country. The national governments of the countries we visited addressed three main elements through the process of reforming or restructuring their intercity passenger rail systems: (1) clearly defining national policy goals, (2) clearly defining the various roles and responsibilities of public and private sector entities involved, and (3) establishing consistent committed funding for intercity passenger rail. Currently, the goals and expected outcomes of U.S.

passenger rail policy are ambiguous, stakeholder roles are unclear, and funding is limited because of other priorities and a lack of consensus on the level of funding to devote to goals. As the primary provider of U.S. intercity passenger rail, Amtrak has the authority to take a number of actions, but has a history of poor financial and operating performance. Amtrak has recently proposed a reform strategy and is undertaking efforts to reduce costs and increase corporate efficiency. However, constraints, such as expensive labor protection payments that may be triggered by possible route and service changes, limit the benefits Amtrak can achieve on its own. Even if Amtrak were to fully exercise its authority, Amtrak is not in a position to address the key elements of reform we observed in other countries. Federal leadership will be needed to fundamentally improve the performance of intercity passenger rail.

United States Will Need to Address Three Key Elements to Improve the Benefits of Intercity Passenger Rail

We found that other countries we visited addressed key reform elements in the process of reforming or restructuring their intercity passenger rail systems. U.S. policymakers will need to reexamine national policy goals and objectives, stakeholder roles and responsibilities, and funding mechanisms for intercity passenger rail if the United States wants to better position itself to improve the performance and benefits of federal expenditures on intercity passenger rail.

Policy Goals

Based on our review of intercity passenger rail systems in five countries, we found that, in the process of reforming or restructuring their systems all five national governments clearly defined national policy goals and objectives for the system. For example, a specific goal of the reform process in France, Germany and the U.K. was to increase transparency in the use of public funds and restructuring included separating the management of their rail infrastructure and passenger operations. In Germany, the government's objectives in consolidating two state railways into one private holding company, Deutsche Bahn AG (DB), was to improve efficiency, and to allow DB to function independently of the government and manage its railway like a private business. During the restructuring process in Japan, by defining specific goals and outcomes for the system, the national government was able to determine an overall structure for the system. Some of the goals Japan defined for the railway before restructuring it were reducing the accumulated debt, minimizing the national government's role in maintaining the railway, increasing efficiency, and strengthening competitiveness. Additionally, a desired outcome of restructuring the state-owned provider into six private regional passenger

rail operating companies was to better position rail service to compete for passengers.

Goals provided by Congress focus narrowly on Amtrak management, rather than providing guidance and direction for the entire U.S. intercity passenger rail system. The current legislation governing Amtrak directs it to operate a national passenger rail transportation system that ties together existing and emerging regional corridors and other intermodal service. However, it does not provide specific objectives for the system Amtrak is required to operate, such as defining transportation benefits and public benefits or increasing the transparency of public funds, nor does it specify how the system should be structured to achieve certain outcomes. This broad mandate, as previously discussed, has resulted in the current intercity passenger rail system—a system that does not target markets where rail may have a comparative advantage over other transportation modes nor makes the most cost-effective choices to meet public transportation needs. In April 2005, Amtrak released a set of proposed strategic reform initiatives, which included a vision for the future of intercity passenger rail service and Amtrak's role. Recently, Amtrak developed a mission statement, which aims to improve financial and operational performance by tying specific goals to the mission statement. Although the vision and mission statement provide a direction for the company, senior Amtrak officials told us that this mission for the company should not be a substitute for Congress setting a national intercity passenger rail policy. Furthermore, they said that a national rail policy should be explicit and clearly indicate the transportation services that the federal government wants operators to offer; Congress should then provide funding for the desired level of service.

Determining the system's structure, as well as determining how to position passenger rail within the entire U.S. transportation system, will remain uncertain without specific goals and outcomes for intercity passenger rail. To change the current structure of intercity passenger rail, policy decisions need to be made. As the Congressional Research Service (CRS) reported in December 2004, maintaining the status quo of passenger rail policy allows policymakers to avoid making decisions, such as shutting down Amtrak and eliminating its long distance routes or alternatively, committing to a

major financial program.⁷⁶ Without a more explicit national policy, the future role of intercity passenger rail in the national transportation system is uncertain.

Stakeholder Roles and Responsibilities

Similarly, establishing clear stakeholder roles and responsibilities was important to helping improve the efficiency of intercity passenger rail systems in several of the countries we reviewed. For example, the U.K. reorganized its structure by creating separate organizations (e.g., organizations to provide train service, manage the rail infrastructure, and regulate infrastructure access fees and costs). Each of these organizations has defined responsibilities and is transparent with respect to the responsibility of achieving specific goals. According to a U.K. official, in privatizing some of these organizations, the U.K. sought greater efficiency, tighter cost control, a reduction in government interference in the railway industry, and more consistent and reliable funding. Our study also showed that clarifying stakeholder roles and responsibilities may require the creation of new entities. For instance, when Japan National Railways restructured its railways in 1987, the government created the Japan National Railways Settlement Corporation to settle the accumulated debt of Japan National Railways. In addition, an official from Japan's Ministry of Land, Infrastructure, and Transport told us that the railway split into six passenger railroads in order to have more efficient regional service.

In the United States, stakeholder roles and responsibilities for managing, operating, and funding intercity passenger rail services are unclear. For example:

- It is unclear what Amtrak's main responsibility should be as the primary intercity passenger rail operator in the United States, given that the purposes of Amtrak are in conflict. Although Amtrak is incorporated as a for-profit corporation, any expectation of being a profitable company has not been realized—partly because it is responsible for maintaining an intercity passenger rail system with many unprofitable routes.⁷⁷

⁷⁶Congressional Research Service, *Amtrak Historical Background to the Political and Social Aspects of Federal Intercity Passenger Rail Policy* (Washington, D.C.: December 2004).

⁷⁷Today, Amtrak is a private corporation in which the government has substantial ownership interests and control over selection of the Board of Directors. The government's direct legal control over Amtrak takes the form of a grantor-grantee relationship.

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- The federal role in intercity passenger rail service has primarily been to subsidize Amtrak's operations and, in the past, manage capital improvements to the infrastructure along the NEC.⁷⁸ Only recently has the Secretary of Transportation been tasked with overseeing these funds, but such funding has been tied to Amtrak's business plan and not a national policy or vision that articulates goals, objectives, and outcomes for intercity passenger rail services.
 - Current law offers states a narrow role in decision making, but permits states to subsidize additional intercity passenger rail service. Some states see benefits to subsidizing intercity passenger rail and choose to spend their own funds for additional service not provided as part of Amtrak's national route system—a system that has not had substantial changes since 1971. Those states have had a role in making decisions, such as what stations will be served and whether food service will be provided on the subsidized route, unlike states that do not provide funding. Forty-two states receive basic long distance service with no state support, while 13 of these states have decided to subsidize additional corridor services based, partly, on demand. For example, Amtrak's legacy route system has provided service on some corridors without state support, (e.g., from Pittsburgh, Pennsylvania, to New York City), but on other corridors, states have subsidized additional service, such as Washington state paying for additional frequencies for the *Cascades Service* between Seattle, Washington, and Portland, Oregon. Additionally, in December 2004, CRS reported that there are those who view that state governments may be better positioned to make regional service decisions.⁷⁹ The administration's proposal also favors giving states a greater role in decision making with respect to rail service and capital improvements.
 - The role that freight railroads should play in shaping the future of intercity passenger rail service is not defined. Management of and access to infrastructure is dominated by the freight railroads. Since passenger railroads and freight railroads must often share access to privately owned tracks, the freight railroads' control over infrastructure has an influence on both national passenger rail policy and day-to-day

⁷⁸The Secretary of Transportation also currently has a seat on Amtrak's Board of Directors and FRA is responsible for rail safety issues, including Amtrak.

⁷⁹Ibid., p.6.

passenger rail operations. Specifically, freight railroads may be concerned with intercity passenger rail policy decisions that affect access to their rights-of-way and capacity on existing tracks; these decisions could potentially affect the freight business. While their decisions may influence passenger rail service, freight railroads do not have a defined role in decision making or the funding of intercity passenger rail.

Funding

Finally, as part of their overall restructuring process, all of the countries we reviewed committed to funding intercity passenger rail service. For example, in the U.K., the Secretary of State for Transport is tasked with determining what services the railway should deliver. This determination is made through a document called the High Level Output Specification: available funds for these services over a 5-year planning period are set down in a statement of funds available.⁸⁰ An official in the U.K. Department for Transport told us that this funding cannot be reallocated for other purposes without great political and financial risk. In addition, a 2002 CRS report observed that reorganization of the railways in several countries required substantial political and financial commitment over an extended period.⁸¹ Besides establishing funding tied to goals, countries we visited also devoted funds to capital improvements separate from operating subsidies. In France, about 2€ billion per year (currently this is approximately \$2.5 billion) is provided for new rail lines: additionally, the government also offers interest-free loans to support new infrastructure projects. In addition to providing funding specifically for capital improvements, three of the five countries disseminate the national subsidy to regional governments, allowing passenger rail subsidy options to be decided by regional governments instead of the national governments. For instance, about 7€ billion per year (about \$8.9 billion) in operating subsidies is divided among the 15 German Länder to be used at their discretion, and in France a 2€ billion per year (currently this is about \$2.5 billion) subsidy is divided among the 21 regions to support operations.

⁸⁰The Secretary of State for Transport is expected to produce the High Level Output Specification and a statement of funds available by July 2007.

⁸¹CRS, 2002. The Congressional Research Service also reported on Argentina and Mexico, in addition to the five countries we report on here.

The U.S. federal government has annually subsidized Amtrak since its inception. The funding for intercity passenger rail has been constrained due to competing priorities; possibly, funding has also been constrained due to the inability to reach consensus over the federal role in intercity passenger rail, which is demonstrated in the status of Amtrak's reauthorization. Grants to Amtrak have not been expressly reauthorized since its previous 5-year authorization expired in 2002, despite the number of proposals presented to the Congress.⁸² Nonetheless, Amtrak developed a 5-year strategic plan (covering the period of fiscal years 2005 to 2009) that was designed to address its immediate needs.⁸³ (The plan identified inadequate and uncertain levels of funding as a risk.) In recent years, Amtrak has received over \$1 billion in annual operating grants and capital grants through the annual appropriations process. Some other transportation programs have established funding mechanisms that share costs between the federal government and other parties. For example, the Federal-aid Highway Program—a portion of which is subject to the annual appropriations process for budget authority—has a dedicated trust fund, the Highway Account, which is mainly funded by highway user fees, such as taxes on motor fuels, tires, and trucks.⁸⁴ Transit projects have access to the Federal Transit Administration's full-funding grant agreement—a mechanism that requires identifying and committing federal and nonfederal funds to support the multiyear capital needs of construction projects. According to the Federal Transit Administration, dependable levels of funding for the full-funding grant agreements have improved the ability of transit agencies to finance, plan, and execute projects.⁸⁵ Without consensus over the federal role in funding intercity passenger rail and competing priorities for federal funds, Amtrak will continue to operate in an uncertain environment—impairing its ability to make strategic and operational decisions, and often deferring capital and infrastructure maintenance.

⁸²The Amtrak Reform and Accountability Act of 1997 authorized funding for Amtrak for fiscal years 1998 through 2002.

⁸³Amtrak, *Amtrak Strategic Plan, FY2005—2009*, (Washington, D.C.: 2004).

⁸⁴The Highway Trust Fund was established in 1956 to ensure a dependable source of funding for the national system of interstate and defense highways and also as the source of funding for the remainder of the Federal-aid Highway Program. In 1983, the Highway Trust Fund was divided into two accounts: the Highway Account and the Mass Transit Account.

⁸⁵DOT, Federal Transit Administration. Testimony before the Subcommittee on Housing and Transportation, Committee on Banking, Housing, and Urban Affairs. U.S. Senate, April 25, 2002.

Amtrak Can Take Actions to Reduce Costs and Increase Efficiency but It Is Not Positioned to Address Key Reform Elements

In general, Amtrak's Board of Directors and management have the flexibility to make numerous changes in its corporate direction and organizational structure to improve financial performance. However, Amtrak has a history of poor financial and operating performance. As we have previously reported, many of its efforts at internal restructuring over the last decade have largely failed and the company lacks many basic management and reporting practices. More recently, in April 2005, Amtrak proposed a more strategic approach for the company with a broad set of reform initiatives. Amtrak is taking actions within its existing authority to implement these initiatives, although most of the actions currently being taken are operating in nature. While the Amtrak Reform and Accountability Act of 1997 provided Amtrak with greater flexibility to make more significant improvements, constraints limit the benefits that can be achieved from this increased freedom. For example, although Amtrak no longer requires approval by the Secretary of Transportation to make changes to its route structure, route changes that result in elimination of service could trigger expensive labor protection requirements.⁸⁶ Regardless of the internal changes Amtrak could make to manage its operations more efficiently, Amtrak, as an operator, is not in a position to address the key elements of reform. Federal leadership is needed to establish national policy goals and stakeholder roles related to these goals, and to identify funding levels needed to support these goals.

Amtrak Has the Authority to Take a Number of Actions to Reduce Costs and Increase Corporate Efficiency

Amtrak's Board of Directors and management have the authority to make numerous changes and have made changes in its corporate direction and organizational structure. Amtrak is incorporated as a for-profit corporation, but has been the recipient of substantial federal financial assistance since its inception and has historically struggled to earn sufficient revenues and operate efficiently. Without annual federal subsidies for Amtrak's operating costs, the corporation would not survive as presently configured and operated. Amtrak's financial condition has never been strong and it has been on the edge of bankruptcy several times. In 2001, Amtrak lost about \$1.2 billion and mortgaged a portion of Pennsylvania Station in New York City to generate enough cash to meet its expenses. In July 2002, Amtrak also received a federal loan of \$100 million to meet expenses.

⁸⁶Labor protection refers to payments, stemming from collective bargaining agreements, that Amtrak would owe to terminated employees.

Management of Amtrak has also generally been ineffective and the company lacks basic tools for comprehensive planning. For example, some of Amtrak's internal changes over the last decade, such as establishing strategic business units and modifying Amtrak's routes, have not met expectations. Instead, Amtrak's financial condition deteriorated. Additionally, as we reported in February 2004, Amtrak's ineffective management of a large-scale infrastructure project resulted in the incompleteness of many critical elements of the project, increased project costs, and the project goal—a 3 hour trip time between Boston and New York City—was not achieved.⁸⁷ Finally, in October 2005, we reported that the corporation lacked many basic management and financial reporting practices.⁸⁸ Among other things, we found that much of the financial information Amtrak used for day-to-day management purposes lacked certain relevant information or was of questionable reliability.

Amtrak's Board of Directors and management have recently taken actions to address these concerns. These actions include appointing a new president and creating a planning and analysis department to develop and manage a company-wide strategic plan. However, impacts on the corporation's performance remain to be seen. Additionally, in April 2005, Amtrak's Board of Directors and management proposed a set of broad strategic reform initiatives designed to improve the operational efficiency of the company, transition Amtrak into one of a number of competitors to provide intercity passenger rail service, and change how federal subsidies are distributed for intercity passenger rail.⁸⁹ Specifically, changes outlined include reinforcing management controls, organizing planning and reporting by lines of business, and cultivating competition and private commercial activity in passenger rail functions and services.

Amtrak's proposed initiatives are a step toward a more strategic approach for the corporation and include both reforms Amtrak could pursue internally, such as changes to its maintenance services and facilities, and those that require legislative action, such as the enactment of a federal-state capital matching program for corridor development in partnership

⁸⁷GAO, *Intercity Passenger Rail: Amtrak's Management of Northeast Corridor Improvement Demonstrates Need for Applying Best Practices*, [GAO-04-94](#) (Washington, D.C.: February 27, 2004).

⁸⁸See [GAO-06-145](#).

⁸⁹Amtrak Strategic Reform Initiatives and FY06 Grant Request, April 2005.

with states. However, according to senior Amtrak officials, Amtrak is initially focused on internal reforms that Amtrak believes it has greater control over. Currently, Amtrak is implementing operational changes in 15 areas based on the broader proposed set of strategic reform initiatives. (See app. IV for a list of Amtrak's operational initiatives and their status.) These efforts are primarily associated with improving business efficiency and reducing costs. For example, Amtrak's management proposed to redesign some aspects of the sleeper car service offered on long-distance trains, such as reducing the number of sleeper cars and offering new sleeper service products targeted at different markets. This effort is projected to reduce Amtrak's losses from offering sleeper service by about 46 percent.⁹⁰

Although Amtrak's recent efforts are expected to result in some savings, these changes alone will not be sufficient to address broader structural issues. According to a July 2006 DOT OIG report, Amtrak's 15 operational changes have resulted in a \$46 million reduction in annual operating losses through May 2006. But the projected incremental operating savings from full implementation of Amtrak's operational changes over the next 5 or 6 years will not be sufficient to fund needed improvements to the intercity passenger rail system such as addressing capital and maintenance needs, returning the system to a state-of-good repair, and promoting corridor development.⁹¹ In April 2005, Amtrak estimated that the strategic reform initiatives could achieve total operating savings of nearly \$550 million by fiscal year 2011. Amtrak said achieving these savings would require a number of legislative actions, such as the enactment of an 80 percent federal capital match for state intercity passenger rail funds, as well as realizing increased revenues from passengers, obtaining additional state operating contributions for corridor trains, and having the federal government cover Amtrak's legacy debt obligations. Some or all of these could increase federal costs.

Benefits of the Legislative Freedoms Are Limited by Constraints

The Amtrak Reform and Accountability Act of 1997 provided Amtrak with greater flexibility to alter its route network and undertake other cost saving changes to meet the goal of operating self-sufficiency by the end of

⁹⁰The baseline operating loss estimate for sleeper service for fiscal year 2005 was \$92 million.

⁹¹U.S. Department of Transportation, Office of the Inspector General. *Third Quarterly Report on Amtrak Financial Status*, July 13, 2006.

December 2002, which Amtrak did not achieve. However, the benefits that Amtrak can achieve from these provisions are limited by practical constraints. For example, while the act eliminated the statutory ban on Amtrak contracting out or outsourcing work, except for food and beverage service that could already be contracted out,⁹² it made outsourcing a part of the collective bargaining process. Amtrak officials also told us that this provides less flexibility rather than more since it is more difficult to change collective bargaining agreements with unions than for Congress to change a statutory requirement.⁹³ This could limit the extent to which Amtrak could contract out services, depending on the outcome of negotiations with unions. Amtrak officials told us that little progress has been made on labor negotiations since only three contracts (of the 24 collective bargaining agreements Amtrak maintains with its agreement employees) have been signed and these all technically expired on December 31, 2004. As a result, Amtrak is currently in negotiations with all of its unions and employee councils over collective bargaining agreements.

The benefits of making route changes to better meet the demands of the public may also be limited as a result of labor protection requirements, which are also part of the collective bargaining process. The Amtrak Reform and Accountability Act of 1997 relieved Amtrak from getting approval from the Secretary of Transportation to make changes to its route structure and allowed Amtrak to discontinue routes without having to preserve the “basic system” formerly mandated by Congress, as long as the remaining route structure tied existing and emergent regional rail passenger service and other intermodal passenger service.⁹⁴ One Amtrak official told us that while Amtrak is legally allowed to change the route network, decisions are often met with a variety of reactions including resistance by Congress. In addition, if route changes result in the elimination of jobs, Amtrak employees may be entitled to labor protection benefits. As we reported in September 2002, if Amtrak had been liquidated on December 31, 2001, potential Amtrak employee claims for immediate labor protection payments could have been as much as \$3.2 billion.⁹⁵

⁹²49 U.S.C. §24312(b).

⁹³This is directly related to provisions in the Railway Labor Act that keep provisions of earlier contracts in place when they expire.

⁹⁴Amtrak is still subject to notification requirements prior to discontinuing routes.

⁹⁵GAO, *Intercity Passenger Rail: Potential Financial Issues in the Event That Amtrak Undergoes Liquidation*, [GAO-02-871](#) (Washington, D.C.: September 20, 2002).

Further, if an employee loses his or her job as a result of a reduction in service on a route or closing of a maintenance shop, then he or she could receive labor protection benefits for up to 5 years.⁹⁶

Finally, several potential constraints exist in gaining benefits from Amtrak adopting a “user pays” principle for the provision of its services. Under the user pay concept, costs to build and maintain rail infrastructure, including along the NEC, would be paid for by the full range of users of the system, including states, commuter rail agencies, freight railroads, and the public. If adopted, a better matching of fees paid to costs incurred by the diverse users of the NEC could provide incentives for both public and private users to make modal choices and transportation options based on true costs.⁹⁷ One issue in implementing this approach is Amtrak’s ability to accurately define the true costs of intercity passenger rail services. We discussed examples of this issue in two recent reports. In October 2005, we reported concerns with how Amtrak captured and reported financial information, such as Amtrak’s overreliance on indirect cost allocation methods.⁹⁸ In April 2006, we reported that it is difficult to determine Amtrak’s revenues and costs associated with providing services and access to infrastructure to commuter rail agencies, in part due to the limitations of Amtrak’s accounting practices.⁹⁹ Since then, Amtrak has made some changes to its reporting and financial systems, but according to Amtrak officials and progress reports, more work is needed. A senior Amtrak official told us that identifying direct route costs may be difficult since Amtrak uses many different systems to capture costs.

Another constraint may be the ability and willingness of users to pay additional fees. For example, we recently reported that the ability and willingness of private rail companies to invest in infrastructure capacity to

⁹⁶The reduction in service on a route would have to be to less than three times per week before Amtrak would be required to pay wages and benefits.

⁹⁷Better alignment of fees with the full costs of the use of infrastructure, including highways, airports, and airspace, is an issue far broader than national intercity passenger rail policy. In fact, better alignment of fees and costs across all transportation modes could increase the demand for rail services even if fees paid by users of rail were to be increased.

⁹⁸GAO-06-145, p. 68.

⁹⁹GAO, *Commuter Rail: Commuter Rail Issues Should Be Considered in Debate over Amtrak*, GAO-06-470 (Washington, D. C.: Apr. 21, 2006).

meet projected future demand for freight rail transportation is uncertain.¹⁰⁰ While some states see a benefit to intercity passenger rail and pay for additional service, two state officials we spoke with opined that a proposal which required states to further subsidize existing intercity passenger rail service would face political opposition at the state level unless a federal capital matching program comparable to other transportation modes is enacted. In addition, commuter rail agencies that use the NEC raised several concerns about FRA's efforts to establish a fee on them as mandated in Amtrak's fiscal year 2006 appropriations. Among other concerns, these agencies stated that their usage of the NEC is different from Amtrak's, which should dictate different levels of payment for use of the same infrastructure.

Amtrak Is Not Positioned to Address the Three Key Reform Elements

Amtrak, as an operator, is not in a position to adopt and ultimately implement key elements to begin reforming intercity passenger rail in the United States. Amtrak's efforts will not likely change the structure of intercity passenger rail without legislative action. Most of all, Amtrak cannot address the three key elements of reform we observed in other countries: 1) clearly defining national policy goals, 2) clearly defining the various roles and responsibilities of public and private sector entities involved, and 3) establishing a level of funding to devote to these goals.

Amtrak's role is to provide intercity passenger rail service to the public. Congress sets the national policy and goals for intercity passenger rail, especially in the context of the entire national transportation system. Since 2002, federal policymakers have been struggling with what to do about U.S. intercity passenger rail in general. Policymakers have not adopted the legislative actions in Amtrak's strategic reform proposal. Additionally, in June 2006, CRS reported that policymakers have not endorsed Amtrak's strategy of maintaining its current route network while restoring its infrastructure to a state of good repair, nor did they provide Amtrak with the requested funds to meet these goals. CBO also said there has been a lack of consensus about the role intercity passenger rail service should play in the national transportation system and Amtrak's role in providing such services. While Amtrak's efforts are a step to improving the corporation's financial and operating performance, these changes do not address the reform elements necessary to maximize transportation and public benefits

¹⁰⁰GAO, *Freight Railroads: Industry Health Has Improved, but Concerns about Competition and Capacity Should Be Addressed*, GAO-07-94 (Washington, D.C.: Oct. 6, 2006).

of, and the effectiveness of federal expenditures for, intercity passenger rail service. Any fundamental change of intercity passenger rail will involve a number of difficult operational challenges and policy decisions and all of them will require federal leadership.

Addressing Reform Elements for Intercity Passenger Rail Will Require Overcoming Stakeholder and Funding Challenges

There are a number of challenges associated with addressing the key elements of reform for intercity passenger rail. The variety of stakeholders, all with different interests and issues, makes it difficult to reach consensus on any change. Central among federal challenges is determining what the vision and role for intercity passenger rail in the United States should be, the federal role, if any, within this vision, and the reconciliation of the wide diversity of views on how the intercity passenger rail service fits into the national transportation system. Challenges in promoting a more equitable federal–state partnership include the varying ability and willingness of states to participate in funding intercity passenger rail and identifying appropriate policy changes to overcome the disadvantages intercity passenger rail faces relative to the leveraging of federal funds. Currently, states are challenged to leverage their expenditures on such service. However, federal-state cost sharing is common in highway and transit programs where investment is encouraged through matching grants. Other challenges include freight railroad concerns about infrastructure access and capacity, workforce issues, and the role of the private sector. Addressing funding issues will also present challenges. This includes identifying funding sources to achieve national policy goals and developing incentives for state participation. Each of these challenges presents opportunities to increase the benefits of federal and nonfederal expenditures on intercity passenger rail; not addressing them will likely continue the stalemate in moving toward a well-defined role for federal subsidies for intercity passenger rail in the United States.

Variety of Stakeholder Interests and Challenges Makes Reaching Consensus on Change Difficult

One of the most difficult aspects of addressing reform elements for intercity passenger rail will be reaching consensus among stakeholders on the topic of change. Stakeholders include federal and state governments, freight and commuter railroads, the passenger rail workforce, and potential private sector operators. There are a variety of stakeholder interests in intercity passenger rail and, at virtually every level, there are challenges that will need to be overcome before consensus can be reached to change any policies, goals, or stakeholder roles involved with intercity passenger rail.

Federal Issues and Challenges

The federal government's interest, as laid out in statute, is in seeing that intercity passenger rail service is provided on a national basis. However, the Amtrak Reform and Accountability Act of 1997 removed direct federal involvement in making route decisions, and DOT and FRA have, until recently, largely taken a "hands-off" approach to Amtrak and intercity passenger rail. As we reported in October 2005, FRA officials have told us that, even though FRA has a seat on Amtrak's Board of Directors, the agency has historically refrained from advocating a particular approach to running Amtrak; neither has it specifically held Amtrak management accountable for meeting particular goals.¹⁰¹ In addition, an FRA official told us that the agency must be careful about its involvement with management decisions since, legally, Amtrak is a private for-profit corporation. Since fiscal year 2003, Congress has imposed measures to increase the Secretary of Transportation's responsibility for providing oversight of, and accountability for, the federal funds used for intercity passenger rail service. Among other things, these measures require Amtrak to transmit a business plan to the Secretary of Transportation and Congress and provide monthly reports about this plan. In response to these measures, FRA has entered into grant agreements with Amtrak. Although measures are in place to increase FRA's oversight of Amtrak's operations through grant agreements, FRA attributed the lack of resources for its limited and focused approach to Amtrak oversight. These measures address oversight and accountability but do not necessarily address establishing a vision for intercity passenger rail service, and the role of such service, in the national transportation system. DOT commented that FRA's role has never been to "establish a vision for intercity passenger rail" regardless of resources available.

The challenges of establishing a national policy vision for intercity passenger rail and the federal role, if any, within this vision are illustrated by the wide diversity of intercity passenger rail service proposals introduced in recent years. For example, one recent congressional proposal would largely keep Amtrak intact and instead focus on various reforms related to improving financial management, corporate governance, and the development of metrics and standards for measuring performance and the quality of service. This proposal would, among other things, require Amtrak to develop a capital spending plan for restoring the NEC to a state of good repair, and would allow freight railroads to bid for operating long-

¹⁰¹GAO-06-145.

distance trains.¹⁰² In contrast, a proposal by the administration would significantly restructure Amtrak. This proposal includes splitting Amtrak into three functionally independent entities: a corporate entity to oversee the restructuring and manage residual responsibilities; a passenger operating company; and an infrastructure management company. It would also, among other things, encourage the creation of an interstate compact made up of northeastern states and the District of Columbia, to operate the NEC.¹⁰³ Amtrak itself has recognized the need for change. In April 2005, Amtrak's management released a proposed set of strategic reform initiatives that, if fully implemented, could substantially change how it is operated. Under this proposal, states would play a larger role in deciding what services to offer, and there would be increased opportunities for competition in providing intercity passenger rail service.

Federal–State Partnership Issues and Challenges

There are also a variety of interests and challenges in promoting a more equitable federal–state partnership that make reaching consensus difficult. One is the number of states that have the interest or willingness to participate in intercity passenger rail. On the one hand, there are a number of states that are willing to participate in subsidizing intercity passenger rail and have made commitments to do so. In fiscal year 2005, 13 states paid about \$140 million to subsidize additional service from Amtrak. Amtrak also received about \$130 million from 8 states and 3 state agencies for capital improvements on passenger rail corridors and at stations. In addition, a coalition of 27 states—called the States for Passenger Rail—have come together to promote the development, implementation, and expansion of intercity passenger rail services with the involvement and support from state governments. This organization's policy statement indicates that states have taken, and will continue to take, a lead role in the planning and development of new, expanded and enhanced regional passenger rail corridor services. The states in the organization maintain that these systems cannot be fully programmed and implemented without a federal–state funding partnership similar to existing highway, transit, and aviation programs. On the other hand, there are a number of states that receive the benefits of intercity passenger rail service but do not subsidize such service, and may or may not be willing to do so. This situation reflects

¹⁰²This proposal, S. 1516, would also authorize the issuance of \$13 billion in tax credit bonds to finance capital improvements.

¹⁰³The administration's proposal (H.R. 1713) would also require applicants to contribute matching funds for capital projects that qualify under planning and other criteria, and phase out operating subsidies for long-distance service.

the legacy service that existed when Amtrak was created in the early 1970s. For example, as of April 2006, there were 12 Amtrak trains scheduled to operate daily Monday through Friday between New York City and Albany, New York. The state subsidizes only 1 of these trains—the *Adirondack*. Even on this train the state only subsidizes service north of Albany to Montreal, Canada. New York City to Albany is part of the legacy service that dates to when Amtrak began service in 1971. The extent to which states would be willing to pay for the intercity passenger rail service currently received for free is an open question.

Another federal–state challenge is the leveraging of financial assistance to intercity passenger rail. Recent surface transportation acts have authorized some federal financial assistance for the development of high-speed rail and other passenger rail corridors. In addition, states can finance passenger rail projects through the Federal Highway Administration’s Congestion Mitigation and Air Quality Improvement program when the project will result in demonstrable air quality improvements. However, states are challenged to leverage their expenditures on intercity passenger rail. In general, states work directly with Amtrak to obtain service above the basic service provided. Some states also work directly with Amtrak to finance intercity passenger rail capital improvement projects that benefit their state. An FRA official told us that states could start their own intercity passenger rail service, but doing so would be difficult given the potential cost and lack of statutory access to infrastructure at the incremental cost that Amtrak currently enjoys. Some other transportation programs—such as the interstate highway program and the Federal Transit Administration’s New Starts program for transit systems—share responsibility for planning, design, and funding between the federal government and state and local governments. Federal agencies generally set the design and quality standards for projects and encourage investment through matching grants. State and local governments prepare transportation plans which identify the need for investment, develop a business case for the investment, and contribute a portion of the funding.

Finally, reform initiatives designed to increase state roles in intercity passenger rail will likely face the challenge of finding mechanisms for states to work cooperatively together in the development of routes and corridors that cross state lines. One mechanism is an interstate compact. Interstate compacts for intercity passenger rail were proposed in the Amtrak Reform and Accountability Act of 1997. Interstate compacts are agreements between states that are constitutionally permitted when approved by Congress. Several interstate compacts are currently being

used to study the feasibility of, or advocate for, intercity passenger rail service. These include the Midwest Interstate Rail Passenger Compact and the Interstate High Speed Intercity Passenger Rail Compact. Currently, however, there are few passenger rail systems being operated under an interstate compact. State officials have told us that interstate compacts are a very difficult mechanism to use when more than two states are involved. They said that not only do compacts take a substantial amount of time and burden to create, but, in the context of passenger rail, there are practical issues involved—such as deciding what service is provided, how the costs of such service are allocated to participants, and what happens when one or more states do not fulfill their financial obligations to the compact.

There may be other mechanisms available for states to work cooperatively with each other. For example, the Appalachian Regional Commission (ARC) is a federal–state partnership that, in general, was created to promote economic development in Appalachia.¹⁰⁴ Although the current definition of Appalachia includes 13 states, the governance structure is made up of only two co-chairs—one representing the federal government and one representing the collective interests of 13 member states. Each co-chair has one vote on ARC matters. ARC officials told us that because of the governance structure of ARC, virtually all decisions are reached by consensus. In fact, they said that one of the advantages of ARC is that more can be accomplished together than separately. They also cited as a disadvantage the difficulties in reaching decisions.

Freight Railroad Issues and Challenges

Freight railroads play an integral role in intercity passenger rail. Over 95 percent of Amtrak’s route system operates over lines owned by freight railroads. As such, the freight railroads have a keen interest in the volume of passenger rail service provided and the potential impacts of such service on their business. One of the main challenges associated with passenger and freight railroads is infrastructure access and the cost of such access. Since Amtrak’s creation, federal law has generally required freight railroads to give Amtrak trains priority access and charge Amtrak an incremental cost—rather than the full cost—associated with the use of their tracks. These legal rights currently apply only to Amtrak. However, efforts to reform intercity passenger rail service raise questions about the status of Amtrak’s priority access and incremental charge rights—that is, can, or

¹⁰⁴ARC officials said ARC is a federal–state partnership with a model of governance designed to manage federal–state interactions and to force consensus in reaching decisions about Appalachia. The agency employs 11 federal staff and about 50 state employees.

should, these rights be transferred to non-Amtrak operators or will some other arrangement need to be made? Other arrangements could significantly increase both the difficulty and cost of introducing non-Amtrak operators, possibly through competitive bidding for subsidies, to provide intercity passenger rail service.

Commuter rail service offers an example of access negotiations on commercial, rather than incremental, cost terms. As we reported in January 2004, unlike Amtrak, commuter rail agencies do not possess statutory rights of access to freight railroad track.¹⁰⁵ As a result, commuter rail agencies must negotiate with freight railroads to purchase, lease, or pay to access the railroads' right-of-way. Negotiations for these agreements can last from a few months to several years. Our report noted that when negotiating a lease or access agreement, freight railroads typically want to be compensated for all operating, capital, and other costs associated with hosting commuter and other trains. These costs would include direct costs, such as dispatching trains and maintaining the rights-of-way, and indirect costs, such as the cost of foregone opportunities (e.g., the incremental value of "lost" train slots). Infrastructure access is also difficult from the perspective of a freight railroad company. Since freight service is the companies' core business, the ability to move freight through the system must be protected. Freight railroad officials with whom we spoke for our earlier report insisted that they must protect their systems' capacity to handle both today's freight traffic as well as future traffic projections. Protecting capacity becomes difficult when passenger trains, either intercity or commuter, consume available capacity without some sort of infrastructure enhancement, expansion, or market-based compensation for line capacity used.

In addition to infrastructure access, capacity and capacity-availability issues—that is, the ability of rail lines and infrastructure to handle current and future traffic volumes—are also of concern to freight railroad companies. After years of reducing infrastructure and rationalizing their property, plant, and equipment, freight railroads have recently experienced a substantial growth in traffic—a growth that some project will continue into the future. In January 2006, the CBO reported that total freight carried

¹⁰⁵GAO, *Commuter Rail: Information and Guidance Could Help Facilitate Commuter and Freight Rail Access Negotiations*, GAO-04-240 (Washington, D.C.: Jan. 9, 2004).

by all modes of transportation in the United States has been growing.¹⁰⁶ CBO indicated that railroads, in particular, experienced a sharp increase in traffic in the 1990s, with traffic increasing more than 50 percent between 1990 and 2003 (from about 1 trillion ton-miles to about 1.6 trillion ton-miles).¹⁰⁷ This growth is expected to continue. For example, the Department of Energy's Energy Information Administration has projected that railroad ton-miles will increase 1.7 percent annually between 2004 and 2030, reaching about 2.4 trillion ton-miles in 2030.¹⁰⁸ Other organizations have similarly predicted increases. This growth has acted to limit available capacity on the rail network, at least in some locations. In April 2006 testimony before the U.S. House Committee on Transportation and Infrastructure, Subcommittee on Railroads, the president and chief executive officer of the Association of American Railroads said that the traffic density (i.e., ton-miles per route-mile owned) for Class I railroads had more than doubled from 1990 to 2005 (see fig. 12).¹⁰⁹ He went on to say that the traffic increases had resulted in capacity constraints and service issues at certain junctions and corridors within the rail network. These constraints and service issues will all affect the ability of both passenger and freight rail carriers to provide the quality and frequency of service the carriers may be asked to provide.

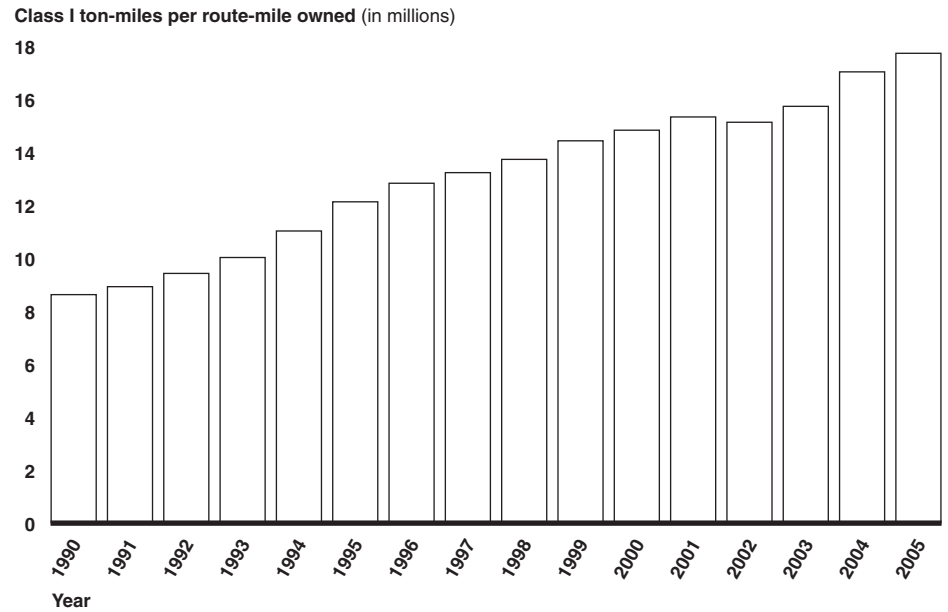
¹⁰⁶CBO, *Freight Rail Transportation: Long-Term Issues* (Washington, D.C.: Jan. 2006).

¹⁰⁷Statistics include Class I, Class II, and Class III railroads. The three classes of railroads are designated by the Surface Transportation Board, the federal agency responsible for the economic regulation of the rail industry. In 2004, Class I railroads had \$277.7 million or more in annual revenue. A ton-mile is one ton of freight transported 1 mile.

¹⁰⁸Energy Information Administration, *Annual Energy Outlook 2006* (Washington, D.C.: Feb. 2006).

¹⁰⁹Association of American Railroads, *Statement of Edward R. Hamberger, President and Chief Executive Officer, Association of American Railroads Before the U.S. House of Representatives, Committee on Transportation and Infrastructure, Subcommittee on Railroads*, April 26, 2006. The Association of American Railroads is a trade organization for the railroad industry.

Figure 12: Class I Ton-Miles per Route-Mile Owned



Source: Association of American Railroads.

Any reform that changes the type and frequency of intercity passenger rail service will need to address system infrastructure access and capacity issues. In doing so, any federal policy responses regarding freight infrastructure should consider several things in this regard: (1) subsidies can distort the performance of markets; (2) the federal fiscal environment is constrained; (3) policy responses should occur within the context of a National Freight Policy that reflects system-performance-based goals and a framework for intergovernmental and public-private cooperation; and (4) federal involvement should occur where demonstrable wide-ranging public benefits—and mechanisms to appropriately allocate the cost of financing these benefits—exist between the public and private sectors.¹¹⁰ In addition, federal involvement should focus on benefits that are more national than local in scope.

¹¹⁰GAO, *Freight Railroads: Preliminary Observations on Rates, Competition, and Capacity Issues*, [GAO-06-898T](#) (Washington, D.C.: June 21, 2006).

Freight railroads have other concerns as well. These include concerns about liability issues—that is, adequate protection against the risks of accidents involving passenger trains using their lines. In general, freight railroads seek full indemnification against any risks that might exist because of passenger rail service. See appendix V for a more complete discussion of infrastructure access, capacity, and liability issues.

Workforce Issues and Challenges

Finally, efforts to reform intercity passenger rail require consideration of workforce issues. That is, having enough people with the requisite knowledge and skills to provide the amount and type of service called for in a reformed system. There are several issues that need to be considered in this regard, including the following:

- *Availability of a qualified labor pool.* The reform of intercity passenger rail resulting in new services or operators will require that there be sufficient staff to provide service, conduct maintenance, and perform other duties related to running passenger railroads. In the short term, obtaining sufficient staff could be a challenge. As we reported in April 2006 (in the context of commuter railroad services), if Amtrak were to abruptly cease to provide service, some commuter railroad agencies would be able to replace Amtrak employees dedicated to their particular commuter rail service with employees from another railroad.¹¹¹ However, there were a number of agencies that said they would not be able to quickly replace current Amtrak employees because of workforce limitations, such as the availability of a qualified labor pool.
- *Workforce flexibility and productivity.* Reform of intercity passenger rail resulting in new services or operators will also require consideration of workforce flexibility and the extent that labor productivity can be increased. One key to providing cost effective intercity passenger rail service is to have high levels of labor productivity. Collective bargaining agreements and their related work rules specify the work that employees are expected to do and the amount of compensation they will receive for performing this work. Although such agreements can and do include changes designed to increase employee productivity by increasing or broadening the types of tasks that employees can perform, such agreements can also affect productivity by limiting the amount or type of work that employees can perform.

¹¹¹GAO-06-470, p. 27.

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- *Potential labor protection payments.* If, as the result of a reform of intercity passenger rail, Amtrak employees lose their jobs, there could be liability for labor protection payments. In general, labor protection payments are made to employees who lose their jobs as a result of a discontinuation of service. The Amtrak Reform and Accountability Act of 1997 made a number of changes to labor protection, including eliminating the statutory right to such protection; this made labor protection subject to collective bargaining, and required Amtrak to negotiate new labor protection arrangements with its employees. Amtrak labor-relations officials observed that bringing labor protection under collective bargaining (and therefore subject to the constraints of the Railway Labor Act), as opposed to being statutorily mandated, has actually limited Amtrak's flexibility to respond to marketplace changes. They observed that their flexibility was reduced because it is generally easier to change a statutory requirement than it is to change a collective bargaining agreement. With regard to the potential magnitude of labor protection payments, in September 2002 we reported that Amtrak would have had potential unsecured labor protection claims of about \$3.2 billion had it been liquidated on December 31, 2001.¹¹² Although any restructuring might not involve a bankruptcy, potential labor protection payments could still be substantial if employees lose their jobs.

Workforce challenges also include determining how a potentially reformed intercity passenger rail system fits into the current scheme of railroad-specific labor-management relations, retirement, and injury-compensation systems. Amtrak is currently subject to, among other laws, the Railway Labor Act, the Railroad Retirement Act of 1974, and the Federal Employers' Liability Act, which govern labor-management relations, retirement, and injury compensation, respectively, in the railroad industry. Amtrak's collective bargaining agreements generally do not expire and are subject to requirements designed to reduce labor strikes; Amtrak participates in, and provides financial contributions to, the railroad retirement-system (approximately \$400 million annually);¹¹³ and Amtrak and its employees are subject to a tort-based injury compensation system under the Federal

¹¹²GAO, *Intercity Passenger Rail: Potential Financial Issues in the Event That Amtrak Undergoes Liquidation*, GAO-02-871 (Washington, D.C.: Sept. 20, 2002).

¹¹³The railroad retirement system is administered by a federal agency, the Railroad Retirement Board, and includes both passenger and freight railroads. Amtrak participates in the railroad retirement-system, under which each participating railroad pays a portion of the total railroad retirement benefit-costs for industry employees.

Employers' Liability Act.¹¹⁴ We have reported that these legal requirements raise railroad costs compared to nonrailroad industries.¹¹⁵ Amtrak's April 2005 Strategic Reform Initiatives also suggested that meaningful reform of intercity passenger rail will require changing how some of these requirements apply to passenger rail. On the other hand, rail labor has argued for the importance of these laws in protecting employee rights, providing critical retirement benefits, and adequately compensating employees injured on the job.

State officials with whom we spoke expressed general concerns about the potential impact of Amtrak's labor agreements and obligations on the future of passenger rail. Some state officials viewed Amtrak's labor agreements as a significant barrier to restructuring. One official stated that serious labor reform is needed for intercity passenger rail reform to succeed. State officials also questioned whether alternative operators would be bound by Amtrak's labor agreements and thought that it was unlikely another operator could provide significant improvements in cost savings if they were. Another official stated that Amtrak's labor agreements would put Amtrak at a considerable disadvantage over alternative operators in a competitive market if the alternative operators were not bound by the same agreements.

Rail labor union officials with whom we spoke expressed several concerns about the effects any potential reform of intercity passenger rail might have on their members. First and foremost, union officials told us of their concern about the history of Amtrak's successive reforms and said these reforms had a detrimental effect on union employees. In their view, past Amtrak reforms have brought fewer union jobs and the loss of health and safety programs with no real improvement in Amtrak's financial performance or service to the public. Union officials also told us that any reform should attempt to make Amtrak, among other things, find new leadership dedicated to working with employees and growing the business, fix basic business practices, and improve customer service. Finally, union officials emphasized that rail labor is the monopoly workforce for passenger rail. Any reforms of intercity passenger rail would still require

¹¹⁴Under a tort-based compensation system such as the Federal Employers' Liability Act, employees must demonstrate that the employer, its employees, or agents were negligent, in order to receive compensation for employment-related injuries.

¹¹⁵GAO, *Railroad Competitiveness: Federal Laws Affect Railroad Competitiveness*, GAO/RCED-92-16 (Washington, D.C.: Nov. 5, 1991).

Private Sector Issues and Challenges

any operator—Amtrak, alternative operators, or a successor to Amtrak—to work through the unions to maintain a labor force. Rail union officials noted the success of the Massachusetts Bay Commuter Railroad, which provides commuter rail service in and around Boston, Massachusetts. In this instance, a private operator took over operations from Amtrak and was able to maintain existing work rules (collective bargaining agreement provisions that specify tasks employees can perform) while offering a 24-percent increase in wages.¹¹⁶

See appendix VI for more information about workforce issues.

Private sector issues and challenges primarily focus on what role, if any, the private sector will play in any reformed intercity passenger rail system. Currently, there is little private sector involvement beyond the infrastructure provided by freight railroads to operate intercity passenger rail service. Amtrak is the sole operator of intercity passenger rail service, and, although organized as a private, for-profit corporation, is heavily dependent on federal subsidies to remain solvent. In general, there are no other private sector operators outside of leisure travel providers such as GrandLuxe Rail Journeys (previously American Orient Express). This contrasts with the pre-1971 situation when, before Amtrak began service, freight railroads provided all intercity passenger rail service.

There are suggestions that the private sector could play a larger role, including being contract operators under a system in which competition and bidding is used to select service providers. For example, Amtrak's April 2005 Strategic Reform Initiatives suggests that there are opportunities for increased competition, and part of Amtrak's vision for itself under these initiatives is to evolve into one of a number of competitors for contracts to provide passenger rail service. However, there are a number of issues

¹¹⁶Amtrak operated Massachusetts Bay Transportation Authority trains and maintained their equipment and infrastructure under a contract that expired on June 30, 2003. The contract is currently held by a partnership that includes Veolia Transportation, Bombardier, and Alternative Concepts, Inc.

associated with increasing the private sector role in intercity passenger rail.¹¹⁷ These issues include the following:

- *Availability of potential private sector operators.* Since Amtrak is the sole provider of intercity passenger rail service, there has been little opportunity to test the market for potential new operators.¹¹⁸ However, there are indications that potential operators may exist and may be willing to participate in any opportunities that might arise, especially corridor service. For example, an official of one firm with worldwide rail and transportation operations said he believes there is a U.S. market for rail service in corridors—especially corridors with city-pairs 100 to 300 miles apart. An official from another firm with extensive passenger rail operations in the U.K. said his firm is very much interested in entering the U.S. passenger rail market, especially in operating the NEC. In his opinion, the NEC is a very viable corridor and could be wholly or partially privatized.
- *Costs of private sector operators and the need for public subsidies.* One of the key questions associated with competition and the use of private sector operators is how costs will change, and whether public subsidies can be reduced or eliminated. Again, since the U.S. market has not been tested, it is difficult to know what the specific cost or subsidy impacts from competition might be. On the one hand, European experience has shown that franchising and competitive bidding has not necessarily reduced the need for government subsidies. In fact, in 2 of the European countries we visited (Germany and the U.K.) there is substantial government financial involvement in competitively bid systems. On the other hand, in the U.K., some franchise operators have recently been financially successful enough to allow them to pay the

¹¹⁷Amtrak noted there are currently statutory restrictions on its ability to outsource. Amtrak cited section 121(c) of the Amtrak Reform and Accountability Act of 1997, which prohibits outsourcing that results in layoffs of employees other than food and beverage employees (unless negotiated with Amtrak’s unions pursuant to the Railway Labor Act). Amtrak also cited 49 U.S.C. § 24305, which requires Amtrak to “operate and control directly, to the extent practicable, all aspects of the rail transportation it provides.”

¹¹⁸In April 2006, Amtrak issued a request for proposal to solicit bids from states for private companies to operate state-supported routes. As of July 2006, Amtrak was in the process of evaluating proposals from four states to do such things as designing and restructuring service on a state-supported route in Vermont and to develop and test a new reservations system.

government a premium for excess profits they have made.¹¹⁹ Aside from government financial assistance, foreign officials also pointed to other things—such as increases in ridership and quality of service—as the benefits of a more competitive system. For example, data from the Association of Train Operating Companies indicate that passenger rail ridership in the U.K. increased about 38 percent over roughly the last decade (from about 745 million trips to just over 1 billion trips annually).¹²⁰ The largest growth was in the long-distance market.¹²¹ Similarly, government data show that the number of complaints per 100,000 passenger trips in the U.K. generally decreased from about 120 in April 1999 to 70 in April 2005.¹²²

- *Potential requirements to encourage private sector participation.* There may be certain requirements for encouraging private sector participation in providing intercity passenger rail service. These requirements may include maintaining Amtrak's current statutory rights of infrastructure access. An official from one firm with worldwide transportation operations with whom we spoke emphasized that access to tracks, stations, rights-of-way, and maintenance facilities would be key for his firm and other operators to be successful participants in the intercity passenger rail market. This firm would look to states or Amtrak to provide these access arrangements prior to their taking over operations. Officials from all 5 states we talked to agreed there would be a number of barriers to competition and that access issues would be a critical issue. Flexibility in allowing firms to branch into nonrail operations may also be important. In Japan, passenger rail officials told

¹¹⁹Train operating companies in the U.K. pay fees to access tracks and stations owned by the infrastructure manager, Network Rail, to provide service. These fees are largely paid by the train operating companies and are considered during the franchise award process. According to an official with the Department for Transport, U.K. franchise agreements contain provisions allowing the regulation of profit and loss. In general, if franchise revenue growth exceeds a certain level specified in the franchise agreement, then 50 percent of the additional revenue growth is shared with the government.

¹²⁰The Association of Train Operating Companies is a trade association representing the interests of the U.K.'s train operating companies.

¹²¹According to the Association of Train Operating Companies, in general, trains run by long distance operators in the U.K. travel anywhere from about 120 miles up to about 600 miles and may or may not include sleeper cars.

¹²²Office of Rail Regulation, *National Rail Trends Yearbook 2005–2006* (covering the period April 2005 to March 2006).

us that their firms not only provide passenger rail service but are also involved in other activities such as real estate development, retail stores, and light manufacturing.

Funding Issues also Present Challenges

There are also a number of challenges associated with funding for intercity passenger rail service. One is identifying funding sources to meet long-term funding needs. Being in a capital intensive business, intercity passenger rail has substantial ongoing and long-term funding needs. For example, Amtrak is currently receiving over \$1 billion annually in federal subsidies and it has an estimated \$6 billion in deferred capital backlog of infrastructure improvements, including about \$4 billion on the NEC. In March 2006, the DOT OIG reported that, for fiscal year 2007, Amtrak would need about \$1.4 billion just to maintain Amtrak and keep its system from falling into further disrepair.¹²³ This would not include amounts to address the backlog of capital maintenance, invest in short-distance corridors, or renew equipment. This official went on to say that none of the corridors around the country, including the NEC, can provide the type of mobility needed without significant capital investment. This limitation applies to the development of new corridors as well, including high-speed rail corridors. As we testified in April 2003, the total cost to develop high-speed rail corridors is unknown because these types of corridors are in various stages of planning.¹²⁴ However, the costs could be substantial. The American Association of State Highway and Transportation Officials—a trade association of state and local transportation officials—has reported that about \$60 billion would be required to develop these corridors, including Amtrak’s NEC, over a 20-year period.

Funding challenges also include finding funding sources to meet whatever national intercity passenger rail policy goals are established. Currently, virtually all federal funding for intercity passenger rail comes from general appropriations; therefore, intercity passenger rail must compete with a myriad of other needs to obtain funding. This practice allows Congress to set spending priorities. As discussed earlier, the existence of funding sources to meet national policy goals was a component in many foreign passenger rail reform efforts. Even in Canada, where there was no major

¹²³See Mark Dayton testimony.

¹²⁴GAO, *Intercity Passenger Rail: Issues for Consideration in Developing an Intercity Passenger Rail Policy*, [GAO-03-712T](#) (Washington, D.C.: Apr. 30, 2003).

restructuring, the government was willing to commit, albeit not on a formal basis, to identifying funding amounts so as to provide a stable level of annual operating funding for its intercity passenger rail provider, VIA Rail. This commitment has continued for about 8 years¹²⁵ and through several changes in government. According to Transport Canada officials, this commitment allowed VIA Rail management some stability in planning. They also said that, while there was no explicit rationale for the amounts provided, the objective was clearly to “set VIA’s feet to the fire” by not increasing the subsidy. However, reducing the level of support would make it difficult to preserve services. Finding funding sources to meet national policy goals for intercity passenger rail will not be easy, especially as the nation faces increasing fiscal constraints at the federal level. As discussed earlier in this report, the federal government faces significant fiscal challenges in future years and will need to reexamine its role and financial support for virtually all federal programs, including intercity passenger rail. The challenge will be in finding a funding source(s) that can meet long-term needs while retaining the accountability of an annual appropriations process.

Funding challenges include aligning the decision making for, and the benefits of, intercity passenger rail service with the responsibility for paying for such service. Currently, there is a basic misalignment in these elements. Historically, states have not been required to subsidize basic intercity passenger rail service. States may subsidize additional service that would benefit residents. As discussed earlier, in fiscal year 2005, 13 states paid about \$140 million to subsidize additional service from Amtrak. However, there were over 30 states that did not subsidize intercity passenger rail service even though such service was provided in their state. In general, Amtrak is the focal point for decision making about what intercity passenger rail service is provided and where.¹²⁶ Under this structure, some states benefit from having intercity passenger rail service but play little role in deciding what service is provided or in subsidizing the services received. Some states are aware of the benefits of this structure—

¹²⁵In 1998, the government committed to providing VIA Rail with ten years of stable operating funding at \$171 million CAD per year. This was reduced in 2004 by \$2 million CAD as part of a government wide review of expenditures.

¹²⁶Although states are not required to subsidize basic intercity passenger rail service, federal statute (49 U.S.C. §24706) does require Amtrak to provide notification 180 days prior to discontinuance of service to give states, a regional or local authority, or another entity the opportunity to agree to share or assume the cost of any part of the train, route, or service to be discontinued.

for example, an official from one state we contacted told us that Amtrak is “a great deal” for the state because the state pays nothing for service, even though there are numerous Amtrak trains that operate daily within the state. This official said his state would like to see additional service, but the state has little voice in the matter because the state does not pay. On the other hand, an official with another state said his state believes it is paying an inequitable amount for service compared to other states. As we reported in April 2003, the willingness and ability of states to provide and maintain financial support for intercity passenger rail is unknown.¹²⁷ This willingness and ability is a challenge that will need to be considered in aligning the decision making and benefits of intercity passenger rail with payment for such benefits.

Finally, funding challenges will involve developing incentives to ensure participation and cost sharing by states and other stakeholders. Currently, there are few means for cost sharing of federal and nonfederal expenditures on intercity passenger rail. The current funding structure provides appropriations for both federal operating and capital improvement funds directly to Amtrak by way of grant agreements. These grant agreements specify what federal funds are to be used for but do not require Amtrak or others to contribute matching funds, either for operating or capital purposes. Some other federal surface transportation programs require matching contributions to create incentives and leverage federal funds. For example, the Federal-aid Highway program generally limits the federal financial share of the cost of highway projects (generally 80 percent of costs) and requires states or others to contribute matching funds for the remaining cost of such projects. Similarly, federal statute limits the maximum federal share for some mass transit projects and requires project sponsors to contribute matching funds.¹²⁸ In fact, one of the criteria the Federal Transit Administration considers in selecting new transit projects to finance under its New Starts program is the amount of local financial commitment. The absence of similar cost sharing mechanisms makes it difficult for intercity passenger rail projects to compete for federal or state dollars.

¹²⁷[GAO-03-712T](#).

¹²⁸The New Starts program is a Federal Transit Administration program for starting fixed guideway projects. The program funds up to 80 percent of a project’s net capital cost. See GAO, *Public Transportation: Preliminary Information on FTA’s Implementation of SAFETEA-LU Changes*, [GAO-06-910T](#) (Washington, D.C.: June 27, 2006).

The equitable and sustainable response to funding challenges is more complex than providing some “comparable” funding for intercity passenger rail to that provided for other transport modes. First, while advocates for increased federal support for passenger rail often cite the billions of dollars provided to highways and airports, in fact these funds are derived from explicit taxes or user fees. Second, in spite of the historical user-based funding of these modes, we have recently reported that commitments made are no longer sustainable; there is an urgent need for identifying new, more sustainable, and adequate funding to support the defined federal role.¹²⁹ Finally, the modal comparisons of the magnitude of federal funding are most appropriately grounded in the magnitude of current and potential public benefits. As such, the order of magnitude of public funds to support intercity passenger rail would appropriately be grounded in the role intercity passenger rail does (or could) play in national mobility, relative to the dominance of highway and air travel for medium- and long-distance travel and the public benefits that would result. Any consideration of dedicated funding for intercity passenger rail also needs to account for the potential downsides of such funding. In May 2006, we reported that, despite the advantages of dedicated funding, there are risks of revenue volatility and loss of budgetary flexibility. That is, there is a risk that revenues may fluctuate and not meet funding expectations; and, that setting government funds aside for a specific use may affect the funding available for other spending priorities.¹³⁰

Not Addressing Challenges Will Hinder Opportunities to Increase the Benefits of Federal and Nonfederal Intercity Passenger Rail Expenditures

Not addressing the challenges discussed earlier may very well hinder opportunities to increase the benefits of both federal and nonfederal expenditures on intercity passenger rail. Amtrak has efforts under way to analyze and implement various changes to its operations to reduce costs, increase efficiency, and move states closer to paying for the services they receive. Although these efforts are a step in the right direction, they are expected to have only marginal impacts on the financial performance of intercity passenger rail service. These efforts will not, and should not be expected to, address some of the more fundamental reform elements (e.g., clearly defining both a national policy and stakeholder roles for intercity

¹²⁹GAO-05-325SP; GAO, *Highway Trust Fund: Overview of Highway Trust Fund Estimates*, GAO-06-572T (Washington, D.C.: Apr. 4, 2006).

¹³⁰GAO, *Mass Transit: Issues Related to Providing Dedicated Funding for the Washington Metropolitan Area Transit Authority*, GAO-06-516 (Washington, D.C.: May 15, 2006).

passenger rail service, and finding funding to support national policy goals) associated with increasing public benefits provided by intercity passenger rail service. Amtrak itself has said that its existence is not a substitute for a national policy. The incremental changes being taken by Amtrak do not necessarily go to the root of the challenges that policymakers need to address to bring about increased public benefits of any federal expenditure on intercity passenger rail service.

Not addressing the challenges makes it likely that a well-defined role for federal subsidies for intercity passenger rail in the United States will also remain elusive. As CRS reported in June 2006, Congress has essentially reached a stalemate with respect to Amtrak and intercity passenger rail.¹³¹ This stalemate was illustrated by the fact that both the 107th and 108th Congresses were unable to reauthorize funding for Amtrak or reach consensus on what kind of passenger rail system it would be willing to fund. This stalemate has largely continued in the 109th Congress. As discussed earlier, part of this stalemate has resulted from the wide diversity of views and opinions on how the intercity passenger rail system should be structured, what role the federal government, states, and others should play in the system, and required funding levels. All of these speak to the fundamental challenges described above.

Finally, addressing challenges has been integral to reform efforts elsewhere in the world. Although passenger rail reform efforts worldwide are still largely evolving and continue to face challenges, addressing such challenges has been part of moving forward. For example, in the early 2000s, the U.K. realized it faced problems with insufficient infrastructure investment and rising costs of train operators. In response, a new structure was developed that changed the infrastructure manager and the governance structure of this manager, and significantly increased government involvement in specifying the services to be provided by train operating franchises. The U.K. has also established a process that will develop expected national outputs for its passenger rail system in 2007, develop a cost estimate for these outputs, and ensure that adequate funds are available to support these outputs. Accompanying this output document will be a broader and longer-term strategy document looking ahead to about 2035. Similarly, to address the costs of intercity passenger rail service and growing federal budget pressures, Canada initially

¹³¹Congressional Research Service, *Amtrak: Budget and Reauthorization*, Order Code RL33492 (Washington, D.C.: June 22, 2006).

considerably reduced VIA Rail's annual subsidy from 1992 to 1998 from \$344 million (Canadian) to \$171 million (Canadian), then imposed informal caps on VIA Rail's operating subsidy. Along with the caps came informal funding commitments designed to facilitate management stability in planning. The funding also came with incentives by allowing VIA Rail to finance capital improvements or meet operating shortfalls by retaining any annual operating subsidy amounts not used.¹³² Further, Japan addressed funding challenges associated with financially weak passenger rail systems by establishing a business stabilization fund that is expected to provide sufficient income to continue operations without using an annual federal subsidy. Japanese rail officials told us that the business stabilization fund has allowed smaller railroads to operate more independently of government interference.

Options for the Future of Intercity Passenger Rail Will Determine the Level of Federal Involvement

As the federal government is the primary provider of funds, oversight, and direction for intercity passenger rail service, federal policy makers should take the lead in deciding what the federal government's role in intercity passenger rail service should be and what changes, if any, need to be made to its goals, structure, and funding. Using our previous work, the work of other government agencies, and our review of other selected countries, we defined four basic options that represent the potential range of options for reforming intercity passenger rail service in the United States. They are maintaining the status quo, introducing incremental changes within the existing structure, discontinuing federal support, and restructuring the entire intercity passenger rail system. This section discusses each option separately, although some combination of these options could also be implemented. All four options for the future of intercity passenger rail present challenges that could impede both their selection and their effectiveness once chosen. Of the four options, however, restructuring presents the opportunity to substantially improve the intercity passenger rail system. This option would allow Congress and policymakers to establish intercity passenger rail's goals, define the roles of stakeholders, and develop funding mechanisms that provide performance and accountability for intercity passenger rail expenditures. Any substantial reorganization of intercity passenger rail will be difficult and can be expected to occur over a long period of time.

¹³²VIA Rail also receives capital improvement funds from Parliament. Canadian officials said VIA Rail last received such funds (about \$402 million CAD) in 2000 to be spent over a 5 year period.

In the sections that follow, we (1) lay out the framework for examining the options, (2) describe each option in more detail, and (3) offer observations on the advantages, disadvantages, and challenges associated with each option.

Fundamental Reexamination Criteria and Key Components of Decision-Making Framework Could Help Guide Consideration of Options for Future Federal Role in Intercity Passenger Rail

It is important for federal policy makers to determine whether or not the federal government should be involved in intercity passenger rail and, if so, how federal participation can be both cost-effective and sustainable, particularly in light of the federal government’s long-term structural fiscal imbalance. In our report on 21st century challenges facing the federal government, we defined a set of fundamental reexamination criteria that are useful for evaluating the federal role in any government program, policy, function or activity. The criteria are designed to address the legislative basis for the program, its purpose and continued relevance, its effectiveness in achieving goals and outcomes, its efficiency and targeting, its affordability, its sustainability, and its management. These fundamental criteria can be used to inform and evaluate the continued federal involvement in intercity passenger rail service (see table 4 below for an example of how these criteria may be applied).

Table 4: Application of Critical Reexamination Questions Defining the Federal Role in Intercity Passenger Rail

Fundamental criteria	Critical questions
Relevance and purpose of the federal role	Does intercity passenger rail, as currently provided, have a clear federal role and mission?
Measuring success	Does intercity passenger rail, as currently provided, have outcome-based performance measures?
Targeting benefits	Do current intercity passenger rail expenditures target areas with the greatest needs and least capacity?
Affordability and cost effectiveness	Do these expenditures encourage state and local governments, and the private sector, to invest their own resources? Are these expenditures affordable and sustainable in the long term?

Source: GAO analysis.

If policy makers determine that there is a clear federal role in subsidization of intercity passenger rail service, the implementation of that role should have several essential elements. From our past work on federal

investments in transportation,¹³³ and our analysis of foreign efforts on intercity passenger rail reform, we have defined a framework that can guide the implementation of any of the basic options for the future of intercity passenger rail. This framework includes three components: creation of solid goals, establishment of clear stakeholders' roles, and the provision of sustainable funding. This framework has three components (see table 5).

Table 5: Three Components of Framework for Defining Federal Involvement in Intercity Passenger Rail

Component	Description
Set national goals for the system	These goals, which would establish what federal participation in the system is designed to accomplish, should be specific, measurable, achievable, and outcome-based.
Establish and clearly define stakeholder roles, especially the federal role relative to state, local, and private-business transportation roles	The federal government is one of many stakeholders involved in intercity passenger rail service. Others include state and local governments and riders themselves, all of whom benefit from intercity passenger rail service. Given the broad range of beneficiaries, it is important in order to gain consensus as to what the system is to achieve and to help ensure that the federal role does not negatively affect the participation or transportation role of other stakeholders.
Determine which funding approaches, such as cost sharing for investment in new infrastructure, will maximize the impact of any federal expenditures and investment	This component can help expand the ability to provide funding resources and to promote cost sharing responsibilities. Given the current budgetary environment and the long-range fiscal challenges confronting the country, federal funding for future transportation projects involving intercity passenger rail service will require a high level of justification. This justification should have a solid vision and identify funding that will deliver maximum public benefits for money expended for intercity passenger rail.

Source: GAO analysis.

All four basic options we identified would also benefit from a process for evaluating performance periodically to determine if the anticipated benefits are being realized. Evaluations also provide a means to periodically reexamine established goals, stakeholder roles and funding approaches, and provide a basis to modify them, as necessary. Leading private and public organizations we have studied in the past, such as

¹³³GAO, *Intermodal Transportation: Potential Strategies Would Redefine Federal Role in Developing Airport Intermodal Capabilities*, [GAO-05-727](#) (Washington D.C.: July 26, 2005); GAO, *Marine Transportation: Federal Financing and a Framework for Infrastructure Investments*, [GAO-02-1033](#) (Washington D.C.: Sept. 9, 2002); and GAO, *Freight Transportation: Short Sea Shipping Option Shows Importance of Systematic Approach to Public Investment Decisions*, [GAO-05-768](#) (Washington D.C.: July 29, 2005).

General Electric and the state of Washington, have stressed the importance of developing performance measures and then linking investment decisions and their expected outcomes to overall strategic goals and objectives.¹³⁴ While federal funding is currently a major source of financial support for intercity passenger rail service in the United States, currently there are no requirements for a periodic, regular evaluation of the use of federal funds (outside of annual appropriations legislation and yearly FRA grant reviews).¹³⁵

Each of the four options we identified has different implications for the three elements of our framework—goals, roles, and funding. (See fig. 13 for an overview.) For example, the federal role changes from managing the different aspects of a federal exit from intercity passenger rail service in the discontinuance option to one where it provides strategic direction and targeted funding to increase the benefits of intercity passenger rail service in the restructuring option.

¹³⁴GAO, *Executive Guide: Leading Practices in Capital Decision-Making*, [GAO-AIMD-99-32](#) (Washington, D.C.: Dec. 1998).

¹³⁵Amtrak also makes certain information available about its business. Each year, Amtrak is required to submit to Congress, by February 15th, an annual operations report that identifies such things as ridership, revenues, and federal subsidies for each of its intercity routes. Amtrak is also required to annually submit to Congress a general and legislative report that discusses its operations and activities and includes a statement of revenues and expenditures for the prior fiscal year.

Figure 13: Applying the Framework for Deciding the Future of Federal Involvement in U.S. Intercity Passenger Rail

Four main options	Keep existing structure and funding of intercity passenger rail	Incremental change within existing intercity passenger rail structure	Discontinue federal role in intercity passenger rail	Discontinue federal role in intercity passenger rail
Possible implementation of options	Current structure for intercity passenger rail is retained with no significant reform efforts or increase in federal support	Reform existing intercity passenger rail structure incrementally within current structure, with a possible cap on operational support	Exit strategy from intercity passenger rail should outline an orderly transition from federal role for rail, divest major portions of current system and devolve responsibility and support of intercity passenger rail service and the NEC to state and local government and other stakeholders	Federal support of intercity passenger rail as more integral to national transportation system, using tools such as franchising, competition, matching funds, or privatization
Applying the three components of federal involvement	<p>Goals: Keep current structure, service levels with no change in federal funding</p> <p>Roles: Existing roles would remain the same</p> <p>Funding: Same level of federal support appropriated annually</p>	<p>Goals: Federal involvement in intercity passenger rail could focus on improved performance</p> <p>Roles: Existing roles would remain the same</p> <p>Funding: Federal funds are used to incentivize improved performance</p>	<p>Goals: Elimination of the federal role</p> <p>Roles: States and local governments must contract with Amtrak or other providers for intercity passenger rail service</p> <p>Funding: Federal government will be responsible for some shutdown costs and face pressure to assume other shutdown costs (such as employee labor protection)</p>	<p>Goals: Restructure intercity passenger rail service to increase the realization of its transportation and public benefits</p> <p>Roles: Federal leadership secures a consensus with all stakeholders to support new vision for intercity passenger rail system</p> <p>Funding: Mechanisms that align intercity passenger rail benefits with costs to all stakeholders</p>

Source: GAO.

First Option: Keep Existing Structure and Funding of Intercity Passenger Rail

This option would continue the existing structure and about the same level of federal funding for intercity passenger rail service. Under this option, the federal government would continue to ensure that a national intercity passenger rail system exists. However, the existing inefficiencies, uneven service levels, and limited capital investment would also continue.

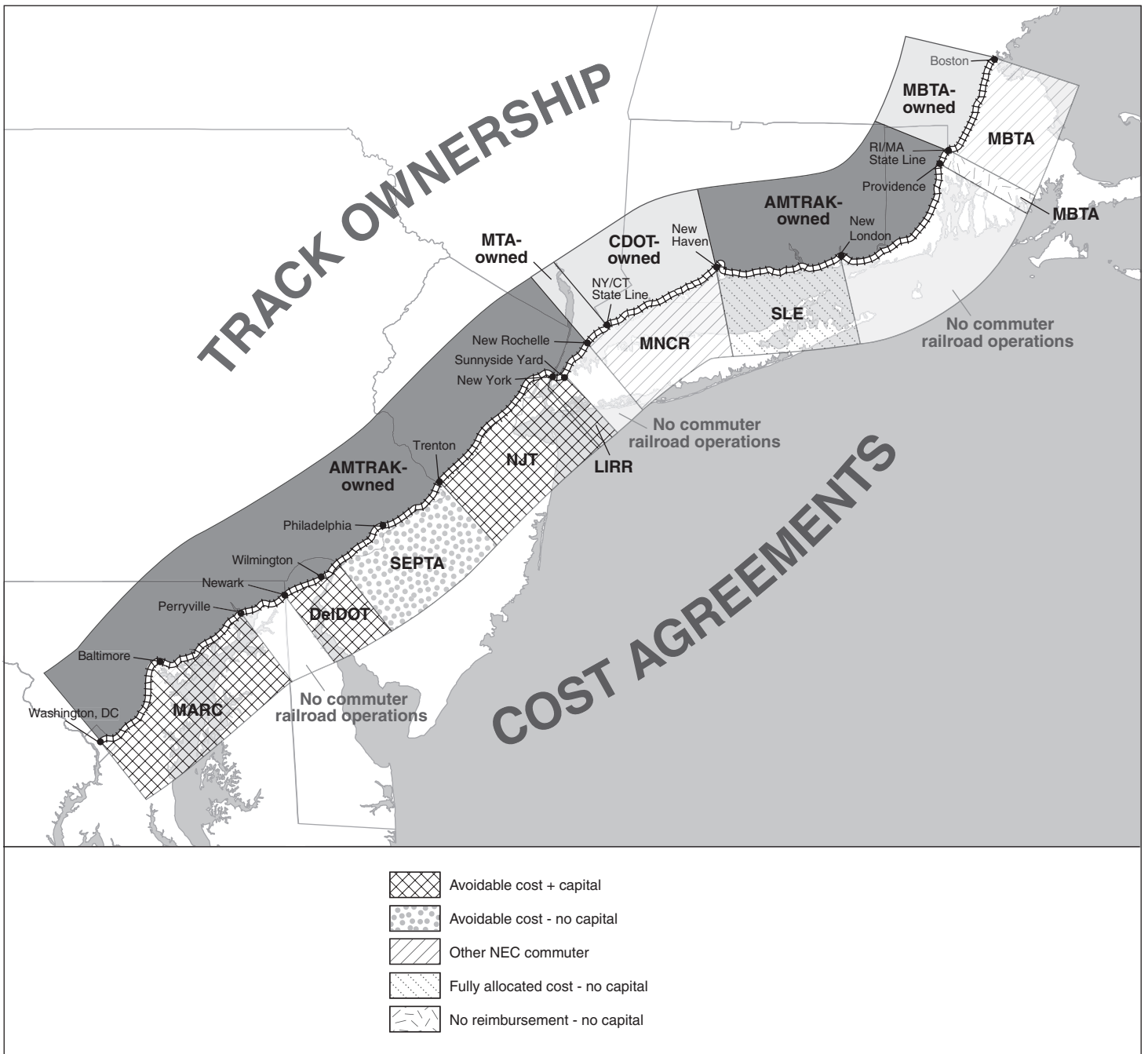
Establish Goals to Maintain Current Structure

The goal of this option would be to preserve and maintain the current intercity passenger rail structure and federal funding levels. This option would also maintain the current route structure and levels of capital investment. The federal mandate to have a national route structure connecting intercity corridors would continue to influence the route structure of the intercity passenger rail system. With no increased federal direction to change Amtrak, intercity passenger rail operations would continue without any major structural changes or increased federal expenditure.

Define the Federal Role within the Current Structure

The federal role under this option would be to continue to support the current structure of intercity passenger rail. The federal requirement to run a national system would remain and Amtrak's route structure and management of the NEC would continue. The current stakeholder roles of the federal government, state and local governments, freight railroads, and commuter rail agencies would also remain the same. This option would also retain the current relationships between Amtrak and the states and commuter rail agencies, which in some cases are uneven. For example, extensive service provided by Amtrak for some city pairs allows some states to benefit from basic or "free" intercity corridor services from Amtrak, while other states pay Amtrak to run corridor services that were not part of Amtrak's original service structure. Likewise, some commuter rail agencies would continue to pay lower access fees than other commuter rail agencies for using Amtrak-owned infrastructure. These access fee differences, the result of a 1982 Interstate Commerce Commission ruling, are depicted in figure 14.

Figure 14: Commuter Rail Agency Contributions to Amtrak on the NEC



Sources: GAO, Amtrak, Corel (map).

Commuter Railroads and Transit Agencies

Long Island Rail Road (LIRR)
Maryland Rail Commuter Service (MARC)
Massachusetts Bay Transportation Authority (MBTA)
Metro North Commuter Railroad (MNCR)
State of New York Metropolitan Transit Authority (MTA)
New Jersey Transit (NJT)
Connecticut Department of Transportation's Shore Line East service (SLE)
Southeastern Pennsylvania Transportation Authority (SEPTA)

Departments of Transportation
Delaware Department of Transportation (DeIDOT)
Connecticut Department of Transportation (CDOT)

Continue Existing Funding

Federal funding to support Amtrak's operations and capital expenditures would continue at current levels (between \$1.25 billion and \$1.5 billion per year) under this option. Although a small portion of the overall federal transportation budget, this level of expenditure could maintain Amtrak's current operations and level of capital investment in the short term. However, the longer this level of expenditure continues without any other changes in Amtrak's route structure or expenditures, the less likely that Amtrak will be able to cover any losses from extended operational difficulties (such as the *Acela* brake issue in April 2005 or the loss of electrical power on the NEC in June 2006), or be able to start improving the condition of its core asset, the NEC.

Second Option: Incremental Change within Existing Intercity Passenger Rail Structure

Federal policy makers could determine that the current level of federal involvement in, and funding of, intercity passenger rail is generally adequate and appropriate, as in the first option. Under this second option, however, federal policy makers could introduce incentives for incremental improved operational and financial performance and accountability within the current intercity passenger rail structure, such as financial, accounting, or operational improvements. These incremental improvements could come from federal policymakers or Amtrak's management. The aim of this option would be to make some positive financial and operational improvements without substantially changing Amtrak's financial situation or the current structure of intercity passenger rail in the national transportation system.

Establish Goals to Improve Performance within Existing Structure

Under this option, the goal of federal involvement could be defined as continuing to support the current intercity passenger rail structure while incrementally improving its performance. This goal would be achievable within the current system and funding structure and would focus on incremental operational and financial improvements. For example,

provisions in Amtrak's fiscal year 2006 appropriations legislation specify that Amtrak must show savings from operational reforms or federal funds could not be used to cover losses from sleeper or food and beverage services.

Another improvement federal policy makers could consider is making Amtrak subject to basic requirements that are consistent with either federal-entity or public-company financial reporting and accountability requirements. Many of the basic accountability practices and requirements of federal entities or public companies would improve Amtrak's accountability and transparency to Congress, the public, and key stakeholders; and could be implemented while streamlining current practices. An integral step in this process would be to first evaluate Amtrak's current practices and requirements in comparison with those of federal entities and public companies and use the evaluation as the basis for a plan to move forward.

Currently, Amtrak is not subject to many of the basic accountability requirements of either federal entities or public companies due to its status as a government-established private corporation. However, the current financial reporting and accountability requirements specific to Amtrak require it to submit annual audited financial statements and an operations report to Congress.¹³⁶ Amtrak is also subject to additional reporting requirements as a result of its current funding structure, where annual grant agreements for operating and capital expenses are established and a prior loan agreement remains in effect. The monthly performance report—an extensive report containing financial results, route performance, workforce statistics, and performance indicators—is one of the various daily, monthly, and annual reports that Amtrak is required to provide under these agreements. In our October 2005 report on Amtrak's management and performance, we noted that certain relevant information was not included in monthly performance reports and the information in the monthly performance reports was of questionable reliability.¹³⁷ We also noted in our October 2005 report that Amtrak had made improvements in its financial information, and we recommended including relevant information and increasing the reliability of the information in the monthly

¹³⁶49 U.S.C. § 24315.

¹³⁷GAO-06-145.

performance report, as well as preparing an action plan to put certain financial management and reporting mechanisms in place.

Although financial reporting requirements of federal entities vary somewhat, most federal entities are required to issue annual performance and accountability reports (PAR). These PARs contain audited financial statements; management's discussion and analysis of the current year in comparison to the prior year; an analysis of the agency's overall financial position, the results of its operations, and a discussion of key financial related measures; and management's assurance statement on the effectiveness of internal control, including a report on identified material weaknesses and corrective actions. OMB, which oversees the financial reporting of federal entities, reviews the PARs submitted by agencies.¹³⁸ In addition, agency Inspectors General report semi-annually on their assessments of the agencies' most serious management and performance challenges.

Public companies, in addition to annual reports, are required to (1) provide, with their annual financial statements (management's discussion and analysis), information relevant to an assessment of financial condition and the results of operations; (2) issue quarterly financial statements that are reviewed by external auditors; (3) have the chief executive officer and chief financial officer certify that the financial statements do not contain any untrue statements; and (4) have management assess and report on the effectiveness of internal controls over financial reporting. Independent audit committees provide oversight of public companies' financial reporting, internal control, and the audit process. The Securities and Exchange Commission oversees accountability at public companies through reviewing the financial reports and other filings of public companies. (See app. VII for a more detailed discussion of financial accountability standards and oversight that could be applied to Amtrak.)

Define the Federal Role within the Current Structure

As this option would not represent a dramatic shift in the current intercity passenger rail structure, a clear definition of roles may not occur. The current roles for states, local governments, Amtrak, freight railroads, and commuter railroads, would stay the same. As in the first option, this option would perpetuate Amtrak's current service structure that provides more

¹³⁸These requirements are found in OMB Circular No. A-136, *Financial Reporting Requirements* (rev. July 24, 2006), which implements 31 U.S.C. 3515(d) requiring OMB to prescribe the form and content of financial-entity financial statements.

basic intercity service between some city pairs than others. It would also perpetuate its current relationship with commuter rail agencies on the NEC.

Determine the Appropriate Federal Funding Mechanisms to Improve Performance

One approach would be to reach an agreement among key legislative and executive branch decision makers on a multiyear funding level for federal operating of subsidies for intercity passenger rail service. Such a multiyear agreement was successful in Canada when VIA Rail used the imposition of a cap on its operating subsidies from the Canadian government to reduce its operating costs. Although the spending cap was originally intended to save the Canadian government money during a time of high fiscal deficits, VIA Rail used its imposition to increase its emphasis on internal cost control by reducing its labor costs for managers by 50 percent and its equipment maintenance costs by 65 percent. The operating funds are planned for over 10 years, giving VIA Rail the stability to plan its operational expenditures over that time. While the funds are not adjusted for inflation, VIA Rail is allowed to retain any amount of its operating subsidy it does not use from year to year to save for capital improvement projects or other needs.

While the funding approach could take several forms, federal support under this option would likely not rise substantially, as the goal of the option is to make incremental improvements without substantially changing the federal commitment. While some savings could result from incremental reforms, it is likely that, as with the first option, Amtrak would remain unable to cover any losses from extended operational difficulties or to start improving the condition of the NEC.

Third Option: Discontinue Federal Role in Intercity Passenger Rail

Under this option, the federal government would end its financial support of the intercity passenger rail system. This would shift responsibility for all intercity passenger rail service and federally owned rail infrastructure in the Northeast to state and local governments and other stakeholders. While this option could ultimately reduce federal expenditures by eliminating operating and capital funds for Amtrak, according to CBO, discontinuing federal support for intercity passenger rail could also force a liquidation of Amtrak.¹³⁹ Consequently, federal funds could be needed in the immediate

¹³⁹Congressional Budget Office, *The Past and Future of U.S. Passenger Rail Service* (Washington D.C.: Sept. 2003).

and long terms to cover implementation costs of Amtrak liquidation, including labor protection payments and the disposition of Amtrak's assets.¹⁴⁰ Also, although this option could create opportunities for states to contract for intercity passenger rail service from other operators,¹⁴¹ many states may not be able or willing to fund existing intercity passenger rail service with state transportation funds without access to federal capital matching funds. Any federal exit strategy and transition plan would also need to be comprehensive and detailed.

Establish Goals that Discontinue the Federal Role

Under this option, federal policy makers would determine that there is no federal role in the support of intercity passenger rail service. A goal of successfully implementing this option could be an orderly withdrawal of federal support and involvement from long distance and corridor intercity passenger rail service. The federal government would create an exit strategy that would enact this goal, in part by creating a detailed and comprehensive transition plan that would address several important issues resulting from federal withdrawal of support. One of these issues is the disposal of the federal interest in Amtrak and in Amtrak owned portions of the NEC.¹⁴² The NEC is the busiest rail corridor in the United States, with over 1,800 intercity passenger, commuter, and freight trains using its tracks per day. Amtrak owns a substantial portion of the NEC, including portions over which several commuter rail agencies and freight railroads operate. Amtrak operates trains, controls the movement of train traffic over the NEC, and maintains most of the NEC.

One example of how to handle the NEC under this option could be similar to how the Mexican government sold franchise agreements for different segments of its freight rail network.¹⁴³ Following privatization efforts in Argentina and Brazil, the Mexican government, between 1996 and 2000,

¹⁴⁰As we reported in September 2002, we concluded that the United States would not be legally liable for either secured or unsecured creditors' claims in the event of an Amtrak liquidation. Nevertheless, we recognize that creditors may attempt to recover losses from the U.S. government. See GAO, *Intercity Passenger Rail: Potential Financial Issues in the Event That Amtrak Undergoes Liquidation*, GAO-02-871 (Washington D.C.: Sept. 20, 2002).

¹⁴¹This would be similar to the relatively competitive current marketplace for commuter rail service in some states.

¹⁴²While Amtrak owns portions of the NEC, the federal government owns a promissory note issued by Amtrak representing a secured interest in those portions.

¹⁴³The World Bank, *Results of Railway Privatization in Latin America* (Washington D.C.: Sept. 2005).

sold nine different 50-year franchises (each with a 50-year renewal option) to private bidders to operate freight rail service.¹⁴⁴ According to the World Bank, considerable care was taken by the Mexican government when creating the franchises to preserve competition and avoid cross-holding and cross-subsidization between the bidders and eventual franchise operators. Since privatization, freight traffic has grown and substantial investments in the rail infrastructure have been made by the private operators.

As we pointed out in our April 2006 report on Amtrak and commuter rail issues,¹⁴⁵ access to Amtrak's skilled labor and its infrastructure are two critical issues to commuter railroads—especially to those railroads that operate over the NEC. Some commuter rail agencies could not continue to fully operate service—or would cease service altogether—without access to Amtrak's skilled labor and infrastructure. Any transition plan would also need to include, among other things, strategies for addressing the challenges identified earlier in this report (e.g., federal–state partnerships, and infrastructure access and capacity), the financial viability of Amtrak, and concerns of freight railroads and others about the viability of the railroad retirement system.

Define the Appropriate Stakeholder Roles

The heart of any federal exit strategy and transition plan would be to define the appropriate role for freight and commuter railroads, Amtrak, and any new owner or manager of the NEC in relation to any continued intercity passenger rail service. Since following this option would involve a major shift in national transportation policy, the federal exit strategy and transition plan would need to clearly define the roles of stakeholders in the new intercity passenger rail structure in the United States. The federal role would be discontinued and responsibility for any continued intercity passenger rail service could be transferred to states (either to individual states or to groups), local governments, or the private sector. Amtrak, as a private corporation, could potentially continue as a provider of service; other private transportation companies could also compete for subsidies to provide service on current or new routes sponsored by the states. However, many states may choose not to invest their scarce transportation funds in a

¹⁴⁴While the Mexican government retained its ownership of its railroad infrastructure, the length of franchise agreements and the minimization of government involvement could serve as an example for the federal government to franchise the NEC.

¹⁴⁵[GAO-06-470](#).

transportation mode for which there are no federal capital matching funds—especially considering passenger rail’s capital costs. For example, two state transportation officials said their states would be willing to consider taking over operational responsibility for corridor Amtrak service in their states, but only if the federal government would match state capital funds at an 80-percent to 20-percent rate, similar to highway and airport expenditures.

The financial incentive for private transportation companies to continue or start any intercity passenger rail service would be reduced, or may not exist at all, without federal subsidies for either operations or capital projects. For example, officials from one private transportation company with whom we spoke stated that virtually every intercity passenger route would require public subsidies. However, according to the official, if competition for intercity passenger rail service were introduced, it could motivate private transportation companies to reduce their costs. While probably not enough to eliminate the public subsidy, competition could lead to lower overall costs.

If states did want to continue intercity passenger rail service (especially across state borders) without direct federal involvement, different intergovernmental structures could be adopted. One structure could be interstate compacts, under which a group of states can work together to achieve a common regional goal or provide a regional service without direct federal involvement. An example is the Washington, D.C., Metropolitan Area Transit Authority (WMATA). WMATA is an agency created by an interstate compact (although the federal government is also a signatory to the compact) that provides bus and rail transit service in Virginia, Maryland, and Washington, D.C. WMATA operations are funded by fare and non-fare revenue and contributions from local governments, the two states and Washington, D.C. Capital projects are funded by these states and Washington, D.C., and are matched by the federal government.

Determine Funding Level for Federal Exit Strategy

While the federal government could eventually save the amount of Amtrak’s annual capital and operating subsidy if it decided not to support intercity passenger rail service, this option could have substantial immediate and long-term costs to the federal government, especially if

Amtrak were liquidated as a result of withdrawal of federal support.¹⁴⁶ In our 2002 report on potential issues associated with an Amtrak liquidation,¹⁴⁷ we identified \$44 billion in total claims against Amtrak's estate—including \$3.2 billion for potential payments Amtrak would owe its terminated employees (if Amtrak had been liquidated on December 31, 2001). Payments to the railroad retirement system could be as high as \$400 million annually if former Amtrak employees were not reemployed in the railroad industry. In addition, currently, Amtrak has about \$3.5 billion in long-term debt and capital lease obligations that could be unfunded in an Amtrak liquidation. The federal government may also decide to fund Amtrak's other liabilities as a last resort if the sale of Amtrak assets does not cover them.¹⁴⁸ In addition, as we found in 2002, the market value of Amtrak's most valuable asset, its portion of the NEC, has not been tested. The corridor clearly has substantial value and some consideration could be given to a long-term lease to a private operator. However, the railroad is subject to numerous easements and has, as of our October 2005 report, over \$3.8 billion of deferred capital maintenance that any future owner or operator would need to address for continued safe, reliable operations.

Fourth Option: Restructure Intercity Passenger Rail Service

Substantial restructuring of intercity passenger rail service could take many different forms. However, the core challenge of this approach is that critical decisions would have to be made with all stakeholders about what goals the restructured intercity passenger rail system should try to meet, what roles the various stakeholders should play, and what federal funding sources and mechanisms would be available to operate and maintain the restructured system while maximizing cost sharing by all who benefit from intercity passenger rail. Some examples of ways that substantial restructuring could be implemented could include the following:

- continuing corridor intercity routes where the benefits of intercity passenger rail are higher while discontinuing long distance routes where the benefits are lower;

¹⁴⁶Amtrak officials and the Congressional Budget Office have stated that withdrawal of federal capital and operating support would force Amtrak into bankruptcy, which may lead to its liquidation.

¹⁴⁷See [GAO-02-871](#).

¹⁴⁸Again, as we concluded in [GAO-02-871](#), the United States would not be legally liable for either secured or unsecured creditors' claims in the event of an Amtrak liquidation.

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- restructuring Amtrak into separate companies;
 - transferring Amtrak-owned infrastructure to a compact or commission of states to oversee its operations and improvements;
 - creating competition for federal- and state-subsidized routes between private operators and Amtrak;
 - providing a one-time endowment to Amtrak as an incentive for it to run as a more market-oriented business without continued federal involvement and support; or
 - providing states flexible capital matching grants to create their own solutions to transportation needs, including intercity passenger rail service.

Establish Goals for Restructured Intercity Passenger Rail Service

Under this option, policy makers would determine that there are sufficient public benefits at a national level to justify subsidies for an intercity passenger rail service that is different from the current structure. The primary goal for the federal government, under this option, would focus on increasing the national transportation benefits and public benefits of intercity passenger rail service relative to the federal expenditure. For example, furthering this goal could include using federal subsidies for intercity passenger rail to: reduce highway congestion, increase intermodal connectivity, provide environmental benefits, or increase redundancy in regional or urban transportation. Specifically, one of the goals under this option could be to increase the use of intercity passenger rail service between major cities with trip times under 3 hours. Two examples of how this goal could be achieved include the U.K. model of intercity passenger rail service or the German model for regional rail service.¹⁴⁹ In both models, passenger rail operating companies openly bid for the lowest amount of government subsidy to operate a specific route. These franchise agreements are multiyear contracts backed by either national or regional government subsidies. The operator would collect ticket revenues and the agreed-upon government subsidy to operate a specific level of service over the route. This approach makes the government an explicit buyer of

¹⁴⁹Although DB is the largest regional passenger rail operator in Germany with 84 percent of the market, it runs all of its regional routes under contract and must meet specified performance criteria; bonuses and penalties depend upon performance. DB is also one of over 20 different passenger rail operating companies in Germany.

intercity passenger rail services from a private operator and increases the transparency of costs for a given level of service. Contracts for service could include operational and capital expenditures and specify such things as service frequency, trip length, stops, a payment schedule, and performance metrics.

Importantly, spending federal funds for intercity passenger rail service to increase public benefits will not necessarily lower the cost of providing intercity passenger rail service. As discussed earlier in this report, in many of the countries we visited the level of federal expenditures on passenger rail after reform remained high or increased.

Define the Federal and Other Stakeholder Roles in a New Intercity Passenger Rail Structure

There are many different ways that the federal government and other stakeholders could define their respective roles within a new intercity passenger rail structure. The federal government could narrow or expand its role in the new structure. However, the key opportunity of a restructuring effort is in defining the roles of all stakeholders to create incentives and promote equity across all beneficiaries, both public and private, in the new structure. For example, the federal government could determine—in partnership with states, local governments, Amtrak, and various transportation providers (including freight and commuter railroads)—the route structure, service frequency, and infrastructure access arrangements for all intercity passenger rail routes. In order to ensure that intercity passenger rail service does not significantly interfere with freight rail service, any restructuring approach should also take into consideration the national freight transportation policy currently being developed by DOT.

One of the more challenging areas to define roles is the NEC, where Amtrak is the owner of most of the infrastructure while many other railroads are the main users. As discussed above, participation is uneven and the vital infrastructure is not being maintained effectively. One structure that could facilitate a federal–state partnership to manage the NEC could resemble the Delta Regional Commission or the Appalachian Regional Commission. These commissions consist of a group of states and a federal representative to foster partnerships between state and federal government entities and distribute economic development funds throughout a specified economically distressed region. For example, the federal government and thirteen states make up the Appalachian Regional Commission to distribute economic development and highway construction funds throughout the 410-county Appalachian region. Federal economic development grant funds are distributed to member states

according to criteria based on such factors as population, land area, and economic need.

Recognizing its fiscal constraints, the federal government could provide matching funds (either for operating or capital expenditures, or both) for routes that meet certain goal-related criteria (such as reducing highway congestion or increasing intermodal connectivity) and that are partially funded and proposed by states or groups of states under a process similar to the New Starts program for federal transit funding. However, regardless of the eventual structure or tools used to implement the structure, federal leadership would be needed to reach a consensus on goals, structure, and funding with all stakeholders.

Determine the Appropriate Federal Funding Sources

Given the long term federal fiscal imbalance, finding federal funds necessary to fund a substantial restructuring of intercity passenger rail could be a significant challenge. In four out of the five countries we visited, the national government currently provides a substantial amount of funding for intercity passenger rail service.¹⁵⁰ Finding sufficient funding could be crucial in order to restructure current service, attract increased capital investment from nonfederal sources and give other transportation providers the incentive to provide intercity passenger rail service by significantly increasing the incentives for non-federal partners. However, the scarcity of federal funds puts a premium on sharing costs of equipment, infrastructure, and service. State and local governments may be willing to invest to support continued, expanded or new intercity passenger rail service. Moreover, increased state participation would more effectively integrate decision making on intercity passenger rail priorities with investments in competing and complementary modes including highways, airports and mass transit.

An example of how costs could be shared across stakeholders could be seen in the Federal Highway Administration's Innovative Financing

¹⁵⁰Japan is the one country that is an exception. In Japan, the major intercity passenger rail providers are privatized and do not receive any direct government subsidy; most of Japan's population is concentrated in 20 percent of its land area in densely populated major cities. This geographical situation is ideally suited for intercity passenger rail service. For example, intercity passenger trains have an 80-percent market share of all intercity passenger trips about 200-400 miles in length. The Japanese government still subsidizes new high speed and other rail line construction, however.

Program. This program includes several different forms of highway financing, which are designed to stimulate additional investment and private participation. Different financing approaches in the program include the use of state infrastructure banks and credit assistance under the Transportation Infrastructure Finance and Innovation Act. These financing approaches could be adapted to allow states to leverage federal funds for investment in intercity passenger rail projects.

Funding for intercity passenger rail could come from a number of sources. For example, some funding to subsidize federal and state intercity passenger rail service could be provided through taxes paid by, or franchise payments received from, private operators on those routes that may be profitable and not require a subsidy (as is the case for some railroads in Japan). Capital funds used to increase capacity, reduce bottlenecks, and increase train speeds (especially on freight railroad owned track) could come from existing federal taxes, including taxes on railroads or fuel taxes. For example, regional governments in Germany are allocated funds from a federal automobile fuel tax to support regional (i.e., short-distance, intraregion) passenger rail service. This is not necessarily a new tax—rather, it is a change in how these funds are allocated by the German federal government. Another funding option would be for the federal government to create an endowment or “business stabilization fund,” such as was used in Japan, to stabilize its smaller privatized railroads. This endowment would help Amtrak transition from being dependent on federal support to being a more market-based company. Any funding for a stabilization fund would need to recognize the fiscal constraints on the federal government and competing priorities. During the privatization of its national railroad system, the Japanese national government identified the railroads that were least likely to be profitable and provided them with a one-time set-aside of government funds to provide continuous interest income for those railroads. While the companies were prohibited from using the invested capital to cover expenses, the earned interest could be used to stabilize the business and provide long-term funds not subject to annual government appropriations.

Each Option Carries Advantages, Disadvantages, and Challenges, However Restructuring Presents Substantial Opportunity for Improving the Intercity Passenger Rail System

All four options for the future of intercity passenger rail present challenges that could impede both their selection and their effectiveness once chosen. Of the four options, however, restructuring presents the opportunity to substantially improve the intercity passenger rail system. This option allows all stakeholders to establish intercity passenger rail's goals, the roles of stakeholders and the funding mechanisms that provide performance and accountability for intercity passenger rail expenditures. Consensus on any change to the current intercity passenger rail structure has been difficult to achieve in the past. As a result, if a decision is made to proceed with restructuring, a commission may be a useful mechanism for reaching consensus on a method of restructuring among stakeholders and for recommending a restructuring approach.

Keeping the Status Quo Forgoes Benefits that May Accrue from Improving the System

While keeping intercity passenger rail's current structure and federal funding levels would preserve a federal role in intercity passenger rail, it would also preserve all of the current problems and limitations. States and commuter rail agencies would continue to have unequal relationships with Amtrak. The current route structure would continue to dilute the public benefits of federal intercity passenger rail expenditures. Investment in and the quality of commuter and intercity service on the NEC would likely continue to decline and in states where intercity passenger rail could provide the most public benefits states' transportation funds would continue to be spent on other modes without considering public benefits from spending on intercity passenger rail. Any extended operational difficulties may leave Amtrak without significant cash reserves to cover lost revenues and may result in more financial difficulty.

With the current general level of federal funding, Amtrak will continue to be faced with a deteriorating infrastructure and aging equipment that will increase its operating costs and limit its ability to provide its current levels of service. Without a significant capital infusion, the capital maintenance backlog on the Amtrak-owned portion of the NEC will continue to increase, negatively affecting Amtrak's performance on its key route and diminishing the benefits of intercity passenger rail in the most densely populated area of the country. In addition, any new equipment (or a refurbishment of old equipment) would have to be financed either with Amtrak's limited capital funds or with commercial debt, which would increase Amtrak's operating expenses. With current levels of funding and the lack of a clear definition of roles for intercity passenger rail service, significant opportunities—for instance, cost sharing for service in corridors where the public benefits of such service may be high—could go unrealized. Amtrak will also face the

continued annual uncertainty about its financial situation, which will damage its relationship with its creditors, suppliers, freight railroads and its riders. Freight railroads will receive the same compensation from Amtrak for the use of increasingly scarce capacity on their major rail lines in addition to not benefiting from increased public investment to increase capacity for passenger and freight traffic where they co-exist on their rail lines.

Intercity passenger rail riders could also face disadvantages under this option. A deterioration in service and equipment could force Amtrak to raise ticket prices for a lower quality service (which may also be affected by increased freight rail traffic). In addition to the uncertainty surrounding federal and state investment in intercity passenger rail service, this deterioration of service may drive away current and future riders and increase highway and airway congestion in areas where intercity passenger rail has made progress in increasing ridership, such as on the NEC and in California. Finally, the federal government would receive no increased benefits, and may receive less benefit due to declining capital investment, for its expenditures and would have no accountability or performance measures in place to gauge the effectiveness of those expenditures. In addition, no performance or outcome based goals would be established for intercity passenger rail service, clear stakeholder roles would not be defined, and there would be no opportunity to restructure funding mechanisms to include share costs across all stakeholders.

Incremental Change Does Not Address Fundamental Flaws in the Current System

Though there may be some increase in public benefits, incremental change within the existing intercity passenger rail structure retains many of the same problems that would be retained under the first option. States and commuter rail agencies may still have unequal roles and face declining investment in Amtrak's infrastructure. While some savings could result from incremental reforms, the need for federal subsidies would remain, continuing the uncertainty of Amtrak's financial future. Freight railroads would continue to receive the same level of compensation for increasingly constrained rail capacity and may not see more investment where public demand for intercity passenger rail service on their railroads increases. Riders could also face reductions in amenities due to cost cutting measures in addition to the same or decreased service levels due to, among other things, increased freight traffic and deteriorating equipment that could reduce ridership on some routes.

With current levels of funding and the lack of a clear definition of roles for intercity passenger rail service, significant opportunities—for instance, to

share the costs of intercity passenger rail service in corridors where the public benefits of such service may be high—could go unrealized. While the federal government or Amtrak may impose new accountability and performance measures, the route structure may stay generally the same, still diluting the impact of federal expenditures. Also, no overall goals will be established for federal expenditures, roles will not be clarified and costs of intercity passenger rail service will not be equally shared across all beneficiaries.

Discontinuing Federal Involvement May Reduce Services and Would Require Detailed Planning and Substantial Federal Expenditures

Discontinuing the federal role presents strong challenges to all intercity passenger rail stakeholders. The federal government will need to create a comprehensive transition plan and exit strategy, especially in disposing of the NEC. The federal government could also face pressure from states, commuter rail agencies, and Amtrak's creditors and workforce to continue infrastructure investment in the NEC, and to cover Amtrak's outstanding debts and labor protection payments, respectively. Amtrak would face bankruptcy and a possible shutdown of all services without federal financial support. States will likely need to take on the responsibility to continue intercity passenger rail service, which may result in some routes being discontinued if they are not financially viable and states or others are not willing or able to subsidize service. In addition, an Amtrak bankruptcy may take away its equipment and its right of access to freight rail infrastructure. Without a comprehensive federal transition plan, commuter rail agencies that rely on Amtrak for services or infrastructure would face service disruptions and financial difficulties. This would be especially acute in the NEC, where most commuter railroads rely on Amtrak infrastructure or services. Freight railroads may gain increased capacity on some of their network, but would have to separately negotiate with individual or groups of states that wished to continue intercity passenger rail service on their railroads and deal with any new intercity passenger rail operators as well. Finally, riders could be forced to other modes of intercity and commuter transportation as a result of the federal exit from intercity passenger rail, either temporarily or permanently, increasing congestion on those modes. Under the discontinuation option there could be gaps in the national transportation system to the extent there are areas where the public relies solely on intercity passenger rail for mobility or travel between regions if states or groups of states choose not to retain the service.

Restructuring Provides Path to Increased Transportation and Public Benefits from National Intercity Passenger Rail Network

The restructuring option provides the opportunity to address the key reform elements necessary for a sustainable, equitable, intercity passenger rail system that delivers increased public benefits for federal and nonfederal expenditure where the other options do not. The status quo and incremental change options do not allow for a reexamination by all stakeholders of the goals, roles and funding mechanisms of the system and would not significantly increase the potential benefits of the system relative to the expenditures required. Discontinuing federal support would transfer responsibility for the system to other stakeholders, possibly creating disruption and loss of benefits for a possible decrease in federal expenditures. Although specific approaches may vary as to the goals, roles, funding and challenges faced by different stakeholders, restructuring the intercity passenger rail system potentially allows each stakeholder to more fully participate and build consensus toward addressing these key reform elements and to move toward a more equitable sharing of costs between the federal government and other beneficiaries of intercity passenger rail service.

Several challenges would need to be addressed before a restructured intercity passenger rail system could provide increased public benefits and accountability for federal expenditures. Federal policymakers will need to determine the goals of the restructured system, the roles of all the stakeholders, how federal expenditures will support the new system and mechanisms for its implementation. Increased funding for private operators may be needed to create a competitive marketplace for intercity passenger rail, as well as increased funding or financial backing for capital improvements in the NEC to ensure higher quality service. Federal policymakers could also face pressure to compensate those who might lose intercity passenger rail service or jobs due to the restructuring. States and commuter rail agencies may have to shoulder more of the financial, maintenance, and management burden in a restructured intercity passenger rail system, especially in the NEC, but may receive other benefits (such as improved service) in return. Amtrak would need to adjust to the new intercity passenger rail structure or face bankruptcy. Freight railroads may face increased public pressure for the use of their infrastructure for intercity passenger rail service and may need to accommodate non-Amtrak intercity passenger rail operators on their railroads. Riders may experience some disruption as routes are re-routed or discontinued.

Due to the complex nature of intercity passenger rail issues and the wide diversity of views about the future of intercity passenger rail service, an independent and properly designed commission may be an effective

mechanism for building a consensus that helps determine a restructuring approach. For example, a commission might be able to facilitate public dialogue around a variety of options. While it may be difficult for citizens to discuss the federal role in the abstract, preferences about that role can be inferred from their reactions to and comments on the various restructuring approaches. By facilitating public dialogue focused on feasible alternatives, the commission could help the President and the Congress as they define the role for the federal government in providing or subsidizing such service and specifying how the service could fit into our national transportation system. As discussed above, reaching consensus about federal policy toward intercity passenger rail has been difficult. While the stalemate in part reflects widely divergent views of the appropriate federal role, the debate has been stymied by the lack of objective, rigorous exploration of the operating challenges, costs, and distributional impacts of alternative strategies.

Prior commissions¹⁵¹ and initiatives have recommended options for restructuring intercity passenger rail service; however, their recommendations have not been implemented. This inaction is due, in part, to the challenges facing Amtrak as stated earlier in this report and, in part, to a failure to reach public consensus on the recommended restructuring approaches, which more fundamentally, requires a consensus on the future role of intercity rail in the nation's transportation system. Although motivated to define the federal role in intercity passenger rail, these prior commissions and current strategic initiatives have assumed a federal role in intercity passenger rail service without explicitly stating what that role is, what other stakeholders' roles are, and how that federal role will be funded.

Conclusions

If the role of intercity passenger rail is to be effectively integrated into the national transportation system and federal support is to be targeted to assure its performance, results and accountability, we believe that there is a clear need to change the current structure of and the federal role in intercity passenger rail in the United States. This change would be consistent with GAO's position that all federal activities should be

¹⁵¹Committee on Transportation and Infrastructure, Working Group on Intercity Passenger Rail, *A New Vision for America's Passenger Rail*, (Washington D.C.: June 23, 1997); and the Amtrak Reform Council, *An Action Plan for the Restructuring and Rationalization of the National Intercity Rail Passenger System*, (Washington D.C.: February 7, 2002).

reexamined with an eye to whether they fit in the changing world of the 21st century. The current and future fiscal imbalance underscores the importance of assuring that all federal programs and policies, including those for intercity passenger rail service, are subject to reexamination, review and possible change. The extended stalemate in developing a clear vision for how intercity passenger rail can be a part of the national transportation system has reflected the significant challenge in achieving consensus. As recently reported by the CBO, in the absence of any consensus on intercity passenger rail issues, Amtrak is likely to continue “limping along” as it has since its inception. We agree that without any changes to its current structure, roles, and funding, the current intercity passenger rail structure will continue to underserve, underinvest, and underachieve.

Consensus will be needed, in addition to legislative action—both in the short and long term—to improve the focus, performance, and sustainability of federal support for intercity passenger rail. Development of a national passenger rail policy to guide investments of federal funds should have: a clearly defined federal role, outcome-based policy goals, an approach to financing that stimulates investment by others commensurate with their benefits, and appropriate accountability mechanisms. The current U.S. intercity passenger rail structure meets none of these criteria—it does not have clear transportation related goals, the roles of stakeholders have grown haphazardly over time, federal funding is not based on cost sharing and not focused on maximizing public benefits, and its results are not outcome-based. With regard to its accountability and financial reporting, Amtrak is not subject to the same basic requirements for financial reporting, internal control and governance that are typically required of federal entities or public companies.

Recommendations for Executive Action

To improve Amtrak’s financial and internal control reporting and overall accountability, we recommend that the president of Amtrak:

Immediately take steps to evaluate Amtrak’s accountability—particularly its financial reporting, internal control, and governance practices—and formulate a plan to bring the financial reporting, internal control, and governance practices in-line with the basic requirements that federal entities or public companies practice, while also identifying opportunities to improve and streamline current reporting practices. The evaluation should include a comparison of Amtrak’s current accountability requirements and practices to those of federal entities as well as public

companies. This evaluation should serve as the basis for the formulation of Amtrak's plan to bring Amtrak's financial reporting, internal control, and governance practices in-line with the basic requirements that federal entities and public companies practice, based on a determination of which practices are most appropriate given Amtrak's overall mission, funding sources, and current situation. The plan should include developing management discussion and analysis as part of its annual financial reporting and developing management's assessment of internal control over financial reporting, while identifying opportunities to streamline other reporting practices. The plan should be submitted to Amtrak's Congressional oversight committees.

Matter for Congressional Consideration

In order to address longer term needs to maximize the transportation benefits and public benefits of intercity passenger rail service and any federal funds expended on this service, we recommend that Congress consider restructuring the approach for the provision of intercity passenger rail service in the United States. Only Congress can provide the national vision and has the authority to put in place a wide-ranging restructuring effort. This restructuring should include establishing clear goals for the system, defining the roles for states and the federal government, if any, commuter rail agencies, freight railroads and other stakeholders, focusing expenditures where they will achieve the most public benefits, and developing funding mechanisms that include cost sharing between the government and beneficiaries.

In undertaking this restructuring, it will be important to solicit input from all stakeholders, particularly DOT and FRA given their responsibility for transportation and rail matters. Evaluation of restructuring approaches should also consider the relationship between passenger and freight railroads and give due consideration to the national freight transportation policy being developed by DOT. Due to the complex nature of intercity passenger rail issues and the wide diversity of views about the future of intercity passenger rail service, an independent and properly designed commission may be an effective mechanism for developing a consensus over the future of intercity passenger rail service and helping determine a restructuring approach.

By addressing the key reform elements, Congress can create a structure that not only efficiently and effectively serves travelers but also promotes performance and accountability and the chance for increased

transportation and public benefits from federal expenditures for intercity passenger rail.

Agency Comments and Our Evaluation

We provided copies of the draft report to Amtrak and DOT for comment prior to finalizing the report. Amtrak provided its comments in a letter from its president and chief executive officer (see app. VIII). In general, Amtrak did not take an overall position on the report or the Matter for Congressional Consideration. However, Amtrak agreed that intercity passenger rail in the United States has come to a critical juncture and that a national dialogue about the future direction of rail service is needed. Amtrak also said that the three key elements to comprehensive reform of intercity passenger rail are establishing clearly defined national policy goals, clearly defining government and stakeholder roles, and establishing committed funding. Finally, Amtrak commented that a more efficient, improved, and expanded intercity passenger rail service can play an important role in relieving congestion, both in the air and on the highways, and that rail has unique advantages compared to other transport modes. We agree and our report discusses the importance of the three key elements of reform and the role they have played in reform efforts in foreign countries. We also agree that intercity passenger rail can play an important role in the nation's transportation system. For this reason, as well as the fact that intercity passenger rail service does not currently provide the most transportation benefits and public benefits that it can and the growing federal fiscal challenges, it is more important than ever for serious efforts to begin on identifying how intercity passenger rail service can be restructured to focus on its comparative advantages. We believe that success of this restructuring effort can best be achieved in the context of national policies and goals for intercity passenger rail—goals that are performance and outcome based. In addition, all relevant stakeholders need to participate and realistic assessments need to be made of potentially available funds for sustaining the restructured system. It will be very difficult to maximize the transportation benefits and public benefits of intercity passenger rail service without these foundations.

In response to our recommendation that Amtrak evaluate its accountability—particularly its financial reporting, internal control, and governance practices—Amtrak offered comments about specific steps that could be taken in that regard. For instance, Amtrak agreed that creating a Management Discussion & Analysis with its annual audited financials is reasonable and could help the uninformed readers understand the results and trends. Amtrak took exception with other examples of oversight such

as the CEO and CFO certifying Amtrak's financial statements similar to those done under Section 302 of Sarbanes-Oxley Act. However, our recommendation notes some general steps that Amtrak needs to take in order to evaluate Amtrak's current accountability practices in order to formulate a plan to bring Amtrak's practices in-line with the basic practices of federal entities or public companies, while identifying opportunities to streamline Amtrak's current reporting practices. In its response, Amtrak did not specifically address our recommendation to conduct such an evaluation for purposes of formulating a plan. Therefore, we have included additional information to our recommendation further elaborating on the objectives of the evaluation and the formulation of a plan to bring Amtrak's practices in-line with the basic practices of federal entities and public companies.

In its comments, Amtrak also pointed out that among the Federal Railroad Administration, the Department of Transportation Inspector General's office and the independent Amtrak Inspector General's office they have three existing oversight agencies that oversee Amtrak on a monthly, quarterly and annual basis and increasing oversight by adding the Securities and Exchange Commission seems an unnecessary use of federal funds with little real benefit for stakeholders. While we recognize that Amtrak is subject to oversight already, we believe there are opportunities to improve reporting practices, while identifying opportunities for potential streamlining of Amtrak's current reporting and related oversight. These opportunities should be considered as part of the evaluation of Amtrak's current accountability requirements and practices.

Amtrak also commented on a number of other issues. These included (1) the Amtrak deficit, (2) passenger revenues, (3) public benefits of Amtrak services, (4) state corridors, and (5) freight railroad impacts. These comments and our evaluation can be found in appendix VIII. Finally, Amtrak offered technical comments that we incorporated where appropriate.

DOT provided its comments in an e-mail message on October 12, 2006. The department did not indicate agreement or disagreement with the report or its recommendations but primarily provided technical comments that we incorporated where appropriate. However, the department did observe that effectively targeting federal funds where they may achieve the greatest level of public benefits is not one of the existing goals for Amtrak. The department also commented that it has never been FRA's role to "establish a vision for intercity passenger rail" regardless of resources that might be

available to the agency. While we recognize that FRA's involvement with and oversight of Amtrak has increased in recent years, our report makes it clear that, as currently structured, intercity passenger rail does not maximize either transportation benefits or public benefits for federal funds expended. Although Congress will play the key role in establishing a national vision for intercity passenger rail service and putting in place a structure for maximizing the benefits from this service, we believe executive branch leadership, particularly from DOT as being responsible for transportation issues and FRA for rail matters, would be helpful in establishing this vision. DOT and FRA leadership will also be essential for identifying the optimum structure for meeting this vision and the role stakeholders will be expected to play within this structure, as well as in identifying potential funding sources to ensure sustainability of the system. Such leadership and participation by these agencies will be even more important in light of the growing fiscal challenges faced by the federal government and the resulting constraints these challenges will place on resources provided to all modes of transportation.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 14 days from the report date. We will then send copies to other appropriate congressional committees, the President of Amtrak, the Secretary of Transportation, the Administrator of the Federal Railroad Administration, and the Director, Office of Management and Budget. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-2834 or heckerj@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs Office may be found on the last page of this report. GAO staff that made major contributions to this report are listed in appendix IX.

Sincerely yours,

A handwritten signature in black ink, appearing to read "JayEtta Z. Hecker". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

JayEtta Z. Hecker
Director
Physical Infrastructure Issues

Scope and Methodology

Our work was focused on identifying the critical issues and options that Congress could consider in providing more cost-effective intercity passenger rail. In particular, we focused on: (1) the characteristics of the U.S. intercity passenger rail system and the value and benefits provided by this system, (2) foreign experiences with passenger rail reform and lessons learned for the United States, (3) how well the United States is positioned to reform intercity passenger rail, (4) challenges that must be addressed in any reform efforts, and (5) potential options for the federal role in intercity passenger rail. Our scope was primarily limited to identifying the financial characteristics and other characteristics of the U.S. intercity passenger rail system from fiscal years 2001 to 2005. In reviewing route-related information, it was not the intent of our work to suggest that any particular routes or services be retained or eliminated. Similarly, in reviewing potential options for the federal role in intercity passenger rail it was not our intent to suggest that any particular option should be selected over any other option. Rather, the scope of our work was intended to identify a series of options that might exist for addressing the future federal role in intercity passenger rail service.

To determine the characteristics of the current U.S. intercity passenger rail system we collected information on all of the National Railroad Passenger Corporation's (Amtrak) routes, including ridership, revenues and costs, federal grants and state payments to Amtrak, and on-time performance for fiscal years 2000 through 2005. We also gathered and analyzed data provided by Amtrak to determine passenger demographics, connectivity between routes, and the potential transportation benefits and public benefits provided by Amtrak's different route types. We utilized route ridership data provided by Amtrak from their "data warehouse" database. To assess the reliability of this data and address discrepancies from figures reported in Amtrak's Route Profitability System (RPS), we conducted interviews with Amtrak officials and assessed the methodology used to develop this database. Based on this assessment, we determined that the data were sufficiently reliable for our purposes. To evaluate the financial performance of Amtrak's routes, we utilized information from the RPS database. Due to previously identified concerns regarding the reliability of this database, we conducted an interview with Amtrak's Chief Financial Officer, reviewed documentation of RPS's sources and methodology, and compared route-related financial information to Amtrak's "data warehouse" database to determine any major discrepancies. While these databases exhibit some variation due to the reporting format and source information, we determined that the financial information provided by the RPS database was sufficiently reliable to illustrate aggregate route-related

costs, and general trends between Amtrak's different route types, for the purposes of this report. For the purposes of reporting on-time performance we utilized data provided by Amtrak. We compared these figures to other reports issued by Amtrak and the Department of Transportation (DOT) and determined that the data were sufficiently reliable for our purposes. To determine passenger demographic information, we utilized survey data for all long-distance routes and select corridor routes in the Northeast and California in 2004 and 2005; these data were provided by Amtrak and collected by a third party contractor to Amtrak. We did not independently determine the accuracy or precision of Amtrak's survey estimates, however, based on our understanding of the overall survey methodology, we determined that the estimates were sufficiently reliable for our purposes in illustrating general demographic differences in riders across route types. Finally, to identify potential transportation benefits and public benefits provided by intercity passenger rail, we spoke with officials in five states;¹ private transportation companies; and transportation officials in several foreign countries. We also reviewed our previous work and reports issued by the Congressional Budget Office (CBO), Congressional Research Service, the Bureau of Transportation Statistics, the American Association of State Highway and Transportation Officials, and statements by officials at DOT.

To learn about foreign experiences with passenger rail restructuring and lessons learned for the United States, we collected data on several foreign countries that have reformed their intercity passenger rail system. This data included reports from the World Bank, the European Commission, the Congressional Research Service, as well as reports drafted by several private consulting firms at the request of the European Union. We conducted interviews with World Bank and European Commission officials, and using these reports and interviews, we developed criteria for selecting countries for site visits. These criteria included: the extent of rail privatization or competition introduced, geographic characteristics, market characteristics, national funding levels and sources, and the legislative regulatory environment. We reviewed data for Australia, Canada, France, Germany, Japan, Sweden, and the United Kingdom (U.K.). Five countries—Canada, France, Germany, Japan, and the U.K.—were all selected because

¹We spoke with officials in New York, Virginia, California, Washington, and Wisconsin. These states were chosen based on their diverse geographic location and the unique passenger travel markets in their respective regions. In addition, the type and extent of intercity passenger rail services vary considerably in these states, as well as the level of investment that each state has historically provided to support Amtrak operations.

they represented a wide range of reform experiences, and implemented a variety of approaches in reforming their systems. We conducted site visits to these countries, which included interviews with the Ministries of Transport for each of these countries. We also interviewed the primary rail operators in Canada, France, Germany, and Japan. In the U.K. we conducted interviews with one train operator, as well as the Association of Train Operating Companies. In France, Germany, the U.K., and Japan we also met with the infrastructure managers. Additionally, we met with other rail industry groups, such as Angel Trains and HSBC (rolling stock leasing companies) in the U.K., and the Paris Ile de France Public Transport Authority.

To determine the extent to which the United States is positioned to reform intercity passenger rail we analyzed the information we learned from the experiences of the five countries described above, and reviewed statutes related to intercity passenger rail, historical information on federal grants requested by and provided to Amtrak, government and association reports on Amtrak, and our past reports on various issues (including reports on Amtrak's management, commuter rail issues, and funding for other modes of transportation). We used the three key lessons learned from the five countries as our criteria for assessing how well the United States is positioned to reform intercity passenger rail; these criteria were (1) clearly defining national policy goals; (2) clearly defining the various roles and responsibilities of all government entities involved; and (3) establishing consistent committed funding for intercity passenger rail. For example, we compared the current U.S. intercity passenger rail policy to policies formed in other countries during the process of reform. A limitation of our assessment is that we only focused on comparing the United States to five countries with relatively different compositions in railroad infrastructure ownership, freight and passenger railroad markets, geography, and demographics. To determine the extent to which Amtrak's efforts address the three criteria, we obtained and analyzed a list of planned and under-way initiatives from Amtrak. We also reviewed Amtrak's April 2005 Strategic Reform Initiatives, congressional hearings on intercity passenger rail, and DOT's financial study on Amtrak's initiatives. In addition, we interviewed Amtrak officials about the status of reform initiatives and intercity passenger rail reform in general.

To address the challenges associated with addressing reform elements we reviewed pertinent legislation related to federal involvement with Amtrak and intercity passenger rail issues. We also reviewed various legislative proposals that have been introduced in recent years addressing intercity

passenger rail issues and reviewed Amtrak's April 2005 Strategic Reform Initiatives to identify the wide diversity of views on what intercity passenger rail service can and should be. We also obtained data from Amtrak showing state payments in fiscal year 2005 for additional passenger rail service and state contributions for capital improvement projects. We reviewed our previous reports addressing, among other things, infrastructure access and workforce issues, as well as Amtrak management and performance issues. We also reviewed reports from the CBO and the Department of Energy, and testimony from the Association of American Railroads on infrastructure capacity issues. As part of our work we solicited information from both Amtrak and selected commuter railroads about infrastructure access and liability costs.² We used the types and amounts of costs incurred by Amtrak and the commuter railroads to develop a comparison that highlights the differences between Amtrak's access agreements and access agreements negotiated under commercial arrangements. We did not perform a quantitative analysis of the differences in access charges between Amtrak and commuter railroads. Rather, our focus was limited to a qualitative description of the types and ranges of costs. Finally, we interviewed officials from Amtrak, the Federal Railroad Administration (FRA), state departments of transportation, rail labor unions, and freight railroads about issues they see in addressing the potential reform of intercity passenger rail. We also interviewed officials from the Appalachian Regional Commission about the structure of the organization, how it is governed, and the potential application of this federal-state governance structure to intercity passenger rail service.

To address future intercity passenger rail options, we reviewed pertinent legislation and our past reports, along with reports from the World Bank, the DOT Inspector General, the CBO, and the Congressional Research Service. We also interviewed railroad and government officials in the United States and the countries we visited. We reviewed the reports of various commissions including: the House Committee on Transportation and Infrastructure's Working Group on Intercity Passenger Rail, the Amtrak Reform Council, the President's Commission on the United States Postal Service, and the National Commission of Social Security Reform. The criteria for a fundamental reexamination of the federal role were developed in our report on 21st Century Challenges, and the framework to

²The commuter railroads included in our review were Altamont Commuter Express (California), Metrolink (California), Sound Transit (Washington), and Virginia Railway Express (Virginia and Washington, D.C.).

Appendix I
Scope and Methodology

guide the implementation of the options was reported in several of our previous reports and testimonies.

Our work was conducted from January 2006 to October 2006 in accordance with generally accepted government auditing standards.

Selected Performance Characteristics of Amtrak Long-Distance and Corridor Routes

The following are selected performance characteristics of Amtrak's long distance and corridor routes.

Table 6: Coach Class versus Sleeper Class: Net Loss per Passenger, Fiscal Year 2004

	Operating basis		Fully-allocated basis ^a	
	Coach	Sleepers	Coach	Sleepers
Sunset Limited	286	366	416	627
Crescent	114	330	194	552
Southwest Chief	198	307	279	484
Silver Service	99	244	168	439
Cardinal	129	238	175	420
California Zephyr	140	234	202	416
Lake Shore Limited	106	225	195	379
City of New Orleans	88	217	165	352
Capitol Limited	112	208	159	321
Texas Eagle	111	198	132	311
Coast Starlight	81	157	139	290
Empire Builder	94	154	126	283
Auto Train	26	124	117	269
Average loss per passenger	121.8	230.9	189.8	395.6

Source: DOT OIG analysis of Amtrak Fiscal Year 2004 data.

^a "Fully-allocated" loss includes capital depreciation and interest expenses.

Appendix II
Selected Performance Characteristics of
Amtrak Long-Distance and Corridor Routes

Table 7: On-Time Performance of Long-Distance Trains, Fiscal Year 2005

Routes	Percent on-time	Average minutes late
Auto Train	37.7%	80
California Zephyr	24.4	158
Capitol Limited	26.4	90
Cardinal	38.0	89
City of New Orleans	83.0	21
Coast Starlight	23.3	173
Crescent	57.3	48
Empire Builder	68.3	39
Lake Shore Ltd.	20.3	99
Silver Service	25.9	120
Southwest Chief	71.6	37
Sunset Limited	7.1	300
Texas Eagle	53.1	60
Three Rivers	58.6%	54

Source: GAO analysis of Amtrak data.

Appendix II
Selected Performance Characteristics of
Amtrak Long-Distance and Corridor Routes

Table 8: List of States with Corridor Services, Fiscal Year 2005

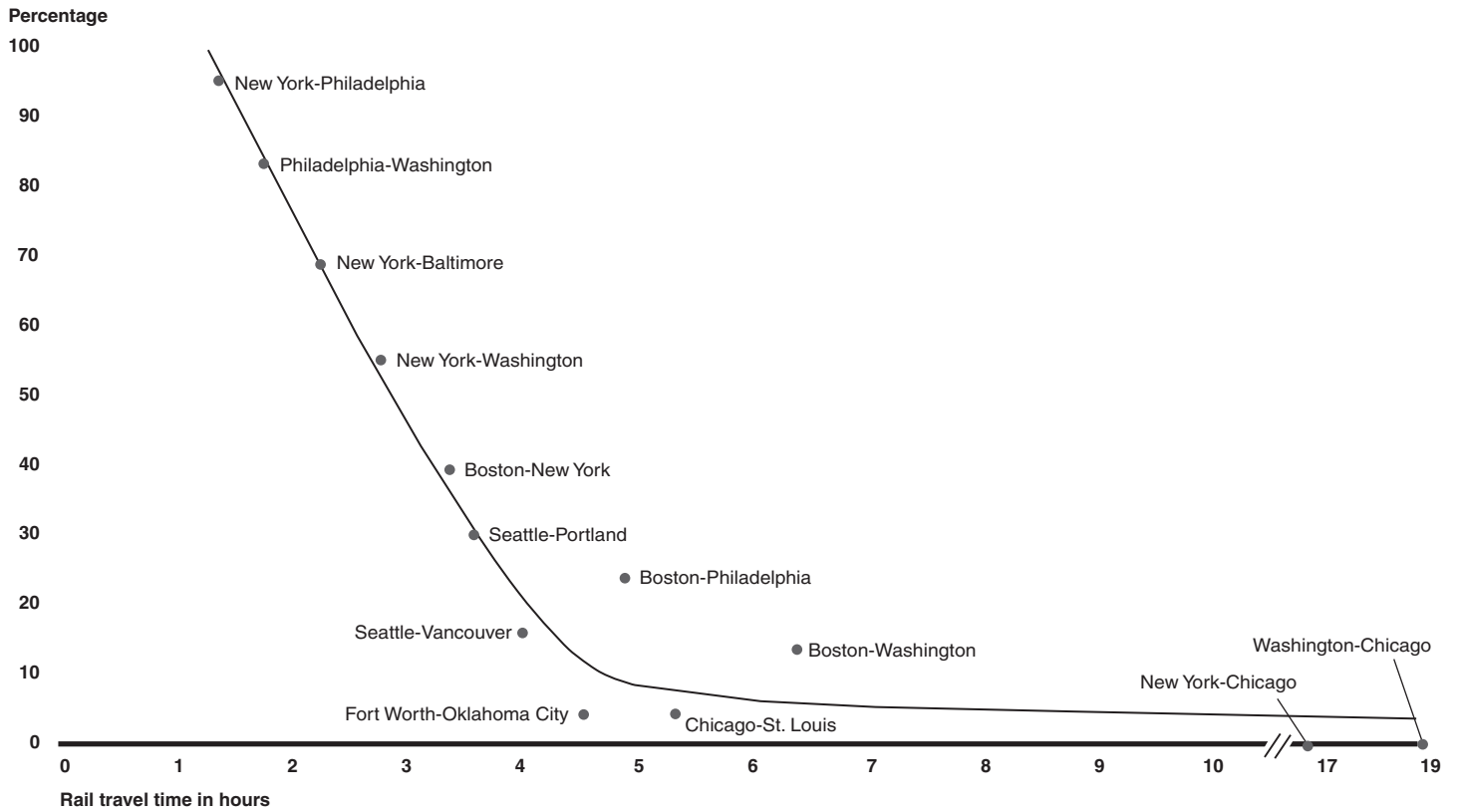
<p>California <i>Pacific Surfliner</i> <i>Capitols</i> <i>San Joaquins</i></p>	<p>New York <i>Empire</i> <i>Adirondack</i> <i>Ethan Allen</i></p>
<p>Connecticut <i>New Haven-Springfield</i></p>	<p>North Carolina <i>Carolinian</i> <i>Piedmont</i></p>
<p>Indiana <i>Hoosier State</i> <i>Wolverine</i></p>	<p>Oklahoma <i>Heartland Flyer</i></p>
<p>Illinois <i>Chicago-St. Louis</i> <i>Illini</i> <i>Illinois Zephyr</i> <i>Hiawatha (with Wisconsin)</i></p>	<p>Oregon <i>Cascades (with Washington)</i></p>
<p>Maine <i>The Downeaster</i></p>	<p>Pennsylvania <i>Keystone</i> <i>Pennsylvanian</i></p>
<p>Massachusetts <i>The Downeaster</i> <i>New Haven-Springfield</i></p>	<p>Texas <i>Heartland Flyer</i></p>
<p>Michigan <i>Wolverine</i> <i>Blue Water</i> <i>Pere Marquette</i></p>	<p>Washington <i>Cascades (with Oregon)</i></p>
<p>Missouri <i>Kansas City–St. Louis</i> <i>Chicago-St. Louis</i></p>	<p>Wisconsin <i>Hiawatha (with Illinois)</i></p>
<p>New Hampshire <i>The Downeaster</i> <i>Vermont</i></p>	<p>Vermont <i>Ethan Allen</i> <i>Vermont</i></p>
	<p>Virginia <i>Carolinian</i> <i>Washington-Newport News</i></p>

Source: Amtrak.

Note: The *Hoosier State* service between Indianapolis and Chicago is currently classified by Amtrak as a corridor route but was not included in the original DOT analysis. Does not include Regional and Keystone service on Boston-Washington NEC Spine. Illinois listing does not include routes that serve only Chicago. Texas has recently indicated that it will begin funding Heartland Flyer service.

Appendix II
Selected Performance Characteristics of
Amtrak Long-Distance and Corridor Routes

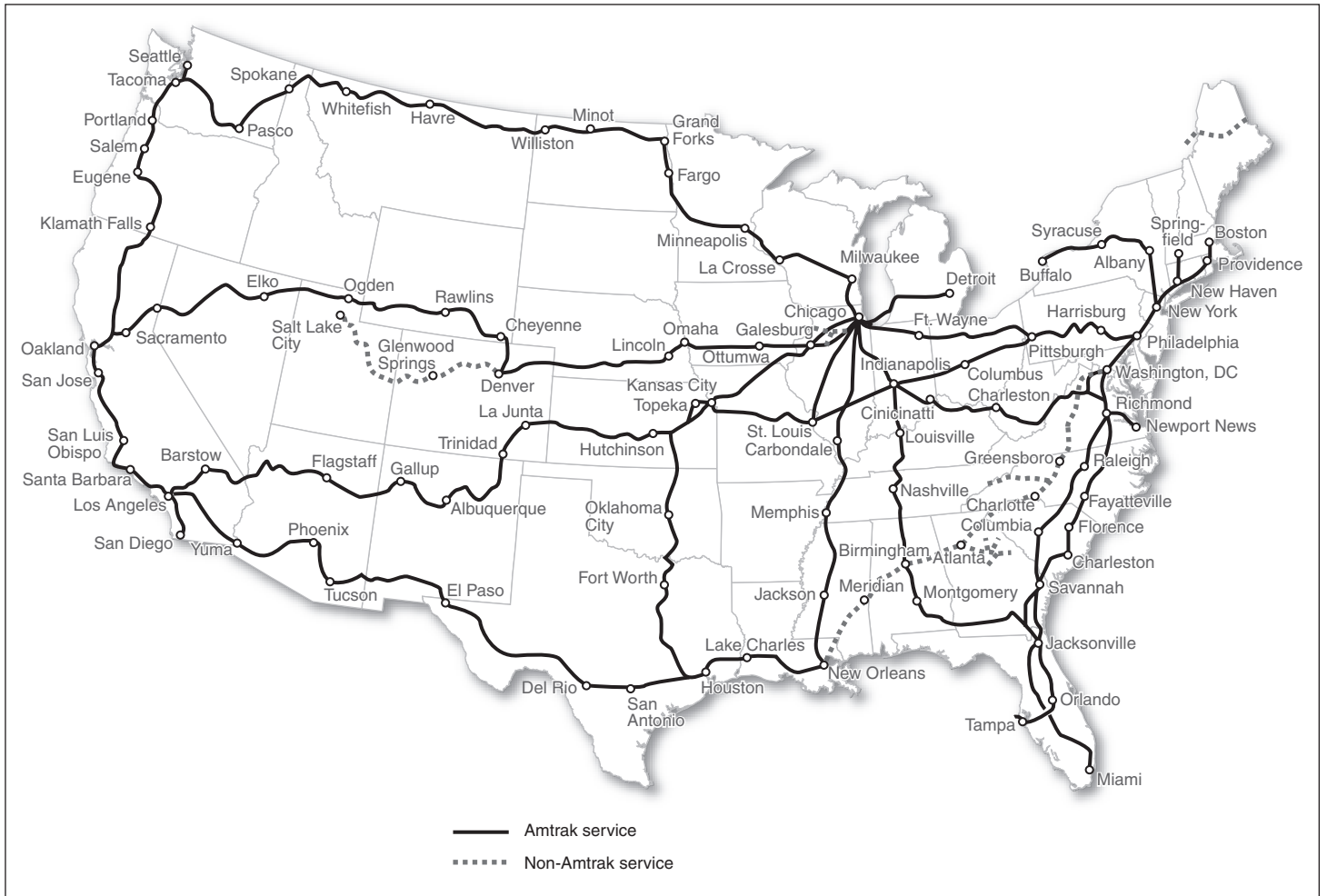
Figure 15: Amtrak's Market Share Compared to Air Services for Selected Origins and Destinations



Source: McKinsey & Company.

Appendix II
Selected Performance Characteristics of
Amtrak Long-Distance and Corridor Routes

Figure 16: Amtrak's Route System—1971



Sources: National Association of Rail Passengers, GAO, Corel (map).

Reform Overviews in Five Site Visit Countries

The following is an overview of the five countries we visited as part of this review.

Canada

Background

Reformation of Canada's intercity passenger rail system initially took place in 1978 with the creation of VIA Rail, a state-owned corporation. Prior to this, both the passenger and freight rail systems were integrated and service was provided by two companies, Canadian National Railway and Canadian Pacific Railway. While there has been no major organizational changes since its creation, VIA Rail was subject to several national policy actions throughout the 1990s leading to significant changes in how the rail operator conducted its business, in addition to the changes in the amount of funding it receives.

Snapshot of the Canadian Rail System

- Monopoly state owned operator, VIA Rail.
- Almost all infrastructure is owned by two freight rail companies.
- Operating subsidies are consistent from year to year in order to force efficiencies and enable better planning for VIA Rail's management.
- VIA's corporate plan is approved annually by the federal cabinet.

Operations

The primary provider of intercity passenger rail operations in Canada is VIA Rail, a government-owned corporation with shares held solely by the Canadian government. However, the government agency, Transport Canada, is responsible for overseeing VIA Rail. VIA Rail operates almost all of the intercity corridor and long-distance routes throughout Canada, and has some flexibility in setting its routes and services: however, all route and service changes must be approved by Transport Canada, the Canadian Minister of Transport, and the Canadian government. The majority of VIA Rail's usage occurs on a corridor that runs between Québec City, Québec, and Windsor, Ontario. (This corridor is in the southeast part of the country, and shares similarities with the Amtrak's Northeast Corridor, but with a lower population density.) Similar to the United States, Canada's long-distance routes operated with higher losses than the corridor service, and

because of this in 1992 a reevaluation of the *Canadian* (a long-distance train which runs across the country from Toronto, Ontario, to Vancouver, British Columbia) was conducted. Analysis of this route revealed that it was primarily serving a leisure/tourist market, and a decision was made to transition service on the *Canadian* to a luxury train offering “premium service at a premium price” along with its coach service. In addition, cutbacks in all cost categories and labor renegotiations, combined with substantial revenue growth, allowed VIA Rail to operate more efficiently within its budget.

Infrastructure

VIA Rail does not own most of the tracks on which it operates, and similar to Amtrak, operates on private tracks owned by freight rail.¹ VIA Rail does not have any statutory guarantee of access to tracks, and must negotiate access agreements with the freight operators. Current access agreements with freight railroads are 10-year agreements and are set to expire in 2008. VIA Rail owns and maintain most of its stations.

Funding and Debt

VIA Rail receives an annual subsidy from the Canadian Parliament. Currently VIA Rail receives about \$170 million (CAD) annually to support its rail operations.² In 1991, the Canadian government began informally capping the subsidy received by VIA Rail. The subsidy at the time was \$350 million (CAD)³ and, due to governmentwide cost cutting, was gradually reduced to its current level. Despite the decrease in its subsidy, VIA Rail did not make any reductions in its service offerings—it concentrated on improving customer service while reducing costs through more efficient management, instead. This operating subsidy does not include funds for capital improvements. VIA Rail does not receive a capital subsidy each year, but instead must request special capital subsidies from Parliament.

¹VIA Rail does own some track between Montreal, Québec, Ottawa, Ontario, and Kingston, Ontario.

²As of September 2006, the dollar equivalent is approximately \$152 million (USD). All dollar value equivalents in this report are as of September 2006 unless otherwise noted.

³Approximately \$313 million (USD).

The last funding it received for capital improvements was in 2000 for \$400 million (CAD)⁴ to replace locomotives and rolling stock, and to perform work on its Montreal, Québec–Ottawa, Ontario, line. VIA Rail has no authority to issue debt instruments, or to go into the debt market to fund rail operations. Any attempt to do this would require permission from Transport Canada, the Minister of Transport, and the Minister of Finance. At the time of its creation, VIA Rail did not have any debt, and currently has no authority to issue debt instruments or to go into the debt market to raise funds.

France

Background

The French intercity passenger rail system was reformed in 1997 in order to create an infrastructure manager distinct from the national operator and address the financial crisis that had been created by the fully integrated intercity passenger rail system. The monopoly intercity passenger rail operator in France is Société Nationale des Chemins de Fer Français (SNCF), a public company with 100 percent of its assets owned by the state. Until the 1997 reform, SNCF was responsible for both intercity passenger rail operations, as well as for managing the country's rail infrastructure. During the reform, Réseau Ferré de France (RFF) was created to take over management of the infrastructure. RFF is also a public company with 100 percent of its assets owned by the state.

Snapshot of the French Rail System

- Monopoly operator and infrastructure manager; both are state-owned public companies.
- National subsidies for intercity passenger rail operations are provided to the regions, and not directly to the operator.
- System comprises the largest use of high-speed trains in the world (6,000 miles operated by Train à Grande Vitesse trains).
- Will be required by the European Union to begin to open its passenger rail market to competition by 2010-2012 (freight market already open to competition).

⁴Approximately \$358 million (USD).

Operations

SNCF is the monopoly intercity passenger rail operator in France. SNCF primarily provides intercity rail service through contracts with 20 geographical regions of France. At the time of the 1997 reform, the French government began experimenting with regionalization of its intercity passenger rail system. Through this experiment six geographic regions were provided with subsidies so that intercity passenger rail needs could be purchased from SNCF. This was successful, and, as of 2002, 20 regions in France are given direct subsidies to purchase intercity passenger rail service. This allows the regions to enter into contracts with SNCF for the appropriate quantity and frequency of service needed to meet the unique characteristics of the region's passengers. In addition to operating passenger rail services, SNCF provides infrastructure management services under contract with RFF. SNCF performs traffic management on the national network, and operates and maintains the national safety system.

Infrastructure

RFF was created through the reform in order to establish an infrastructure manager separate from the national operator. This was intended to clarify the responsibilities and costs for rail infrastructure in France. All rail infrastructure is owned by RFF, and it was given the mission of ensuring coherence of the French rail network through improving existing lines, developing the network through building new lines, and enhancing the network by selling land property and lines not in use. RFF's main sources of income are access charges for use of the rail network, income relative to land properties included in the network, and a state subsidy. As part of the creation of RFF, two-thirds of the former SNCF's debt was transferred to RFF in exchange for SNCF's infrastructure assets (31,000 km of track).⁵

Funding and Debt

Funding for both RFF and SNCF is provided by the French Ministry for Transport. The state provides about 7.5€ billion⁶ to subsidize the rail system each year including 2€ billion⁷ to France's 21 geographic regions so

⁵A national commission was set up to allocate assets between RFF and SNCF and offer solutions in case of litigation on assets allocation. RFF was granted tracks, marshalling yards, and signals. SNCF received stations, storage sidings, and workshops.

⁶Approximately \$9.6 billion.

⁷Approximately \$2.5 billion.

that intercity passenger rail service can be purchased from SNCF. The state provides RFF about 800€ million⁸ annually to pay off the debt it inherited during the reform, and about 900€ million⁹ each year to perform infrastructure renewal. The cost of track maintenance is supported through infrastructure access fees. RFF contracts with SNCF to perform some infrastructure management, and in 2004 RFF paid SNCF 2.6€ billion (approximately \$3.2 billion (USD))¹⁰ for its services. SNCF pays RFF access fees in order to operate its trains on RFF tracks, and in 2004 it paid 2.16€ billion (approximately \$2.6 billion (USD))¹¹ in access fees. Since the reform, these access fees have continued to increase, and the public subsidy for infrastructure is decreasing proportionally. At the time of the reform, SNCF was carrying about 30€ billion in debt (approximately \$25 billion (USD)), and was operating with a 2€ billion (approximately \$2.4 billion (USD)) deficit. 20€ billion (approximately \$18 billion) of this debt was transferred to RFF in exchange for infrastructure, and the remainder stayed with SNCF. RFF's debt has stabilized since the 1997 reform, and a public financial agency for funding transportation infrastructure was recently formed to provide infrastructure subsidies and zero-percent interest loans for new projects. RFF receives on average 2€ billion annually for capital investments for new lines and anticipates 7.5€ billion from this agency for 2005 through 2012 (currently this is approximately \$9.6 billion).

Germany

Background

In 1994, Germany implemented its first rail reform initiative.¹² Germany began by separating its governmental and commercial rail-related tasks and by opening its markets to competition. This was done by merging the two

⁸Approximately \$1.0 billion.

⁹Approximately \$1.1 billion.

¹⁰Based on June 30, 2004 exchange rate.

¹¹Based on June 30, 2004 exchange rate.

¹²According to a German official, Germany makes a distinction between regional/commuter and intercity/long-distance transport. However, for purposes of this report, we included regional/commuter service as "intercity" since transport on regional (short-distance) trains can be between cities.

preexisting national railway properties, Deutsche Bundesbahn (West Germany) and Deutsche Reichsbahn (East Germany) into the Federal Railway Property Agency (BEV).¹³ The commercial section of BEV was then separated and transformed into DB, a state-owned joint-stock company that acts independently in the transport market, and includes separate business units for both long and short distance passenger rail operations and infrastructure management. Although DB owns the entire rail infrastructure network in Germany, all shares of the DB infrastructure company are held by the state. The German intercity passenger rail system is also open to competition. Any rail operator who wants to enter the market is free to bid on contracts to provide service, and while this has yielded a large number of intercity passenger rail operators in Germany, DB remains the primary operator in most markets.

Snapshot of the German Rail System

- Multiple operators, market open to competition (over 300 competing operators).
- Single infrastructure manager; private company that is part of a state owned holding company.
- National subsidies for regional passenger rail operations are provided to the Länder (the German federal states), and not directly to the operators.

Operations

The German passenger rail market is open to competition, and currently there are over 300 different operators providing rail service in Germany. Despite this, most rail service in Germany is operated by DB. National funding for short-distance passenger rail service is provided directly to the Länder by the national government and the Länder then receive bids for service from operators based on the specific needs they outline in a request for proposal. Länder are not required to tender the service to multiple operators, and can provide payment directly to DB for it to continue operating preexisting service. The contracts established with operators are generally for about 10–15 years. If the Länder want to purchase service that exceeds the amount of the subsidy available to them, they are welcome to do so, and can spend their own funds to do this. In some cases, the Länder have further delegated the authority to decide rail services to the local level. In addition to winning contracts to provide regional service, passenger operators can provide long-distance service at their own risk.

¹³Bundeseisenbahnvermögen.

However, long-distance rail operators are required to pay infrastructure access fees. After reform, several of the money-losing long-distance routes that were in existence were shut down by DB, in compliance with public law.

Infrastructure

Most of the infrastructure in Germany is owned by DB Netz, one of DB's corporate business units. Currently DB Netz is part of a state owned holding company. All operators that use infrastructure in Germany pay access fees to DB Netz, including other DB business units (freight, commuter rail and intercity passenger rail). Currently there is ongoing debate about transforming DB's status as a state-owned private-stock company to a publicly traded company. The largest issue at hand is whether or not to include DB Netz as part of the initial public offering. According to DB officials, the company sees an advantage to including the infrastructure in an initial public offering. Based on several reports, government representatives also expect significant public financial benefits from an integrated initial public offering, but some fear this model will lessen their ability to influence infrastructure decisions.

Funding and Debt

The national government provides about 7€ billion annually¹⁴ to the Länder to operate regional passenger rail. The source of this federal subsidy is a transportation fund, which is supported by an automobile fuel tax. DB Netz receives about 4€ billion¹⁵ each year in federal subsidies in order to renew and develop new infrastructure (including stations). About 2.5€ billion of this goes towards maintaining the current infrastructure, and about 1.5€ billion goes towards renewal and new infrastructure.¹⁶ By establishing DB, the German government relieved it of approximately 35€ billion debt (approximately \$38 billion at the time of reform in 1994) and transferred the responsibility for paying and managing this debt to BEV. About 10€ billion per year¹⁷ is paid to BEV for debt relief and other administrative responsibilities (e.g., pensions).

¹⁴Approximately \$8.9 billion.

¹⁵Approximately \$5.1 billion.

¹⁶Currently \$1.9 billion and \$3.2 billion respectively.

¹⁷Due to fluctuations in exchange rate, the subsidy varied from approximately \$8.5 to \$12.7 billion between 1999-2006.

Japan

Background

Reform of the Japanese rail system through privatization was initiated in 1987. Before reform, the Japanese railway was a fully integrated state-owned monolithic railway entity, Japan National Railways, which operated at considerable cost to the government and carried extensive debt. After reform, Japan kept its intercity passenger rail system vertically integrated, that is, it did not separate out operations from infrastructure, but instead it divided the system geographically, and created separate private intercity passenger railways for the country based on six distinct geographic regions (and a separate company for freight rail). The government also assumed the majority of the debt for the preexisting state-owned system, which at about \$300 billion was a substantial sum.

Snapshot of Japanese Rail System

- Vertically integrated operations and infrastructure; market split into six geographic regions.
- Each region has its own rail company.
- Debt of pre-existing state owned railway divided among three largest passenger rail companies, JR Freight, Shinkansen Holding Corporation, and JNR Settlement Corporation.
- Three largest intercity passenger rail companies are fully private, while government supports the other three.

Operations

After the reform, the fully integrated state owned operator, Japan National Rail, was broken up into six passenger rail entities based on six geographic regions. Three of these regions are on the mainland (JR East, JR Central, and JR West) and the other three are each on an island (JR Hokkaido, JR Shikoku, and JR Kyushu). A freight company was also created to serve the entire country. Each of these six passenger rail operations are vertically integrated, that is within each rail company infrastructure and operations are both managed by the same company. The three companies on the mainland are fully privatized, and do not receive any financial assistance from the government. The other three passenger companies have not yet reached a point where they are financially independent from the state.

Infrastructure

The six passenger railway companies own their own tracks and JR Freight has legal access to the JR's tracks at marginal or incremental cost. In 1991, JR West, East and Central purchased their tracks from the Shinkansen Holding Company and the proceeds went toward paying down the company's portion of Japan National Railway's long term debt. The Japan National Railway developed an implementation plan for its division that included how much land was needed for each railroad, which was approved by the Ministry of Land, Infrastructure and Transport. The companies were then given existing stations and offices from the old Japan National Railway. Some of the non-railroad-oriented land was retained by the Japan National Railway Settlement Corporation because it was not needed by the new railroads for operations. JR Freight pays a relatively low state-determined access fee for using the tracks of the other passenger railroads. Japan also has Shinkansen (high-speed) lines that connect most of the highly populated cities. The Japan Railway Construction, Transportation, and Technology Agency builds new Shinkansen lines; it also holds title to some existing Shinkansen lines and leases them to the passenger railroads for high-speed train operations.

Funding and Debt

When reform occurred in 1987, the Japanese government provided a one-time Business Stabilization Fund, which provided funding for three passenger railroads that were not yet privatized and needed subsidies to survive. JR Hokkaido was given ¥682 billion,¹⁸ JR Shikoku was given ¥208 billion,¹⁹ and JR Kyushu was given about ¥388 billion.²⁰ These three railroads were allowed to invest these funds and use any money made from them for operations and capital improvements. However, they were not allowed to draw down any principal—only the profits or interest from investments. Therefore, currently the three companies have maintained the original amounts given to them by the state in 1987. However, the performance of the fund has been declining as Japanese interest rates have declined since the establishment of the fund. It is not clear what will happen to these amounts if any of these three companies are fully

¹⁸In 1987, this amount was approximately equal to \$4.7 billion. All subsequent currency conversion amounts reported for Japan in this appendix use the average exchange rate during 1987, the year the railway was reformed.

¹⁹Approximately \$1.4 billion.

²⁰Approximately \$2.7 billion.

privatized at a later date. However, Japanese Board of Audit officials feel that it will be a long time, if ever, before the three companies are financially able to achieve privatization. Of these three passenger railroads, only JR Kyushu is given a reasonable chance of achieving the financial stability necessary to privatize.

There are two other forms of assistance to JR Hokkaido, JR Shikoku, and JR Kyushu. A guaranteed interest rate was offered for the stabilization fund that was higher than the market rate available to the three mainland JR's. The government reduced the tax rate on fixed railroad assets as well. In addition, at the time of reform, the Japan National Railways had accumulated about ¥37 trillion²¹ of long-term debt. About ¥25.5 trillion²² was placed with a newly created entity, called the Japan National Railways Settlement Corporation, and the remaining debt was distributed among the three mainland railroads, JR Freight, and the Shinkansen Holding Company. The state government determined the debt allocation, apparently on the basis of expected future profits of each entity. The Hokkaido, Shikoku, and Kyushu railroads were not allocated any of this debt because of their more precarious financial positions.

The United Kingdom

Background

The U.K. began its major reform in 1993 in an effort to privatize its rail system, and then undertook another significant restructuring effort in its 2004. The 1993 reform took place over 5 years and involved radical restructuring. The preexisting monolith, British Railways, was broken up into many pieces, including a private infrastructure company, Railtrack, which was replaced in 2002 with Network Rail, over 20 train operating companies, three rolling stock ownership and leasing companies, and three government regulators (currently there is only one entity, the Office of Rail Regulations). In 2004, the U.K. restructured again to restore the long-term efficiency and keep the affordability of rail within the level of public expenditures defined by the British government, as well as to recover

²¹Approximately \$255.8 billion.

²²Approximately \$176.3 billion.

performance levels, maintain high standards of safety, and enable the industry to meet its customers' needs.

Snapshot of the U.K. Rail System

- Multiple operators; market split into franchises which are open to competition.
- Single infrastructure manager; owned "members" consisting of representatives from a range of industry interests.
- British Rail's rolling stock was divided between the three rolling stock ownership and leasing companies and is available for lease to interested operators.
- The national government was unable to completely exit the industry, and mainly plays a role in setting the strategic direction for the railways.

Operations

After the initial reform effort, intercity passenger rail operations were no longer conducted by British Railways but were instead turned over to the private sector. The rail network was broken up into different franchises, and private operators were permitted to bid on franchises for the provision of services. These operators are essentially private companies that enter into franchise agreements with the government, where the government will subsidize unprofitable service or receive a premium for services that see excess profits. In addition, these operators pay access fees to the infrastructure manager in order to access the tracks, and the U.K. government adjusts subsidies paid to, or premium received from, operators to compensate for any change to the fixed access charge made by the independent regulator.

Infrastructure

Rail infrastructure in the U.K. is currently all managed by Network Rail. Network Rail is a private corporation, run by a board of directors, and overseen by more than 100 members of the railroad industry and some members of the general public. The members do not have day-to-day responsibilities for making management decisions, but they do elect and dismiss the board of directors, approve the long-term remuneration of board members, approve Network Rail's annual report, and approve specific resolutions put forth before the membership. Network Rail was not the first infrastructure company formed after the U.K.'s reform. At the time of reform, a private for-profit corporation, Railtrack, was established to own and manage all of the U.K.'s infrastructure. In 2001, Railtrack went bankrupt, and Network Rail's bid to take over Railtrack was accepted; it

then assumed control over the infrastructure in 2002. Currently, Network Rail earns income from three sources—network access fees paid by the operators (and which are set by the Office of Rail Regulation), direct government grants, and other income such as commercial property.

Funding and Debt

Although privatized, the intercity passenger rail system in the U.K. receives operating subsidies from the government. Generally about 50 percent of all costs are covered through public subsidies, but U.K. government officials expect this percentage to fall in the future. Total debt for Network Rail is currently at £18 billion and is projected to peak at £21 billion between 2008–2009.²³ This debt did not exist at the time of reform, and was incurred through paying for enhancements to its regulatory asset base. Network Rail also assumed £8 billion²⁴ of this debt from Railtrack.

²³£18 billion in debt is approximately \$34 billion, and the value of the £21 billion in debt (in 2009) is approximately \$37 billion.

²⁴Approximately \$1.5 billion in 2006.

Current Amtrak Reform Efforts

In April 2005, Amtrak's board of directors and management proposed a set of broad strategic reform initiatives. Since the release of these initiatives, Amtrak formed a new planning and analysis department to manage the strategic reform initiative plan and implementation, among other duties (such as developing a capital and asset plan). Thus far, 15 operational initiatives have been developed, which are described as either corporate or business-line initiatives (see table 9). Recently, to further develop these initiatives, Amtrak has begun to refine the structure of these initiatives into five issue areas: (1) business efficiencies, (2) service levels, (3) cost recovery, (4) labor, and (5) legislative. According to Amtrak, most of the 15 initiatives will fall into the business efficiency category, which the company views as having greater control over. The labor, long-distance, corridor, and infrastructure initiatives will fall within more than one of the categories, and full implementation of these initiatives would require legislative action. In addition, initiatives associated with each of the train operations business lines (long distance, NEC, and state corridor) will fall under all five categories.

Amtrak's 15 initiatives are largely designed to reduce costs, increase revenue, and improve its financial reporting. Among the initiatives Amtrak has planned or undertaken to reduce costs is the overhead function initiative, which it estimates will save \$5.1 million in fiscal year 2006 through reductions in outside legal fees, software, and communications costs. The NEC operations initiative is designed to increase revenue, partly through the implementation of revenue management on NEC's *Regional Service*, by charging variable rates.¹ The management information initiative calls for reforming how Amtrak currently reports financial and operating information. Amtrak's Chief Financial Officer told us that reports to management will focus more on performance outcomes, such as performance per passenger mile. In addition, Amtrak is in the process of developing a new cost-accounting system as directed through fiscal year 2006 appropriations to improve accountability. As of May 2006, the operational initiatives have resulted in annual savings of \$46 million for fiscal year 2006, but are expected to save \$190 million a year when fully implemented.

¹The NEC's *Regional Service* is Amtrak's service that primarily operates between Washington, D.C., and Boston, Massachusetts. This service includes 22 state-corridor trains through Massachusetts, New York, and Virginia.

**Appendix IV
Current Amtrak Reform Efforts**

Table 9: Objectives and Status of Amtrak's 15 Reform Initiatives

Type of initiative and description	Objective	Status
Corporate		
Food and beverage	Enhance service flexibility, redesign equipment, and outsource certain service	<ul style="list-style-type: none"> • The contract for Gate Gourmet, Amtrak's food vendor, is being renegotiated. Amtrak expects savings of close to \$1 million in fiscal year 2006. • The Simplified Dining program has been implemented, which, through June 2006, resulted in savings of \$3.7 million.^a • Amtrak is redesigning cars to offer continuous, restaurant-style dining service and enhanced customer service. • Amtrak will continue to monitor and evaluate service levels, staffing models, and savings, against goals for food and beverage services.
Mechanical	Adopt reliability-centered maintenance, consolidate facilities, and outsource selected activities	<ul style="list-style-type: none"> • Amtrak plans to evaluate its facility locations for cost savings. • A review of maintenance requirements is under way to minimize costs and maximize reliability. • As of July 2006, one maintenance service has been identified for outsourcing, but a request for proposal has not been posted.
Customer service	Modernize ticket issuance, collection, and reporting processes; and improve service quality measurement and delivery	<ul style="list-style-type: none"> • On July 5, 2006, Amtrak completed training and deployment of service managers on long-distance trains to create consistency in supervision of customer service delivery. • Amtrak is developing an e-ticketing system to replace the paper ticket system and a customer service quality measurement system, and has begun planning for route/product-level management oversight.
Management information	Develop more accurate and timely information on costs of routes, individual activities, and functions	<ul style="list-style-type: none"> • Amtrak is in the process of evaluating its current financial information system as the initial step to replacing it with an integrated financial system. • A report on the activity-based management system project is being finalized. • The Route Profitability System (RPS) is being updated to ensure its reliability. Changes to the RPS system are expected to be completed by the end of FY 2007.
Improve and update stations	Address Americans with Disabilities Act (ADA) compliance, state-of-good-repair, and reduce station operating costs	<ul style="list-style-type: none"> • The analysis of stations is under way to reduce operating cost. • Amtrak is currently monitoring the impact of staffing changes on ADA service to customers and plans to continue this process.
Call centers	Reduce ticketing costs by reducing staffing, increasing utilization of lower cost distribution channels, and outsourcing	<ul style="list-style-type: none"> • Amtrak plans to solicit vendors for proposal to outsource call center positions.
Overhead functions	Reduce unit costs of corporate support functions through selective outsourcing, staffing reductions, skills development, and greater use of technology	<ul style="list-style-type: none"> • Amtrak has planned and implemented some savings through technology- and energy-management efficiencies.

**Appendix IV
Current Amtrak Reform Efforts**

(Continued From Previous Page)

Type of initiative and description	Objective	Status
Service reliability	Improve on-time performance of <i>Acela</i> and NEC trains through operational modifications and targeted investments	<ul style="list-style-type: none"> Amtrak officials discussed on-time performance improvements to <i>Acela</i> trains with FRA for plan approval.
Labor contracts	Reduce unit costs and increase flexibility by negotiating new labor agreements that eliminate certain work-rule and outsourcing restrictions, and base wages on market levels	<ul style="list-style-type: none"> Amtrak has been advocating legislative changes to amend the railroad retirement-system to make Amtrak competitive with other operators, but as of August 2006 no legislative action has taken place.
Ongoing efficiencies	Enhance financial performance of other activities and functions through continued business improvements (e.g., operating crew optimization, maintenance-of-way productivity)	<ul style="list-style-type: none"> Amtrak has focused on improving efficiencies in four areas to reduce cost— safety, engineering productivity, fuel conservation, and labor.
Business line		
Long distance	Improve performance of all routes by redefining sub-brands, restructuring services/routes, selected luxury outsourcing, and corporate initiatives	<ul style="list-style-type: none"> Amtrak completed an analysis of the overall performance of long-distance routes to identify poorly performing routes. Amtrak developed a plan to restructure the sleeper service offered on long-distance trains to reduce cost. This plan includes evaluating new sleeper products and reconfiguring the number of cars. Amtrak developed a plan to evaluate Amtrak’s entire route network, which will establish network goals, match structure to national trends, and provide network options.
NEC operations	Boost financial contribution through improved load factors, adjusted service patterns, re-launching sub-brands, trip time investments, and corporate initiatives	<ul style="list-style-type: none"> Short-, mid-, and long-term plans have been developed to improve <i>Acela</i> service to increase customer satisfaction, ridership, revenue, and market share.
Corridors	Improve competitiveness of state services, establish a pilot competition project, and transition states to full cost recovery for all corridor routes	<ul style="list-style-type: none"> Amtrak launched a state competition pilot project with support from FRA to promote competition. As of July 2006, four proposals have been evaluated for implementation. Amtrak developed a plan to transition states to full operating cost recovery, but the plan hinges on legislative changes to funding structure.
Fleet utilization	Optimize use of fleet, maximize load factors, and increase revenues by making train configurations more efficient and retiring or redeploying excess equipment	<ul style="list-style-type: none"> Amtrak is developing a multiyear fleet plan for fleet optimization.

Appendix IV
Current Amtrak Reform Efforts

(Continued From Previous Page)

Type of initiative and description	Objective	Status
Infrastructure	Develop a long-term capital master plan and operate NEC efficiently on behalf of all users, while establishing a fair sharing of operating and capital costs among all users	<ul style="list-style-type: none">• Amtrak is developing a long-range plan to bring the corridor into a state of good repair over 20 years, which includes a long-term capital plan.• Amtrak has met with stakeholders regarding an advisory committee for the NEC.

Source: GAO analysis of DOT OIG and Amtrak data.

^aThe Simplified Dining program provides pre-plated meals that utilize less labor.

Operational Challenges Associated with Access, Capacity, and Liability Issues

Any effort to reform the United States' intercity passenger rail system must recognize that there are access, capacity, liability, and workforce issues. For instance, Amtrak benefits from a number of statutory access rights that mask the potential capacity impacts of passenger rail service on freight traffic. In addition, the potential liability associated with operating passenger rail must be accounted for, as must statutory and contractual workforce requirements. Currently, the liability framework surrounding intercity passenger rail is complex, with statutory exceptions and negotiated indemnification agreements altering default negligence rules.

Infrastructure Access and Capacity Issues

Amtrak's statutory access and priority rights for intercity passenger service—and the subsequent impact on freight capacity—is a source of contention in the rail industry. Amtrak owns very little of the infrastructure that it uses, and, in fact, most of the 22,000 miles of rail lines that Amtrak uses are owned by four private, U.S.-based Class I freight companies—CSX, Union Pacific, BNSF, and Norfolk Southern. Amtrak has three statutory rights to privately owned rail infrastructure that no other operator has: (1) access to tracks and facilities of railroads and regional transportation authorities; (2) access charges at incremental cost; and (3) priority over freight trains.

No other passenger rail service receives the benefit of statutory rights. For instance, commuter rail agencies must negotiate with host railroads for infrastructure access.¹ Similarly, any private operator of intercity passenger rail in the United States would have to negotiate for access to host-railroad infrastructure without the benefit of these statutory rights. Because other operators do not have these statutory rights, one state official said that his state feels “stuck” with Amtrak. This state official said his state is frustrated because there is no real alternative to Amtrak as long as these rights belong solely to Amtrak. The freight railroad industry is adamantly opposed to permitting a transfer of Amtrak access and incremental charge rights to non-Amtrak operators, which was confirmed by officials from freight railroads with whom we spoke.

¹The statutory right to priority over freight trains does extend to commuter rail services operated by Amtrak.

One state official told us that, without Amtrak’s access rights, passenger rail access fees are a “seller’s market”—that is, freight railroads can charge whatever they want. State officials with whom we spoke generally estimate that Amtrak’s per train-mile costs are approximately one quarter to one half of what the freight railroads would charge another operator. Similarly, an official from one freight railroad estimated that infrastructure access costs for an intercity passenger rail operator negotiating “at arm’s length” would be three to four times Amtrak’s current costs, and possibly as high as ten times as much as current rates. According to this official, even these rates would not capture the full impact of passenger trains on freight line capacity.

While Amtrak’s access costs cannot be directly compared with a competing intercity passenger rail operator, a comparison with commuter rail access costs is informative. According to information provided by Amtrak, on average, Amtrak paid \$1.16 per train-mile for access to freight-owned infrastructure in fiscal year 2005.² In contrast, commuter rail agencies with whom we spoke that operate primarily on freight railroad infrastructure identified three types of access charges: per train-mile fees, fixed-access fees, and capital contributions.³ All of these commuter agencies reported paying per train-mile access fees for each line, with a range from \$3.38 to \$40 per train-mile. These agencies reported paying either a one-time up front access fee or an annual access fee for most lines as well (see table 10). In addition, all four commuter rail agencies with whom we spoke made capital contributions to freight infrastructure for each line, either to gain initial access to the freight infrastructure or to expand established commuter rail operations.⁴ According to Amtrak, commuter rail trains—which are concentrated in the morning and evening weekday peak periods and have long track occupancy due to frequent stops—require greater rail line capacity, and therefore, impose much higher costs on the track owner than a comparable number of intercity passenger rail trains that are spread throughout the day or week.

²Amtrak provided this figure as a nationwide average. We were unable to determine how Amtrak’s infrastructure access charges varied by railroad or by line. The average does not include on-time performance incentives.

³The commuter rail agencies we contacted were Altamont Commuter Express (California), Metrolink (California), Sound Transit (Washington), and Virginia Railway Express (Virginia–Washington, D.C.).

⁴In some instances, these capital contributions were made by state governments on behalf of the commuter rail agency.

Table 10: Examples of Costs Paid by Commuter Rail Agencies to Gain Infrastructure Access

Description	Range of cost reported by commuter rail agencies
Fixed-access fee^a	
One-time, up front fee	\$4,000,000 to \$23,700,000
Annual fee	80,000 to 1,800,000
Capital contribution^b	
Annual capital contribution	400,000 to 3,000,000
Up front fee (for additional train frequencies)	60,000 to 350,000,000

Source: GAO analysis of commuter rail data.

^aMost commuter rail agencies we contacted paid a one-time up front fixed-access fee or an annual fee as part of their access agreement for each line on which they provided service.

^bAll commuter rail agencies with whom we spoke made capital contributions, either to gain access to freight infrastructure or to add train frequencies.

According to several state officials, increases in intercity passenger rail service, particularly corridor services, could conflict with freight rail traffic for line capacity. For example, one state official stated that the rail lines between New York City and Albany, New York, are heavily used by freight railroads, commuter rail service, and Amtrak. Even today this line has congestion problems, leading to delays for both passenger and freight traffic. Desired improvements to address capacity restrictions will cost about \$700 million in capital improvements. An official with another state, talking about the line between Washington, D.C., and Richmond, Virginia, said that—between freight, Amtrak, and commuter service—the amount of traffic on the corridor is increasing and delays are becoming more common. Further, capacity constraints are causing delays that cause dissatisfaction among riders.

Freight railroad officials have emphasized the growing challenge associated with infrastructure capacity issues. An official at one railroad said that, while freight traffic on his railroad had grown and decreased capacity, nothing in the Amtrak model had changed, which he described as increasing his railroad’s subsidy to Amtrak. An official of another railroad stated that under the current Amtrak model—with guaranteed access to track at incremental cost—freight railroads do not recover the lost value created when freight trains are delayed because of passenger train priority. He also stated that the current Amtrak model skews the incremental value of freight and passenger train slots on a line in such a way that freight

railroads cannot capture the difference in value between low value passenger train slots and higher value freight train slots. This official went on to say that, without new capacity, there would be ripple effects throughout the entire freight railroad industry as both freight and passenger railroads try to accommodate ever-increasing traffic on a fixed-infrastructure network. He also stated that for intercity passenger rail to be successful it must be attractive, efficient, and reliable.

In addressing capacity issues associated with passenger rail reform it will be important to recognize balancing public and private investment with public and private benefits. An official with the Washington State Department of Transportation said his state is willing to pay for capital projects that benefit passenger rail, and that freight railroads should pay for projects, or parts of projects, that benefit their operations. This official said most states use the “but for” argument in determining public rail infrastructure investments—that is, would there be a need for investment but for the passenger rail service? Similarly, the state of Virginia works with host railroads to fund rail projects that increase both the freight and passenger rail capacity of privately owned rail infrastructure in the state to achieve public benefits. As we testified in June 2006, federal involvement with rail infrastructure should depend on identifying wide-ranging public benefits from potential projects and appropriately allocate the cost of financing these benefits between public and private sectors, and, to the extent possible, focus investments that yield national rather than just local benefits.⁵

Liability against Accident Risks

In addition to the access-to-infrastructure issues, there are also challenges associated with liability against accident and other train-related risks. If a passenger rail accident should occur, injured passengers may sue the transportation provider for their damages. As our January 2004 report on commuter rail noted, freight railroads have been traditionally sheltered from this exposure when they haul freight.⁶ However, when a freight railroad allows a commuter rail service (or intercity passenger rail service) to operate over its rights-of-way, the freight railroad becomes exposed to these risks—as passengers may sue the commuter rail’s (or intercity

⁵GAO, *Freight Railroads: Preliminary Observations on Rates, Competition, and Capacity Issues*, GAO-06-898T (Washington, D.C.: June 21, 2006).

⁶GAO-04-240, p. 17.

passenger rail's) provider and owner of the tracks. Consequently, freight railroads do not want to allow such service on their rights-of-way unless they are protected from liability. Freight railroads often use the "but for" argument for requiring passenger rail operators to assume all risks associated with their presence—that is, but for the presence of the service, the freight railroad would not be exposed to certain risks and therefore should be held harmless. Freight railroad officials have stated that they must take this position to protect their businesses and shareholders from lawsuits. As a result, passenger rail operators must contractually indemnify freight railroads against all liability and obtain insurance as a guarantee that payments will be made for any damages.

Amtrak currently has no fault liability agreements with most freight railroads to cover risks associated with its operations. Under these agreements, Amtrak indemnifies the host railroads against liability resulting from any damages that occur to Amtrak passengers, equipment, or employees regardless of fault if an Amtrak train is involved. Similarly, the host railroads indemnify Amtrak against any liability resulting from damages to host railroad employees and property regardless of fault.⁷ At one time, Amtrak compensated the host railroads for the risk that they bear by paying a negotiated risk charge of 7.34 cents per train-mile to the host railroad. Amtrak has subsequently negotiated away this charge for all but one line. In contrast, commuter rail operators with whom we spoke manage liability with the freight railroads their own way. In the view of one commuter rail official, the host railroads charge his company more per train-mile for infrastructure access than Amtrak to compensate for the liability costs associated with commuter rail operations. Another commuter rail official stated that in addition to the per train-mile fees, his agency purchases an insurance policy that indemnifies the host railroads against all liability, including gross negligence and willful misconduct.

Both railroad and state officials with whom we spoke believe liability will be a major issue should competition for intercity passenger rail service be introduced. Officials from all 5 states cited concerns about liability issues, particularly the potential cost of liability coverage. An official from one state, Washington, told us that his state would not be able to pay for the liability coverage freight railroads would require if Amtrak ceased operating intercity passenger rail service and this service was taken over by

⁷According to Amtrak, these agreements typically contain no explicit exception for aggravated conduct (i.e., something exceeding ordinary negligence).

the state—the cost would be too prohibitive. An official from California also said that liability would be a significant issue associated with competition. Besides cost, this official said California is prohibited by law from providing full indemnification to third parties. Consequently, any non-Amtrak passenger rail operators would have to provide their own liability coverage that would indemnify not only the state, but also any freight railroads they operated over. Freight railroad operators also expressed concern about liability issues. An official from one freight railroad said his company would not “bet the company” on the liability risk that could exist with multiple passenger rail operators, and that his company would expect full indemnity against liability risks created by passenger rail operators. It would also be expected that this indemnity be backed up with sufficient insurance coverage similar to the arrangement this company currently has with Amtrak. Similar sentiments were expressed by another freight railroad official.

Recognizing the freight railroads’ exposure to liability when hosting passenger rail trains, Congress established liability provisions in the Amtrak Reform and Accountability Act of 1997. Specifically, the act limits the aggregate overall damages that may be awarded to all passengers for all claims (including punitive damages) from a particular rail accident to \$200 million. The act also permits Amtrak and other providers of rail transportation to enter into indemnification agreements allocating financial responsibility for passenger claims arising from accidents involving passenger rail. As we reported in January 2004, our review of this legislation concluded that the liability cap applies to commuter rail operations on the basis of the plain language of the statute and our review of pertinent legislative history. Our review of the statute and legislative history also indicates this cap would apply to non-Amtrak providers of intercity passenger rail service. However, our report goes on to note that there are limitations to the protections provided by the legislation, such as the fact that the legislation does not limit damages for claims brought by nonpassengers; in addition, the application of the liability cap has not been tested in federal court. As a result of these limitations many carriers are being “super cautious” in requiring high levels of insurance.

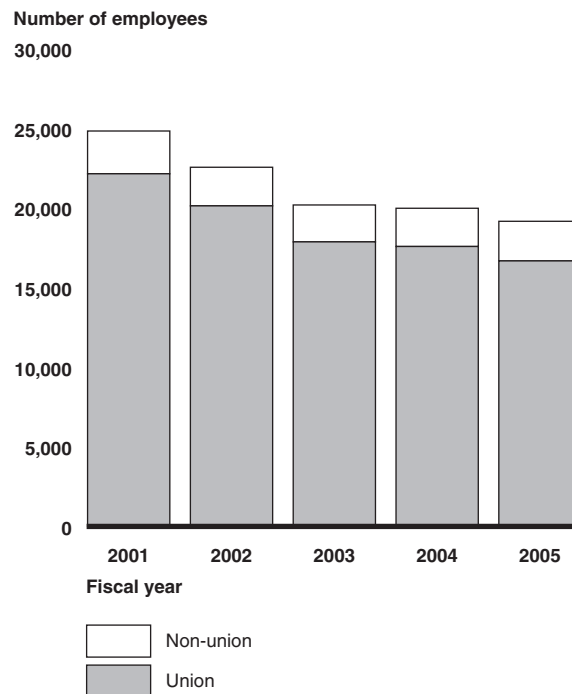
Workforce Issues Associated with Intercity Passenger Rail Reform

Efforts to reform or restructure intercity passenger rail require consideration of workforce issues that is, having enough people with the requisite knowledge and skills to provide the amount and type of service called for in a restructured system. This may not be as easy as it seems.

Amtrak employees currently provide a number of services that are integral to operation of intercity passenger rail. This includes train and engine crews that operate trains, on-board staff such as conductors and attendants that take tickets and arrange for sleeping accommodations, and maintenance staff that repair equipment and maintain the rights-of-way over which trains operate. In addition, Amtrak employees dispatch trains and maintain communication and signal systems, among other things. Over the last several years Amtrak has reduced its employment levels as it has tried to control costs (see fig. 17). In fiscal year 2005, 87 percent of Amtrak's workforce was unionized (14 unions and two councils covering a variety of crafts and skills) and covered by collective bargaining agreements. These employees are referred to as agreement employees. The collective bargaining agreements specify not only wage and benefit rates but also specific duties (defined in work rules) that employees can perform. Between fiscal years 2001 and 2005 the number of unionized employees decreased from 22,163 to 16,687 (a 25 percent decrease).¹ There has also been an overall 7 percent decrease in non-union employees over this time period, with a slight increase in the number of non-union employees between fiscal years 2003 and 2005. While these decreases might have benefits in terms of cost reduction, they might also limit the pool of qualified people available to operate intercity passenger rail under a restructuring scenario.

¹Thirteen hundred of these employees (5 percent) were transferred to Massachusetts Bay Commuter Rail (MBCR) when Amtrak lost the contract for operating the Massachusetts Bay Transportation Authority (MBTA) service.

Figure 17: Changes in Amtrak's Union and Nonunion Workforce, Fiscal Years 2001 through 2005



Source: GAO analysis of Amtrak data.

Note: Amtrak labor-relations officials estimate that one-half to two-thirds of Amtrak's total employment is dedicated to directly or indirectly supporting long-distance services.

There are several workforce issues that will likely present challenges in efforts to reform or restructure intercity passenger rail. These include:

- *Availability of a qualified labor pool.* Reform of intercity passenger rail that results in new services or operators will require that there be sufficient staff to provide service, conduct maintenance, and perform other duties related to running passenger railroads. In the short term, obtaining sufficient staff could be a challenge. As we reported in April 2006, in the context of commuter railroad service, if Amtrak were to abruptly cease to provide service, some commuter railroad agencies might be able to replace Amtrak employees dedicated to their particular

commuter rail service with employees from another railroad.² However, according to agency officials, a number of agencies would not be able to quickly replace current Amtrak employees because of workforce limitations, such as the availability of a qualified labor pool. In part, this is because of strains on the current workforce due to growth in the demand for freight rail transportation.³ In addition, it was estimated that it could take months to train replacements if Amtrak train crews were unavailable. Over the short term it is feasible that a restructuring that resulted in new intercity passenger rail services could face a shortage of qualified employees if (1) Amtrak employees did not transfer to the new services or operators, (2) they retire or leave the railroad industry, or (3) there are insufficient applicants with necessarily skills to provide the employees needed.

- *Workforce flexibility and productivity.* Reform of intercity passenger rail resulting in new services or operators will also require consideration of workforce flexibility and the extent labor productivity can be increased. One key to providing cost-effective service is to have high levels of labor productivity. Collective bargaining agreements and their related work rules specify the work that employees are expected to do and the amount of compensation they will receive for performing this work. Although such agreements can and do include changes designed to increase employee productivity by increasing or broadening the types of tasks that employees can perform, such agreements can also affect productivity by limiting the amount or type of work that employees can perform. Foreign passenger rail reform efforts have included actions to increase workforce flexibility and productivity. For example, from 1993 to 1998, as a result of revenue growth and an increased focus on cost control, VIA Rail entered into negotiations with rail labor in order to obtain more flexibility in its workforce.⁴ Among other things, these negotiations resulted in a significant consolidation of jobs. According to VIA Rail, union members got enhanced pension benefits in return for reduced employment levels and increased job responsibility. The latter

²GAO, *Commuter Rail: Commuter Rail Issues Should Be Considered in Debate over Amtrak*, GAO-06-470 (Washington, D.C.: Apr. 21, 2006).

³According to AAR, over the past 2 years Class I freight-railroad employment has risen after 60 years of general decline. This was especially true for train and engine employees, where increases went from about 61,100 employees in December 2003 to about 69,700 employees in December 2005. Total Class I employment increased 8 percent over this same period.

⁴VIA Rail is the intercity passenger rail provider in Canada.

included consolidating a number of on-board service and conductor positions into one customer-service manager who has the flexibility to interchange positions for on-board service staff and is responsible for everything that goes on inside a train.

- *Potential labor protection payments.* If, as the result of reforming intercity passenger rail, Amtrak employees lose their jobs, there could be liability for labor protection payments. In general, labor protection payments are made to employees who lose their jobs as a result of a discontinuation of service. The Amtrak Reform and Accountability Act of 1997 made a number of changes to labor protection, including eliminating existing rights to such protection—again subjecting labor protection to collective bargaining, and requiring Amtrak to negotiate new labor protection arrangements with its employees. As we have previously reported, after Amtrak and its employees could not reach agreement, an October 1999 arbitration decision (1) capped labor protection payments at a 5-year maximum (rather than 6 years under the statutory arrangement), (2) made employees with less than 2 years of service ineligible for payments, and (3) based payments on a sliding scale that provided less payout for each year worked than did the previous system.⁵ Even with these changes, in September 2002, we reported that Amtrak would have had unsecured labor protection claims of about \$3.2 billion had Amtrak been liquidated on December 31, 2001.⁶ Although a reform of intercity passenger rail may or may not involve a liquidation of Amtrak, it is clear that should Amtrak employees lose their jobs as the result of a discontinuation of service there could be substantial financial obligations as a result. To the extent that Amtrak employees can and do accept jobs elsewhere (whether in the railroad industry or not) this obligation could be reduced. In general, should this be the case, then labor protection payments would be limited to the differences, if any, between what the employees were previously making at Amtrak and their wages at the new jobs.

Amtrak labor-relations officials state that a significant barrier to any attempts to reform—or to negotiating their collective bargaining agreements even in the absence of broader corporate restructuring—is the

⁵GAO-02-871, p. 17.

⁶GAO, *Intercity Passenger Rail: Potential Financial Issues in the Event That Amtrak Undergoes Liquidation*, GAO-02-871 (Washington, D.C.: Sept. 20, 2002).

lack of flexibility in the current labor agreements. First, the provision of the Amtrak Reform and Accountability Act of 1997 that altered rail labor protection—eliminating the statutory labor protection provision and allowing Amtrak and the affected labor unions to negotiate contractual labor protection arrangements in their place—did not give Amtrak as much flexibility as it had hoped. Although significant changes resulted from negotiations about new labor protection arrangements (such as limiting the maximum number of years’ wages that could be received in the event of job loss to 5 years instead of 6), Amtrak is still bound by expensive labor protection obligations if jobs are lost because of route cancellations or service reductions.⁷ Amtrak officials referred to rail labor protection as the “last of the last” of the old type of unemployment benefits. As such, labor protection continues to be a stumbling block in Amtrak’s internal restructuring efforts, as well as collective bargaining. In addition, Amtrak officials stated that Amtrak would like additional flexibility in the work rules that define the tasks that employees can perform to improve productivity. The current work rules allow most employees to perform tasks outside their enumerated work duties only 2 hours per day. According to Amtrak labor relations officials, current work rules allow *Acela* employees 4 hours of flexibility per day. Amtrak would like to extend this to all labor contracts. Amtrak officials stated that Amtrak wants the increase to 4 hours of flexibility to gain desired improvements in efficiency of operations. Without the work rule change, these improvements will be difficult to achieve.

Workforce challenges also include determining how a potentially reformed intercity passenger rail system fits into the current scheme of railroad-specific labor-management, retirement, and injury compensation systems. Amtrak is currently subject to, among other things, the Railway Labor Act, the Railroad Retirement Tax Act, and the Federal Employers’ Liability Act, which govern labor-management relations, retirement, and injury compensation, respectively, in the railroad industry. Amtrak’s collective bargaining agreements generally do not expire and are subject to requirements designed to reduce labor strikes; Amtrak participates in, and provides financial contributions to, the railroad retirement-system⁸

⁷Only service reductions to less than three trains per week will trigger labor protection.

⁸The railroad retirement-system is administered by a federal agency, the Railroad Retirement Board, and includes both passenger and freight railroads. Amtrak participates in the railroad retirement-system, under which each participating railroad pays a portion of the total railroad retirement benefit costs for industry employees.

(approximately \$400 million annually); and Amtrak and its employees are subject to a tort-based injury compensation system under the Federal Employers' Liability Act.⁹ We have reported that these legal requirements raise railroad costs compared to nonrailroad industries. Amtrak's April 2005 Strategic Reform Initiatives also suggested that meaningful reform of intercity passenger rail will require changing how these apply to passenger rail. On the other hand, rail labor has argued for the importance of these laws in protecting employee rights, ensuring a sustainable retirement system, and adequately compensating employees injured on the job.

State officials we interviewed expressed more general concern about the potential impact of Amtrak's labor agreements and obligations on the future of passenger rail. Some state officials viewed Amtrak's labor agreements as a significant barrier to reform. One official stated that serious labor reform is needed for intercity passenger rail reform to succeed. Some state officials with whom we spoke also questioned whether alternative operators would be bound by Amtrak's labor agreements and thought that it was unlikely another operator could provide significant improvements in cost savings or quality of service if they were. Another official stated that Amtrak's labor agreements would put Amtrak at a considerable disadvantage over alternative operators in a competitive market if the alternative operators were not bound by the same agreements.

Rail labor union officials with whom we spoke expressed several concerns about the effects any potential reform of intercity passenger rail might have on their members. Foremost, union officials expressed concern about the history of Amtrak's successive "reforms" and the detrimental effects on labor-management relations and employee morale. In their view, past Amtrak reforms have brought fewer union jobs and the loss of health and safety programs with no improvement in Amtrak's service to the public, while it continues to flounder with funding uncertainty. A union official stated that the first step should be getting Amtrak to operate like other for-profit businesses, including the freight railroads. The emphasis should be on applying basic business principles, including transparent accounting, and repairing its relationship with the unions and improving national railroad passenger service—rather than on reducing the federal subsidy.

⁹Under a tort-based compensation system like the Federal Employers' Liability Act, employees must show negligence of the employer, its employees, or agents, in order to receive compensation for employment-related injuries.

This should be addressed before moving on to something other than the current system and route structure. In addition, union officials emphasized that some union members are highly skilled and highly specialized and cannot be easily replaced. Any restructuring of intercity passenger rail would still require any operator—Amtrak, alternative operators, or a successor to Amtrak—to work through the unions to maintain a labor force or to train additional workers. Total compensation for employees moving forward is another concern; however, union officials told us, where alternative operators have succeeded Amtrak in operating commuter railroads, unionized employees have been offered more compensation than they received from Amtrak with no accompanying change in work rules.

Financial Reporting, Internal Control, and Governance Requirements and Practices for Federal Entities and Public Companies

Current Accountability Requirements and Practices

The Amtrak Reform and Accountability Act of 1997¹ removed Amtrak from the list of government corporations subject to the Government Corporation Control Act of 1945.² The 1997 act, however, did not change Amtrak's status as a private, for-profit corporation established to provide intercity and commuter rail passenger transportation in the United States and is neither an agency nor an instrumentality of the U.S. government, nor an issuer of securities to the public. Consequently, Amtrak is not subject to the basic accountability requirements of either federal entities or public companies, but has been subject to specific reporting requirements contained in its grant and loan agreements and Amtrak-specific statutory provisions in Title 49 of the U.S. Code. Following are the basic accountability requirements that encompass financial reporting, internal controls, and governance at these organizations.

Federal Entities

Financial Reporting

The Chief Financial Officers Act of 1990 (CFO Act), as amended by the Government Management Reform Act of 1994 (GMRA), requires the major 24 agencies³ of the federal government to submit annual audited financial

¹Pub. L. No. 105-134, § 415, 111 Stat. 2570, 2590 (1997).

²Codified at 31 U.S.C. §§ 9101-9110.

³The current 24 CFO Act Agencies are: the Department of Agriculture, the Department of Commerce, the Department of Defense, the Department of Education, the Department of Energy, the Department of Health and Human Services, the Department of Homeland Security, the Department of Housing and Urban Development, the Department of the Interior, the Department of Justice, the Department of Labor, the Department of State, the Department of Transportation, the Department of the Treasury, the Department of Veterans Affairs, the Environmental Protection Agency, the National Aeronautics and Space Administration, the Agency for International Development, the General Services Administration, the National Science Foundation, the Nuclear Regulatory Commission, the Office of Personnel Management, the Small Business Administration and the Social Security Administration. 31 U.S.C. § 901(b).

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Financial Reporting, Internal Control, and
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Federal Entities and Public Companies

statements to the Office of Management and Budget (OMB).⁴ The Accountability of Tax Dollars Act of 2002 (ATDA) expanded this requirement⁵ to include most other executive agencies.⁶ Federal government corporations had been subject to financial reporting requirements for many years under the Government Corporation Control Act.⁷ Quarterly, the executive agencies required to submit annual financial statements under the CFO Act, GMRA, and ATDA (31 U.S.C. § 3515) are required by OMB to submit unaudited financial information to OMB.⁸ These interim unaudited financial statements, required on a quarterly basis, may be submitted without footnotes and limited to a balance sheet, statement of net cost, and statement of budgetary resources. Management discussion and analysis and supplementary information are not required for quarterly reporting. Chapter 91 of Title 31 of the U.S. Code, commonly known as the Government Corporations Control Act, requires government corporations to submit annual management reports to Congress (with copies to the President, OMB, and us) no later than 180 days after the end of the government corporation's fiscal year. OMB has accelerated the submission deadline to no later than 45 days after the end of the government corporation's fiscal year.⁹ Annual management reports are therefore required to include the following:

⁴The Reports Consolidation Act of 2000, Pub. L. No. 106-531, § 4(a), 114 Stat. 2537, 2539 (Nov. 22, 2000), added a requirement that the audited financial statements shall also be submitted to Congress.

⁵The requirement for submitting annual audited financial statements to OMB and Congress under the CFO Act, GRMA, and ATDA has been codified, as amended, at 31 U.S.C. § 3515.

⁶OMB specifically identified 76 agencies to which the ATDA expanded the annual financial reporting requirement in Appendix A of M-04-22, a July 2004 memorandum titled "Amendments to OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*." This bulletin and related memoranda have been superseded by OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements* (Aug. 23, 2006), which in Appendix C identifies 75 entities to which the ATDA expanded the annual financial reporting requirement.

⁷Requirements for annual management reports for government corporations have been codified, as amended, at 31 U.S.C. § 9106.

⁸OMB Circular No. A-136, *Financial Reporting Requirements*, Part IV (rev. July 24, 2006).

⁹OMB Circular No. A-136, *Financial Reporting Requirements*, Part I.5 (rev. July 24, 2006).

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- a statement of financial position;
- a statement of operations;
- a statement of cash flows;
- reconciliation to the budget report of the corporation, if applicable;
- a statement of internal accounting and administrative control systems by the head of corporation management, consistent with the requirements under amendments to the act made by 31 U.S.C. § 3512 (c), (d), commonly referred to as the Federal Managers' Financial Integrity Act of 1982 (FMFIA);
- a financial statement audit report; and
- any other information necessary to inform Congress about the operations and financial condition of the corporation.¹⁰

Government corporations are not required by OMB to submit quarterly information. The federal government does not have a certification for government corporations or federal agencies comparable to section 302 of the Sarbanes–Oxley Act of 2002,¹¹ which requires the chief executive officers (CEO) and chief financial officers (CFO) of public companies to certify their company's financial statements.

Under OMB Circular No. A-136, *Financial Reporting Requirements* (rev. July 24, 2006), annual performance and accountability reports (PAR) issued by federal government agencies consist of the Annual Performance Report required by the Government Performance and Results Act of 1993 (GPRA)¹² with audited financial statements and other disclosures, such as agencies' (1) assurances on internal control, (2) accountability reports by agency heads, and (3) Inspectors General's assessments of the agencies' most

¹⁰31 U.S.C. § 9106(a)(2).

¹¹Pub. L. No. 107-204, 116 Stat. 745 (July 30, 2002)(codified at 15 U.S.C. §§ 7201 – 7266).

¹²31 U.S.C. § 3516.

serious management and performance challenges.¹³ OMB Circular No. A-136 states that PARs are intended to provide financial and performance information to enable the President, Congress, and the public to assess the performance of an agency relative to its mission and to demonstrate the agency's accountability. The PAR's management's discussion and analysis (MD&A) section, which serves as a brief overview of the entire PAR,¹⁴ should include the most important matters that could lead to significant actions or proposals by top management of the reporting unit; are significant to the managing, budgeting, and oversight functions of Congress and the administration; or could significantly affect the judgment of citizens about the efficiency and effectiveness of their federal government.

OMB Circular No. A-136 also requires federal entities in their MD&A to include information to help users understand the entity's financial results, position, and condition as conveyed in the principal financial statements. The MD&A also includes comparisons of the current year to the prior year and should provide an analysis of the agency's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. The MD&A should also include a discussion of key financial measures that emphasize financial trends and assess financial operations.

Internal Control

According to OMB, the passage of the Sarbanes–Oxley Act of 2002 served as an impetus for the federal government to reevaluate its current policies related to internal control over financial reporting and management's related responsibilities.¹⁵ While section 404 of the Sarbanes–Oxley Act created a new requirement for managers of publicly traded companies to report on the internal controls over financial reporting, federal managers

¹³The Reports Consolidation Act of 2000 (Pub. L. No. 106-531, 114 Stat. 2537 (Nov. 22, 2000)(*codified* at 31 U.S.C. § 3516)) permits agencies to submit combined reports in implementing statutory requirements for financial and performance management reporting to improve the efficiency of executive branch performance. These reports are combined in the PAR. In its guidance on financial reporting in OMB Circular No. A-136, OMB converted the PAR option to a mandatory requirement.

¹⁴Federal entities required to prepare audited financial statements following the guidance in OMB Circular No. A-136 are defined in the CFO Act, GMRA, ATDA and the Government Corporation Control Act, except any corporation that is required to register a class of its equity securities with the SEC. OMB Circular No. A-136, at ¶ I.3.

¹⁵OMB Circular No. A-123, *Management's Responsibility for Internal Control*, at App. A, Part I (rev. Dec. 21, 2004).

have been subject to similar internal-control reporting requirements for many years.

Federal agencies are subject to many legislative and regulatory requirements that promote and support effective internal control:

- 31 U.S.C. § 3512(c), (d), commonly referred to as FMFIA, provides the statutory basis for management’s responsibility for, and assessment of, internal control. OMB Circular No. A-123, *Management’s Responsibility for Internal Control* (rev. Dec. 21, 2004), sets out the guidance for implementing the statute’s provisions.
- The CFO Act of 1990 requires agency CFOs to maintain an integrated accounting and financial management system that includes financial reporting and internal controls. 31 U.S.C. § 902(a)(3).
- The Federal Financial Management Improvement Act (FFMIA) of 1996,¹⁶ as implemented by OMB Circular No. A-127, *Financial Management Systems* (rev. Dec. 1, 2004), requires the 24 CFO Act agencies to implement and maintain integrated financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard Government Ledger at the transaction level.
- The Inspector General Act of 1978, as amended, requires Inspectors General to submit semiannual reports to Congress on significant abuses and deficiencies identified during agency reviews, and recommended actions to correct those deficiencies. 5 U.S.C. Appx. § 5.
- *Government Auditing Standards*, [GAO-03-673G](#) (rev. June 2003) (commonly referred to as the “Yellow Book”), and OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, (Aug. 23, 2006), require auditors to report on internal control as part of a federal agency financial-statement audit, including a description of reportable conditions and material weaknesses in internal control over financial reporting.

¹⁶FFMIA, Pub. L. No. 104-208, div. A., § 101(f), tit.VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996)(reprinted in 31 U.S.C. § 3512 note).

Recent federal governmentwide initiatives have contributed to improvements in financial management and placed greater emphasis on implementing and maintaining effective internal control over financial reporting. In December 2004, OMB issued a significant update to its Circular No. A-123, the implementing guidance for FMFIA. The update requires the 24 CFO Act agencies to include the FMFIA annual report in their PAR, under the heading “Management Assurances.” The FMFIA annual report must include a separate assurance on internal control over financial reporting, along with a report on identified material weaknesses and actions taken by management to correct those weaknesses.

FMFIA and OMB Circular No. A-123 apply to each of the three objectives of internal control outlined in our *Standards For Internal Control in the Federal Government*: effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. OMB Circular No. A-123 calls for internal control standards to be applied consistently toward each of the objectives. The circular’s new Appendix A, which applies only to the 24 CFO Act agencies, requires management to document the process and methodology for applying A-123 standards when assessing internal control over financial reporting. Appendix A also requires management to use a separate materiality level when assessing internal control over financial reporting. The agency head’s annual assurance statement on the effectiveness of internal control over financial reporting required by Appendix A is a subset of the assurance statement required under FMFIA on the overall internal control of the agency.

Governance (Audit Committee)

Audit committees are becoming increasingly important in federal entities and public companies as a mechanism to improve accountability and enhance oversight. Overall, in the federal government, audit committees are intended to protect the public interest by promoting and facilitating effective accountability and financial management, which is accomplished by providing management with independent, objective, and experienced advice and counsel.

In 2002, the Government Finance Officers Association (GFOA)—a professional association of state and local finance officers—recommended that every government entity establish an audit committee or its

equivalent.¹⁷ An audit committee can facilitate communication between management, the auditor, and the governing board, according to GFOA, and is also useful in focusing on and documenting the process for managing the organization's financial statement audit. GFOA's guidelines for establishing an audit committee include recommendations that (1) the audit committee should be formally established by charter, enabling resolution, or other appropriate legal means; (2) the members of the audit committee collectively should possess the expertise and experience in accounting, auditing, financial reporting, and finance needed to understand and resolve issues raised by the independent audit of the financial statements; and (3) a majority of the members of the audit committee should be selected from outside of management. GFOA also states that the audit committee's primary responsibility should be to oversee the independent audit of the government's financial statements, from the selection of the independent auditor to the resolution of audit findings. GFOA further recommends that the audit committee should present annually to the governing board and management a written report of how it has discharged its duties and met its responsibilities, and that the report be made public.

Public Companies

The corporate failures and fraud that resulted in substantial financial losses to institutional and individual investors at the turn of the 21st century led to renewed focus on accountability and governance in public companies¹⁸ and culminated in the enactment of the Sarbanes-Oxley Act of 2002, which enhanced the disclosure and internal control requirements imposed by the Securities Exchange Act of 1934 as amended (Exchange Act);¹⁹ the Sarbanes-Oxley Act also implemented new accounting reforms for public companies. The Sarbanes-Oxley Act contains provisions for the governance, auditing, and financial reporting of public companies, including provisions intended to deter corporate accounting fraud and corruption and to punish violators. The 2002 act generally applies to

¹⁷GFOA, *GFOA Recommended Practice: Establishment of Audit Committees (1997 and 2002)* (Oct. 25, 2002), available at <http://www.gfoa.org/services/rp/caafr-establishment-audit-committee.pdf>.

¹⁸Committee on Financial Services, U.S. House of Representatives, *Corporate and Auditing Accountability, Responsibility, and Transparency Act of 2002, to accompany H.R. 3763*, H.R. Rep. No. 107-414, at 16-19 (Apr. 22, 2002).

¹⁹The Exchange Act, which created the SEC and gave it broad powers to regulate the securities markets, is codified, as amended, at 15 U.S.C. §§ 78a-78nn.

companies required to file reports with the Securities and Exchange Commission (SEC) under the Securities and Exchange Act of 1934.

Financial Reporting

The Exchange Act, including SEC implementing regulations, requires publicly traded companies to make periodic filings with the SEC that disclose their financial status and changes in financial condition, including annual and quarterly financial reports. Annually, public companies file reports containing audited financial statements prepared in conformity with generally accepted accounting principles (GAAP) and audited by registered accounting firms. Quarterly reports, which may be unaudited, contain financial statements and the MD&A. In addition to the company's financial statements, annual filings contain information including (1) selected financial data, (2) supplementary financial information, and (3) the MD&A of the company's financial condition and results of operations. The objective of the MD&A is to enable the reader to assess material changes in financial condition and the results of operations of the company. The MD&A is not audited; however, the auditor is required to consider whether the information is materially consistent with information appearing in the financial statements. The SEC reviews a selection of annual and quarterly filings for compliance with accounting and disclosure requirements. Generally, the MD&A is required to contain a discussion of material changes in liquidity, capital resources, off-balance sheet arrangements, aggregate contractual obligations, and results of operations; known material trends, events, and uncertainties that could render historical financial information non-indicative of future operations or financial condition; the cause of material changes in line items of the interim financial statements from prior-period amounts; and any other information necessary for an understanding of the company's financial condition, changes in financial condition, and results of operations.²⁰

Since the enactment in 2002 of the Sarbanes-Oxley Act, public companies have been required by section 404 to file annual reports with the SEC that include (1) management's assessment of the effectiveness of internal controls over financial reporting, and (2) the auditor's attestation and report on management's assessment.²¹ Public companies are also required

²⁰17 C.F.R. § 229.303.

²¹The term "internal control over financial reporting" refers to the process designed by the issuer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. 17 C.F.R. § 240.13a-15(f) (2006).

to disclose in both quarterly and annual reports filed with the SEC any changes in their internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to affect, the company's internal control over financial reporting. In addition, most companies are required to evaluate the effectiveness, as of the end of each fiscal quarter, of its disclosure controls and procedures and disclose in its quarterly report filed with the SEC the conclusions of the company's CEO and CFO regarding the effectiveness of such procedures.²²

Under SEC rules adopted pursuant to section 302 of the Sarbanes–Oxley Act, each annual and quarterly report a public company files with the SEC must include, as an exhibit, the certification signed by the company's CEO and CFO stating in pertinent part that they each have reviewed the report being filed and that, based on their knowledge, it does not contain untrue statements or omissions of a material fact resulting in a misleading report and that, based on their knowledge, the financial information in the report is fairly presented.²³ The act includes criminal penalties for certifying the financial statements while knowing that the financial statements do not fairly present the financial condition and results of the public company.²⁴ The certification requirement motivated corporate executives and managers to increase their scrutiny of the company financial statements and, in many cases, put specific accountability mechanisms in place in their companies to help assure reliable financial statements.

The SEC's Division of Corporate Finance reviews public company filings periodically to determine whether publicly held companies are meeting their disclosure requirements and whether improvements are needed in the quality of the disclosures. To meet the SEC's requirements for disclosure, a company issuing securities must make available all information, whether it

²²The term “disclosure controls and procedures” refers to the controls and other procedures of the company that are designed to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. *See* 17 C.F.R. § 240.13a-15(e) (2006). Internal control over financial reporting is distinct, but not mutually exclusive from disclosure control and procedures, as some internal accounting controls may be subsumed in the company's disclosure controls and vice versa.

²³SEC rules prescribe the specific form and content of the required certifications. 17 C.F.R. §§ 228.601(31), 229.601(31) (2006).

²⁴This provision of the Sarbanes Oxley–Act was included in Title IX, which the act states may be cited as the White-Collar Crime Penalty Enhancement Act of 2002, Pub. L. No. 107-204, § 906(a), 116 Stat. 804, 806 (July 30, 2002)(*codified at* 18 U.S.C. § 1350(a)).

is positive or negative, that might be relevant to an investor's decision to buy, sell, or hold securities in the company.

Internal Controls

Internal control serves as a first line of defense in safeguarding assets, preventing and detecting errors and fraud, and in providing assurance over the reliability of financial reporting. Internal control is defined as a process that is effected by an entity's board of directors, management, and other personnel, and is designed to provide reasonable assurance regarding the achievement of the following objectives: (1) effectiveness and efficiency of operations; (2) reliability of financial reporting; and (3) compliance with laws and regulations.²⁵

Section 404 of the Sarbanes–Oxley Act establishes requirements on internal control for companies and auditors. It requires companies to publicly report on (1) management's responsibility for establishing and maintaining an adequate internal control structure, including controls over financial reporting and (2) the results of management's assessment of the effectiveness of internal control over financial reporting. Section 404 requires accounting firms that serve as external auditors for public companies to (1) attest to the assessment made by the companies' management and (2) report on the results of their attestation and whether they agree with management's assessment of the company's internal control over financial reporting.

Internal control over financial reporting is further defined in SEC regulations implementing Section 404.²⁶ These regulations define internal control over financial reporting as a process providing reasonable assurance regarding the preparation of financial statements and the reliability of financial reporting, including policies and procedures that do the following:

- pertain to the maintenance of records that accurately and fairly reflect the transactions and dispositions of company assets;

²⁵GAO, *Sarbanes-Oxley Act: Consideration of Principles Needed in Addressing Implementation for Smaller Public Companies*, [GAO-06-361](#) (Washington, D.C.: April 2006).

²⁶17 C.F.R. § 240.13a-15(f)(2006).

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of company assets.

Governance (Audit Committees)

Independent audit committees have become, within public companies, an integral part of governance and oversight over financial reporting, internal control, and the audit process. The 1987 Treadway Commission's *Report on Fraudulent Financial Reporting* recognized as a key practice in reducing fraudulent financial reporting the establishment by the company's board of directors of "an informed, vigilant, and effective" audit committee to oversee the financial reporting process. In 1998, the New York Stock Exchange (NYSE) and the National Association of Securities Dealers (NASD) formed the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees. The committee released a 10-point plan in 1999 toward improving audit committee effectiveness. NYSE-, Amex-, and NASD-listing standards—which were the primary guidance for audit committees of public companies—were changed to reflect the recommendations of the Blue Ribbon Committee. Although this guidance, as well as recommendations of the Treadway Commission, existed prior to enactment of the Sarbanes–Oxley Act of 2002, the act provided a statutory basis—primarily in sections 202, 204, 301, and 407—for the composition and responsibilities of public-company audit committees in provisions similar to the Treadway Commission and the Blue Ribbon Committee recommendations.

Section 301 of the Sarbanes–Oxley Act of 2002 requires that audit committee members be selected from the company's board of directors and that they be independent (i.e., unaffiliated with the company and receiving no consulting fee, advisory fee, or other compensatory fee from the company). The audit committee is responsible for the appointment, compensation, and oversight of the auditor, oversight of company management regarding financial reporting, and the resolution of disagreements between management and the auditor. Finally, Section 301 provides that the audit committee should have the authority and funding to engage advisors when necessary; ensure that processes are in place for the receipt, retention, and treatment of any complaints from "whistle-blowers" about accounting, internal controls, or auditing issues; and maintain open

channels for employees to use in communicating knowledge of malfeasance or errors to the audit committee without fear of management retaliation.

Section 202 of the act requires the audit committee to preapprove all audit and nonaudit services by an auditor to guard against potential conflicts that could occur if services such as bookkeeping and information-system design and implementation are provided by the company's auditor.

Section 204 of the act requires that the auditor report to the audit committee all critical accounting policies followed in the course of an audit, all alternative accounting treatments within GAAP related to material items discussed with company management, and other material written communications between the auditor and company management.

Finally, Section 407 of the act and implementing SEC regulations requires public companies to disclose whether the audit committee has at least one financial expert,²⁷ the expert's name, and the expert's independence from management. If the company does not have a financial expert on the audit committee, it is required to explain why.

Amtrak

Financial Reporting

Until 1997, Amtrak was classified as a mixed-ownership government corporation under the Government Corporation Control Act. Government Corporation Control Act was intended to make government corporations accountable to Congress for their operations while allowing them the flexibility and autonomy needed for their commercial activities. Generally, a mixed-ownership corporation can be defined as a corporation with both government and private equity. In the case of Amtrak, the federal government held its preferred stock, and there were private entities that held common stock (three railroads and a holding company). The Amtrak

²⁷Consistent with the criteria set out in section 407(b) of the Sarbanes-Oxley Act, the SEC issued regulations defining a financial expert as a person who has, through education and experience as a public accountant, auditor, or other principal financial officer, an understanding of GAAP and financial statements, experience in the preparation or auditing of financial statements, and the application of such principles in connection with the accounting for estimates, accruals, and reserves. The financial expert should also have experience with internal accounting controls and an understanding of audit committee functions. 17 C.F.R. § 229.407.

Reform and Accountability Act of 1997 changed Amtrak’s status as a mixed-ownership government corporation by removing Amtrak from the list of mixed-ownership government corporations in the context of making Amtrak operationally self-sufficient by 2002. As we noted in our October 2005 report, today Amtrak is most similar to a “government-established private corporation.”²⁸

Consistent with Amtrak-specific statutory provisions in Title 49 of the U.S. Code,²⁹ Amtrak’s management and Board of Directors annually shall submit the financial statements to Congress with its operations reports. The annual financial report prepared and issued by Amtrak includes the audited financial statements and accompanying notes. However, the report does not include an MD&A section. Amtrak’s annual financial statements are required to be submitted to Congress, but are not submitted to, or formally reviewed by, OMB or any regulatory agency. However, Amtrak is required in its grant and loan agreement to produce a variety of daily, monthly, and annual reports that are submitted to its board, Congress, and FRA. The monthly performance report is an extensive report averaging 80 to 90 pages that contains financial results, route performance, workforce statistics, and performance indicators; it is also posted to Amtrak’s Web site.

Internal Control

As a government-established private corporation, Amtrak is not subject to the internal control requirements that govern either federal entities or publicly traded companies, and thus its annual report does not include a management report on internal control. An annual audit is performed using Government Auditing Standards; therefore, Amtrak’s management and Board of Directors receive a report on internal controls and compliance with laws, regulations, contracts, and grant agreements. However, the internal control report is not included in Amtrak’s annual report.³⁰ In our October 2005 report, we noted that DOT officials told us that they receive the internal control and compliance report. We also stated in our October 2005 report that Amtrak officials were not able to provide us with a distribution list and they had no recollection of the report being requested by, or sent to, any external party.

²⁸GAO-06-145.

²⁹49 U.S.C. § 24315.

³⁰The scope of the reports does not constitute an auditor’s opinion on internal control, but rather, contains any significant deficiencies or noncompliance noted during the audit.

Governance (Audit Committee)

In its original authorizing legislation in 1970, Amtrak's Board of Directors was authorized for 15 members, but there have never been more than 13 members serving. The current limit of 7 members was a reduction from 9 made by the Amtrak Reform and Accountability Act of 1997. The members are appointed by the President with the advice and consent of the Senate.³¹ The board has operated with less than a full complement of 7 voting members since July 2003. Between October 2003 and June 2004, the board had only 2 voting members (excluding the Secretary of Transportation or his designee). As of September 2006, the board had 5 members (excluding the Secretary of Transportation or his designee and the President of Amtrak); however, the term of 2 members is expiring in January 2007, so the board will be back to 3 members. Amtrak's bylaws also authorize the establishment of committees to assist the board in carrying out its management responsibilities. In March 2002, the board eliminated ad hoc committees, along with the Corporate Strategy Committee and the Safety, Service, and Quality Committee. At that time, committees were established for audits, corporate affairs, finance, compensation and personnel, and legal affairs. Amtrak's bylaws permit it to conduct periodic meetings between the Board of Directors and the shareholders, as necessary. Following enactment of the Amtrak Improvement Act of 1981, which abolished the election of any members of the Board of Directors by the common or preferred shareholders,³² Amtrak has not held a shareholders' meeting.

Currently the board is using the former audit committee charter in carrying out its responsibilities for the oversight of its accounting and financial reporting processes and the audits of Amtrak's financial statements by an independent auditor. Since the Board of Directors includes the President and CEO, the audit committee would not be considered "independent" under the requirements and practices for public companies, as provided in section 301 of the Sarbanes-Oxley Act of 2002.

In commenting on a draft of our October 2005 report, both DOT and Amtrak officials told us that, given the limited number of board members, Amtrak's full board of directors had assumed the functions of the audit

³¹49 U.S.C. § 24302(a)(2)(A).

³²Pub. L. No. 97-35, tit. XI, subtit. F, § 1174, 95 Stat. 687, 689 (Aug. 13, 1981).

committee.³³ DOT officials said these functions included meeting with Amtrak’s auditor to discuss audit and internal control issues, and that some of these meetings were held without the presence of Amtrak management. Our analysis showed that the board performed some audit committee oversight functions. Currently, the board is using the audit committee charter in carrying out its responsibilities for the oversight of the corporation’s accounting and financial reporting processes and the audits of Amtrak’s financial statements by an independent auditor.

Opportunities for Improvement at Amtrak

Financial Reporting

MD&A

Currently, Amtrak’s financial statements do not include an MD&A, an important part of financial statements that is required for federal entities and public companies. The MD&A provides users with information relevant to an assessment of the organization’s financial condition and the results of its operations as determined by an evaluation of the amounts and certainty of cash flows from operations and from outside sources.³⁴ For a hybrid organization such as Amtrak—a for-profit corporation that receives substantial federal subsidies³⁵—an MD&A would seem especially important to understand the numbers presented in its financial statements, and for users of the financial statements to interpret material changes in financial condition and the results of operations.

³³GAO-06-145.

³⁴For a general discussion of the purpose of the MD&A, see FASAB SFFAC (Statement of Federal Financial Accounting Concepts) No. 3, *Management Discussion and Analysis* (April 1999), available at <http://www.fasab.gov/concepts.html>

³⁵See, e.g., Transportation, Treasury, Independent Agencies, and General Government Appropriations Act, 2005, Pub. L. No. 108-447, div. H, tit. I, 118 Stat. 2809, 3220 (Dec. 8, 2004); Department of Transportation Appropriations Act, 2006, Pub. L. No.109-115, div. A, tit. I, 119 Stat. 2396, 2413 (Nov. 30, 2005).

Quarterly Financial Statements

Currently, Amtrak does issue a variety of reports, but does not issue quarterly financial statements that include footnotes. Public companies are required to file quarterly financial statements with footnotes and MD&A with the SEC. Under OMB Circular No. A-136, the executive agencies required to submit annual financial statements under the CFO Act, GMRA, and ATDA (whose requirements are now all codified at 31 U.S.C. § 3515) are also required to submit quarterly financial statements without footnotes to OMB. To issue quarterly financial statements, an organization must adopt a rigorous financial reporting process that, by its frequency, becomes more practiced and routine. Companies that are more successful at closing their accounting systems and issuing financial statements on a regular basis tend to have more automated systems and routine processes, which can minimize fraud and errors. We previously recommended that Amtrak should engage an independent public accountant to provide review-level attestation work on Amtrak's quarterly financial statements in order to strengthen financial reporting procedures. Preparation of quarterly financial statements with footnotes is a basic financial reporting function that contributes to the overall effectiveness of financial reporting and the organization's control environment.

Certification by CEO and CFO

An important provision of the Sarbanes–Oxley Act, section 302, requires the CEO and CFO of public companies to certify that they have reviewed the company's financial statements and that, based on their knowledge, the financial statements do not contain any untrue statements or omissions of material fact; also, they must certify that the financial statements are fairly presented. Amtrak's executives are not required to so certify the organization's financial statements. Amtrak's CEO and CFO would need to implement additional internal processes and controls to allow them to make such a certification. Because Amtrak relies heavily on federal subsidies, such a certification process would be useful for those charged with making decisions about the level of financial subsidies that are being used.

Review of Financial Statements

Currently, Amtrak is required to provide various financial and performance reports to FRA and/or DOT; however, Amtrak's financial statements are not reviewed by OMB or any other regulatory agency. Requiring Amtrak's financial statements to be filed with, and subject to review by, SEC or OMB (or both) could further strengthen accountability and assurance that Amtrak's financial statements represent its true financial condition. If Congress were to require Amtrak to file annual reports and other periodic reports with the SEC, Amtrak would need to adhere to the SEC's regulations and guidance, which require consistent disclosure of financial

and operations information. If Congress were to require Amtrak to submit its financial report to OMB, Amtrak would need to comply with appropriate OMB and federal financial reporting regulations and guidance, and respond to OMB's inquiries about Amtrak's reported financial information.

Internal Control

Management's Assessment and Report on Internal Controls

Currently, Amtrak does not have requirements for management to evaluate and report on internal control effectiveness. A management evaluation of the effectiveness of internal control and a management report on the results of the assessment holds management accountable for understanding the organization's internal control, recognizing and correcting deficiencies, and maintaining effective internal controls. FMFIA and OMB Circular No. A-123 and section 404(a) of the Sarbanes-Oxley Act have requirements for management's assessment of internal controls for federal agencies and public companies, respectively.

Auditor's Attestation

An auditor's opinion on the effectiveness of internal control provides an independent assessment of management's assessment of its internal controls. Although not required for federal entities, we support internal control opinions as an important accountability mechanism. In addition, an independent auditor's opinion on internal control was a key provision of the Sarbanes-Oxley Act. Under section 404(b), public companies are required to have an independent auditor attest to, and report on, management's assessment of the effectiveness of internal control over financial reporting.

Governance (Audit Committee)

Amtrak currently does not have an audit committee separate from its Board of Directors due to its current board size. A minimum of three audit committee members is required for NYSE-listed companies, and a minimum of three members was recommended by the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees. Because Amtrak relies heavily on federal subsidies, an audit committee with duties and responsibilities that mirror those of publicly traded companies and meets regularly is important to oversight of Amtrak's accountability for federal funds.

Comments from National Railroad Passenger Corporation

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

NATIONAL RAILROAD PASSENGER CORPORATION
60 Massachusetts Avenue, NE, Washington, DC 20002
tel 202 906.3960 fax 202 906.2850

Alex Kummant
President and Chief Executive Officer



October 23, 2006

Ms. JayEtta Z. Hecker
Director, Physical Infrastructure
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Hecker:

As requested by GAO, Amtrak has reviewed a draft of GAO Report No. GAO-07-15, [Intercity Passenger Rail: National Policy and Strategies Needed to Maximize Public Benefits from Federal Expenditures](#). Amtrak's comments on this report are set forth below. We are also appending to this letter a list of a few minor factual clarifications and corrections.

I. Essential Elements for Reform

Amtrak strongly agrees with GAO's conclusion (pp. 54-55) that the three key elements to comprehensive reform of intercity passenger rail are:

- (i) establishing clearly defined national policy goals;
- (ii) clearly defining government and stakeholder roles; and
- (iii) establishing consistent and committed funding.

As Amtrak stated in its April 2005 Strategic Reform Initiatives ("SRIs"), intercity passenger rail will not realize its unique potential to alleviate our nation's impending transportation crisis unless there is clear direction from federal policymakers; clearly defined decision-making and funding roles for federal and state governments and other stakeholders; and consistent, reliable federal funding that includes a capital matching grant program comparable to those available for other modes.

As GAO recognizes, the statutory/policy directives under which Amtrak operates are mutually inconsistent in many respects; create an unlevel playing field for Amtrak and other potential providers of intercity passenger rail; and do not provide Amtrak and other stakeholders with all of the tools and funding required to implement comprehensive reforms. Comprehensive reform will require legislative

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direction. Amtrak's SRIs identify the limited but important legislative changes that Amtrak believes are necessary for full implementation of meaningful reforms.

However, improvements in the cost effectiveness, efficiency, and reliability of Amtrak's services are possible – and indeed essential – without awaiting comprehensive legislative action. Amtrak is encouraged by the successes it has already achieved as it continues to implement its strategic initiatives, and appreciates GAO's support for and encouragement of these efforts.

II. The Amtrak "Deficit"

The lack of clarity regarding federal policy objectives for intercity passenger rail is reflected in the opening paragraph of GAO's report (p. 1). GAO states that Amtrak "continues to rely heavily on federal subsidies – over \$1 billion annually in recent years." GAO returns to this theme later in its report, declaring that Amtrak has "struggled to become financially solvent" and "has run a deficit each year" (p. 10).

These comments suggest that Amtrak's mission is to generate profits rather than to provide services that produce public benefits but do not cover all of their costs. Contrary to GAO's impression (p. 59), profitability was not one of Congress's goals when it created Amtrak.¹ The fact that Amtrak requires some level of government funding -- like the passenger rail services in the five other countries GAO examined -- is therefore of no significance. References to Amtrak "subsidies" of "over \$1 billion annually" (p. 1) also miss the important distinction between Amtrak's federal operating grants and the capital funding provided to Amtrak for *investments* in intercity passenger rail service.

GAO also states that Amtrak has "an annual operating deficit . . . of over \$1 billion" and that "operating losses have, and are expected to, increase" (pp. 1, 15). In fact, Amtrak's operating loss has *decreased* from \$494 million in FY2002 to a projected \$473 million in the recently concluded FY2006, *without* adjustment for inflation.

¹ The House report on the Rail Passenger Service Act of 1970 suggested only that intercity passenger rail service "along certain corridors can be made a profitable commercial undertaking, particularly with new equipment or advanced vehicles." H.R. Rep. No. 91-1580, p. 1 (emphasis added). During the House debate, three congressmen expressed a "hope" or "possibility" that the new entity created by the Act could eventually become profitable, but one of them added that "it is possible that this new program will have to be funded by the Congress on an annual basis." 116 Cong. Rec. H11074, H10101, H10103 (Oct. 13-14, 1970). While Amtrak was originally deemed a "for-profit corporation", that statutory language was amended in 1978 to "conform the law to reality . . . Amtrak is not a for-profit corporation." H.R. Rep. No. 95-421, p. 15.

See comment 1.

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GAO indicates in a footnote (p. 15, n. 13) that, in calculating Amtrak's operating loss for this purpose, it *included* both "non-cash" depreciation charges and interest payments on debt. This approach is inconsistent with the manner in which GAO calculates Amtrak's operating losses elsewhere in the report.² Moreover, since capital investments increase the asset book values on which depreciation charges are based, the investments Amtrak is making to restore state of good repair will increase (non-cash) "operating losses" under GAO's approach, even though those investments have contributed to a *reduction* in Amtrak's cash operating losses.³

For purposes of clarity, we recommend that GAO use a consistent approach to calculating Amtrak's "operating losses" in the report. We also believe that non-cash depreciation charges and interest should be excluded.

III. Passenger Revenues

GAO states (p. 16) that passenger revenues are "stagnating" and have "declined" since 2002. These statements are not correct. Amtrak's passenger revenues in FY2006 were the highest ever and are projected to be 10% ahead of the FY2005 level. This information was provided to GAO.

IV. Public Benefits of Amtrak Services

An important issue for policymakers on which GAO focuses attention is whether current federal policies and Amtrak services "maximize the public benefits for federal expenditures for intercity passenger rail" (p. 3). Amtrak has three observations regarding GAO's discussion of the relative benefits of long distance and corridor services:

- GAO indicates (p. 22) that on the Northeast Corridor "a much higher percentage of the ridership is comprised of commuters and business travelers" while long distance trains carry larger numbers of "retirees" and what GAO characterizes as "leisure" travelers (p. 30). It is true that the average Northeast Corridor passenger is younger, and much more likely to be traveling for work-related purposes, than the average passenger on a long distance train. However, trips on long distance trains that are not work-related are not necessarily for "leisure" purposes. As reflected in the Amtrak survey data on which GAO relied, two-thirds of the long distance passengers that

² See, e.g., p. 20, in which GAO *excluded* depreciation and interest costs in calculating the percentage of Amtrak's "financial losses" attributable to long distance trains. Since the majority of Amtrak's depreciation charges and interest costs are associated with Northeast Corridor assets, inclusion of depreciation and interest in this calculation might have led GAO to reach a different conclusion about the relative performance of long distance trains.

³ As for interest payments, Amtrak has reduced its preexisting debt and made no new borrowings since FY2002.

See comment 2.

See comment 3.

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GAO characterized as “leisure travelers” indicated that they were traveling to “visit family/ friends or [for] personal/family business.” Trips for “vacation/ recreation” accounted for only 29% of long distance train travel.

- Noting that nearly half of long distance passengers travel less than 500 miles, GAO suggests that many long distance train passengers could be served by “potential high speed rail corridors” (pp. 21-22). It is certainly true that future corridor trains could serve some passengers who currently utilize long distance trains. However, figures based solely upon passenger trip length – without regard to whether the passenger’s origin and destination are both within a potential corridor – significantly overstate this potential. While Rugby, North Dakota and Malta, Montana on the *Empire Builder* route are less than 500 miles apart, it is unlikely that they will ever be linked by corridor trains.⁴
- Regarding federal costs, GAO emphasizes that long distance trains serve a relatively small percentage of Amtrak *passengers* (15%) but account for a relatively large percentage (about 80%) of Amtrak’s *federally* funded operating losses. See “Highlights”; pp. 4, 20. However, the significance of this comparison may be undercut by the facts that:
 - (i) long distance travelers account for almost half (47%) of Amtrak’s passenger miles (p. 21); and
 - (ii) differences in federal subsidies per passenger mile between long distance and other non-NEC trains are primarily attributable to state funding for many corridor trains (see p. 32) rather than to lower farebox recovery ratios.

V. State Corridors

As indicated in the SRIs, Amtrak agrees with GAO that improved and increased corridor services offer the greatest potential for attracting additional passengers to rail, improving mobility, and relieving congestion on other modes. GAO’s statement (pp. 38-39) that “[t]he current intercity passenger rail system exists much as it did when Amtrak began 35 years ago” overlooks the enormous growth, referenced elsewhere in GAO’s report, that has *already* occurred in state-supported corridor services outside of the Northeast Corridor. For example, corridor train service in the three rapidly growing West

⁴ Appendix II of GAO’s report also includes a table (p. 118) that quantifies the “corridor ridership” on each long distance train based upon six-year old ridership data. Whatever definition of “corridor” was used in calculating these numbers is inconsistent with GAO’s definition of that term (p. 3), and produces facially illogical results. For example, the table indicates that all Auto Train passengers are “corridor riders”, even though the two Auto Train terminals are 855 miles apart and any ultra high speed corridor service that might someday connect them would not likely accommodate automobiles.

See comment 4.

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Coast states has increased from 8 trains per day in 1971 on two routes totaling just 300 miles to nearly 80 daily corridor trains that operate over 1300 route miles. The predominantly state-funded growth in these services – most of which has occurred since the early 1990s – demonstrates that increased federal investments in corridor development could produce significant public benefits.

GAO also indicates that states currently have a “limited decision-making role” with respect to intercity passenger rail (p. 59). That is certainly (and appropriately) true of states that do not provide funding. However, on state-supported routes, the funding states are the decisionmakers with respect to schedules and frequencies (subject only to operational and host railroad constraints); what stations will be served; whether food service will be provided; route marketing strategies; etc. In addition, the funding states are free to utilize non-Amtrak providers for many services, including food service, reservations and ticketing, route marketing, and maintenance of state-owned equipment, as a number of states already do.

VI. Freight Railroad Impacts

The discussion of the impacts of intercity passenger rail service on freight railroads (pp. 140-44) depicts freight railroads and Amtrak as adversaries fighting over a finite amount of rail network capacity to which Amtrak has claim under an inequitable arrangement. That characterization overlooks the fact that increasing rail network capacity is an important national policy issue on which the interests of passenger and freight rail should be aligned. Freight railroads, Amtrak, and the federal and state governments have a common need to ensure that sufficient rail network capacity is provided to accommodate growth in freight and passenger traffic that will cause gridlock if forced onto other, even more congested, transportation modes.

As GAO has noted in a recent report,⁵ it is not clear that the privately-owned freight railroad industry will be able to fund all of the investments required to handle record demand for rail freight transportation. States that fund Amtrak services have made major investments in freight-railroad owned infrastructure (including on the New York-Albany and Washington-Richmond lines referenced in the report) to add capacity to accommodate additional passenger services. Encouraging such investments by leveraging them with federal matching funds, as is the case for other transportation modes, will be of even greater importance going forward if rail capacity is to be increased. The public benefits from expanded and improved passenger rail service provide an additional justification for government funding of improvements that will also increase capacity for rail freight operations.

⁵ GAO, *Freight Railroads: Industry Health Has Improved, but Concerns about Competition and Capacity Should Be Addressed*, GAO-07-94 (Washington, DC: October 2006), pp. 55-56.

See comment 5.

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Finally, in comparing the charges paid by Amtrak and commuter railroads for operations over freight railroad-owned lines (pp. 141-42), it is important to recognize:

- the significant state-funded capital investments to increase capacity on freight-railroad owned rail lines used by Amtrak trains that are discussed above;
- that the Rail Passenger Service Act is "a public bargain that was struck with the nation's freight railroads, whereby the freight railroads were relieved of any duty to provide passenger service in exchange for making their tracks available to Amtrak at incremental costs";⁶ and
- that commuter trains – which are concentrated in morning and evening weekday peak periods, and have longer track occupancy due to frequent stops – require greater rail line capacity, and therefore impose much higher costs on the track owner, than a comparable number of intercity passenger trains that are spread throughout the day/week.

VII. Financial Reporting & Governance

Amtrak has a number of comments on Appendix VII to the report ("Financial Reporting, Internal Control and Governance Requirements and Practices for Federal Entities and Public Companies"):

- The suggestion of creating an MD&A with our annual audited financials is a reasonable idea. Financial Statements are never self explanatory and an MD&A could help uninformed readers understand the results and trends. It should be noted, however, that Amtrak does expend a great deal of time and effort to ensure that key stakeholders, such as, its Board, various regulatory agencies and anyone accessing the Amtrak website have ample financial information available. In addition, Amtrak's Board meets about ten times each year. Every meeting includes information regarding Amtrak's financial condition. Many of these meetings also include presentations from Amtrak's external auditors to provide an independent assessment of Amtrak's financial position.
- The recommendation that Amtrak should report under full SEC regulations would not be cost effective. Amtrak would need to hire additional staff in several departments, pay for the production of a significant amount of documentation for SEC filings, and require additional services from our independent auditors. The additional cost to Amtrak is estimated to exceed \$2 million annually. In recent years Amtrak's financials have stood up to the scrutiny of our independent auditors without any material adjustments. SEC reporting is designed for companies that are actively traded on stock exchanges. This level of reporting is not appropriate or cost

⁶ Interstate Commerce Commission, *Study of Interstate Commerce Commission Regulatory Responsibilities*, Oct. 25, 1994, p. 62.

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effective for organizations like Amtrak. In addition, Amtrak has an Inspector General group with an annual budget of \$14 million that continually audits Amtrak's Operations and Financial processes.

- GAO asserts that Amtrak's CEO and CFO are not required to certify the organization's financial statements under Section 302 of the Sarbanes Oxley Act. Since Amtrak is not subject to the Act this is a true statement. On the other hand, it should be noted that five of Amtrak's officers, including the CEO and CFO sign a Letter of Representation each year. This is a standard practice that is followed with Amtrak's independent auditors prior to the issuance of Amtrak's annual financial statements and the auditor's opinion letter. The Letter of Representation for the FY2005 audit contains eighty-one different representations pertaining to various aspects of Amtrak's internal controls and financial statements. These representations include statements similar to those required under Section 302 of the Sarbanes Oxley Act. This letter is addressed to the independent auditors and a signed copy is provided to the Chairman of Amtrak's board. It has not historically been a public document but Amtrak's Inspector General Office has reviewed these letters.
- As GAO recognized in a report last year,⁷ the following agencies oversee Amtrak on a monthly, quarterly and annual basis: the Federal Railroad Administration, the Department of Transportation Inspector General's office and the independent Amtrak Inspector General's office. The GAO went on to recommend *increased* oversight of Amtrak by the Federal Railroad Administration. Considering the impressive amount of oversight, cooperation and transparency Amtrak has with the three existing oversight agencies, adding the time and multimillion dollar cost burden of the Securities and Exchange Commission seems an unnecessary use of federal funds with little real benefit for stakeholders. It is also important to note that Amtrak produces a monthly performance report which includes key operating and financial statistics. The report is sent to key congressional oversight committees, other stakeholders including the ones listed above, and is publicly available on our website.

Conclusion

Amtrak agrees with GAO's opening statement that intercity passenger rail service in the United States has come to a critical juncture. A national dialogue about the future direction of rail service -- passenger and freight -- is urgently needed.

⁷ GAO, *Amtrak Management - Systemic Problems Require Actions to Improve Efficiency, Effectiveness, and Accountability*, GAO-06-145-94 (Washington, DC: November 2005).

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A more efficient, improved and expanded intercity passenger rail service can play an important role in relieving congestion in the air and on the highways. Rail has unique advantages over other modes. Rail transportation is much less dependent on high priced oil, and increases in rail line capacity (although not cheap) are often less expensive and much less disruptive than building new highways or airport runways.

Amtrak looks forward to participating in a dialogue about the future of the U.S. rail system with policymakers and stakeholders. We particularly hope that the discussion of the future role of intercity passenger rail can move beyond the acrimonious debates and sound bites of the past, and that consensus on policy goals, stakeholder roles, and funding can be achieved.

Sincerely,

A handwritten signature in cursive script that reads "Alex Kummant".

Alex Kummant
President and Chief Executive Officer

Attachments

The following are GAO's comments on National Railroad Passenger Corporation's letter dated October 23, 2006.

GAO Comments

1. Our report is not intended to imply that Amtrak's mission is to generate profits rather than provide services that produce public benefits on a break-even basis. In fact, the first section of the report discusses the characteristics (both financial and non-financial) of the types of service provided by intercity passenger rail in the United States and the types of service that could increase the transportation benefits and public benefits of intercity passenger rail. Regarding operating losses, we recognize that Amtrak's operating loss is projected to decrease in fiscal year 2006 and have changed the report to reflect that, instead of increasing, operating losses continue to remain high. Finally, we do not believe our report is inconsistent in how operating loss is portrayed. Non-cash items such as depreciation and interest expenses are legitimate expenses to the business and were reported based on Amtrak's audited financial statements. The report also includes a figure excluding these items to illustrate their relative contribution over Amtrak's reported cash losses. In our discussion of the financial performance of routes, we used the route financial data provided to us by Amtrak, which does not include non-cash items such as depreciation charges.
2. The trend in passenger rail revenue between fiscal years 2002 and 2005 was stable. Based on data provided by Amtrak we included a footnote to recognize the projected increase in passenger rail revenue in fiscal year 2006. We have eliminated any reference to "promotional pricing" being the reason for revenue decreases.
3. We recognize that a significant percentage of long distance passengers that are not traveling for work purposes may be traveling for family or personal/family business reasons. This is still a form of leisure travel and we have modified our definition of "leisure" to include travel for family or personal business reasons. Regarding long distance passengers traveling less than 500 miles, our report notes that many—but certainly not all—of these passenger trips may have characteristics similar to those on corridor routes. The example cited in the report, on the *Empire Builder* route, is intended to illustrate the type of circumstances where this may apply. Regarding the financial performance of long distance routes, we agree that on a per passenger mile basis the difference between long distance service and other non-

NEC trains may be attributable to state subsidies. Our report notes that one reason for the wide variance in financial performance among corridor routes is the level of state support.

4. Our report also recognizes the growth in state-supported services and that these services are the fastest growing in terms of ridership and illustrate the significant potential for further growth. Finally, we agree that on state-supported routes, states play a much greater decision making role. We have changed our report to recognize this role.

5. We agree that rail network capacity is an important national policy issue and that freight and passenger railroads, as well as governments at all levels need to work together to address this issue. This will be particularly important in the future as rail infrastructure capacity continues to become constrained. Our report discusses the challenges associated with addressing this issue. We also address the issue of cost sharing between the federal and state governments and how this is common in some transportation modes other than intercity passenger rail. Moreover, we identify factors that need to be considered in making federal investments in private infrastructure. Finally, the report identifies some of the factors as to why commuter railroads pay amounts different from incremental cost to access freight and other privately owned infrastructure. It was for this reason that we made a qualitative, rather than a quantitative, comparison between Amtrak and commuter rail infrastructure access costs.

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