STATEMENT OF
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BEFORE THE
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Chairman Quinn, Congresswoman Brown, Members of the Subcommittee, I appreciate this opportunity to appear before you today to discuss Amtrak and the future of intercity passenger rail service in America.

I. AMTRAK'S RECURRENT CRISIS

I begin with the obvious: Amtrak is an organization with profound financial difficulties. Its current budget request to Congress acknowledges that "for over 30 years, Amtrak has lurched from one financial crisis to another."

Amtrak was created with the illusory expectation that it would soon achieve profitability. Instead, it became dependent upon ever-increasing and now unsustainably large Federal appropriations. This dependency on Federal funds is pegged by Amtrak to be up to $2 billion annually for the foreseeable future[1] -- with Amtrak's FY 2004 budget request up over 80 percent from the current fiscal year and over 250 percent above FY 2001.

The Department of Transportation (DOT) expects that each and every one of Amtrak's 17 long distance trains will this year lose money on a fully allocated cost basis, even excluding depreciation and interest. On a fully allocated cost basis including depreciation and interest (a more accurate measure of overall Federal investment), all of Amtrak's 43 regularly scheduled routes lose money. Ten of its 17 long distance train routes have a net loss of more than $40 million per year. On a per passenger basis, the loss for long distance trains ranges from $131 per passenger to $551 per passenger. Counting long distance and corridor trains together, Amtrak has 25 routes that DOT expects will this year require a subsidy of over 25 cents per passenger per mile of travel.

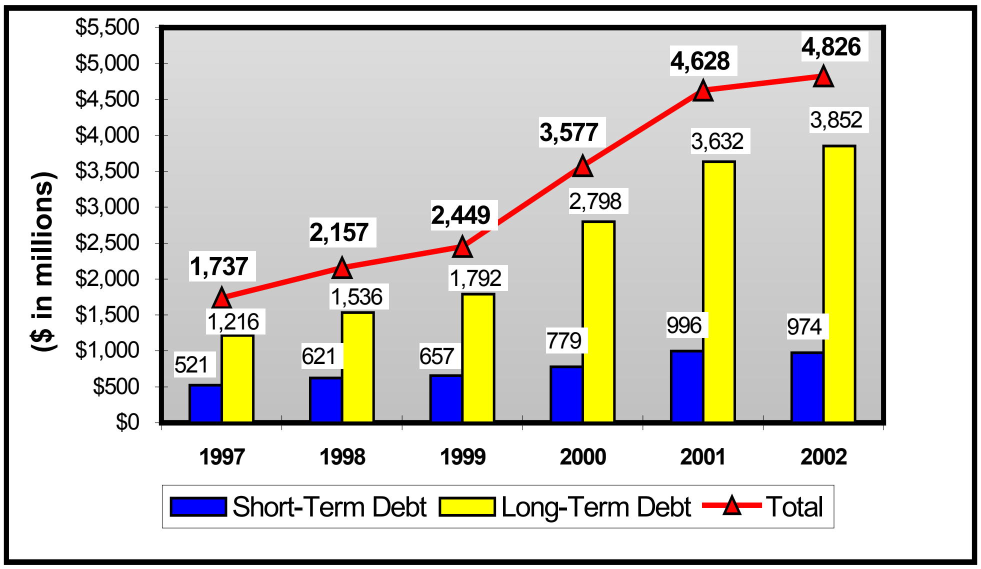
Appendix 1 provides DOT's FY2003 forecast of passenger revenue and expenses for all of Amtrak's routes, reflecting the most recent Amtrak business plan submitted to the Department. Appendix 2 provides more detail about the Department's implementation of our new statutory authority to require in FY 2003 that Amtrak live within its Congressional appropriation. We will continue to monitor Amtrak's performance and will provide updates to the Committee periodically throughout the remainder of the fiscal year.

[1] Amtrak has requested $1.812 billion for FY 2004.

If anything, these route subsidy figures underplay the true financial difficulty that faces Amtrak. In order simply to meet payroll, Amtrak has for years also deferred long-term investment work, the true cost of which is not fully known. The DOT Inspector General estimates Amtrak's deferred capital investment backlog to be $6 billion. Last week, Amtrak's Board of Directors received from management a first draft of staff's estimate of capital and operating needs for the next five years. The Board has requested that David Gunn provide additional detail about several considerable risks to the plan. The draft also identifies, but does not yet cost out, a need for large capital investments for replacement of old rolling stock within ten years. One thing is certain at this juncture: the present and future capital needs of Amtrak are another large potential liability.

In addition, and animated perhaps in part by an aversion to declaring its failure to meet the operational self-sufficiency mandate, Amtrak's total debt grew from $1.7 billion in 1997 to $4.8 billion in 2002. Figure 1 illustrates the growth in Amtrak's total debt.

Figure 1
Amtrak Short-Term and Long-Term Debt
(Source: U.S. DOT Inspector General)



Because of this increased debt, naturally Amtrak's annual debt service has grown substantially, adding a large up-front cost to its business plan. Annual debt service requirements (principal and interest) are forecasted to be $278 million in FY 2004 (up from $111 million in 1997). This means that debt service will consume over 15 percent of Amtrak's requested FY 2004 appropriation of $1.8 billion. In short, Amtrak has leveraged its assets very aggressively.

As you know, in each of the last two years, the Department of Transportation was obliged to take extraordinary measures to help Amtrak avert bankruptcy. We reluctantly allowed Amtrak to mortgage Penn Station in New York City in the summer of 2001 and provided Amtrak a $100 million loan under the Railroad Rehabilitation and Improvement Financing (RRIF) program in the summer of 2002. Last year's RRIF loan was further augmented by a $205 million emergency appropriation voted by Congress to prevent a fourth quarter shutdown at Amtrak.

That narrowly averted shutdown not only would have stranded Amtrak's customers, but also would have affected hundreds of thousands of commuter rail passengers who rely on Amtrak's commuter support services and infrastructure.

In what follows, I would like to outline the Administration's recommendations for passenger rail authorization.

II. AUTHORIZING INTERCITY PASSENGER RAIL ANEW

Before discussing the future of intercity passenger rail in more detail, I'd like to say a word about the team that is managing ongoing operations at Amtrak. Since arriving at Amtrak almost a year ago, David Gunn has worked with the Amtrak Board of Directors to reduce operating expenses, de-layer management, improve customer service, address the numerous material weaknesses identified by Amtrak's auditors, instill financial discipline, and provide Congress and the Administration with more accurate and timely financial data. David and his management team have achieved meaningful improvements.

Having served with Deputy Secretary Jackson as Secretary Mineta's representatives on the Amtrak Board for the past two years, we have been impressed with David's work and candor, even when we have occasionally and respectfully disagreed. David has a daunting task, but he and his team have made progress worthy of honest praise.

Recent management discipline and new oversight authority, however, will not alleviate the ongoing crisis of three decades at Amtrak. Nor will the problems at Amtrak simply go away with a more liberal application of dollars drawn from the Federal treasury. The *status quo* organization cannot stretch to resolve these and other inherent weaknesses with which Amtrak has struggled to live. Structural reform of intercity passenger rail is needed.

Principles of Reform. Last June, Secretary Mineta spelled out five principles that the Bush Administration argues should be part of any successful reform of intercity passenger rail service. He said we must:

- Create a system driven by sound economics.
- Establish a long-term partnership between the states and the Federal government to support intercity passenger rail service.
- Require that Amtrak transition to a pure operating company.
- Create an effective public partnership, after a reasonable transition, to manage the capital assets of the Northeast Corridor.
- Introduce carefully managed competition to provide higher quality rail services at reasonable prices.

Anticipating Congressional action on authorization later this year, the Administration proposed funding for Amtrak in FY 2004 at a level of $900 million. Today I repeat what DOT said when announcing the Administration's FY 2004 funding request for Amtrak. This is a funding level with a message: Amtrak must undergo significant reform.

Money Alone is Not the Answer. Many of the central questions of the authorization will be financial, beginning with consideration of the enormous annual Federal subsidies -- some $2 billion a year over the next five years -- proposed by Amtrak. But even this proposal does not liquidate Amtrak's capital backlog. Nor does Amtrak's request include money for the multi-billion dollar high speed rail projects advocated by others. In fact, as part of its loan to Amtrak last year, the Department prohibited further speculative outlays by Amtrak to support future high-speed rail projects. Amtrak agreed to these provisions.

The new authorizing legislation for intercity passenger rail service will presumably also address the Federal government's role and funding commitments -- if any -- relative to high-speed rail and Maglev. When the whole picture is laid on the table, the potential cost is stunningly large.

Some argue it is inevitable that the Federal Government must endlessly pay giant subsidies for passenger rail. Around the globe, they note, passenger rail typically loses money. Amtrak is today a giant passenger rail system spanning thousands of miles. Ergo, it is said, the Federal government surely must spend Brobdingnagian sized buckets of money for Amtrak.

This is flawed logic and counsel we can ill afford. It fails to recognize adequately that the vast size of our nation and its population distribution make for a passenger rail market in the United States unlike virtually all other nations.

In fact, Amtrak's core business design suffers from structural rot. For decades, the Federal government has embraced perverse incentives that consistently impel Amtrak to make irrational business decisions. Consider, for example, the failed experiment in the last authorization regarding the so-called "glide path." Rather than producing operational self-sufficiency, Amtrak instead delivered stratospheric debt and pervasive financial legerdemain. To look at Amtrak's dilemma more sympathetically, one could say that from the beginning Amtrak has tried to balance an ill-defined public service mandate with a clear statutory requirement to operate as a for-profit enterprise, never satisfying either.

Just take the issue of whether to modify or actually terminate long distance routes. Even though the evidence shows staggering subsidies for long-distance rail, Amtrak has not made even modest changes to its long distance route structure in over 30 years. Why? Because we are told that the labor protection costs would, for several years, be equivalent to the cost of continued operations. More importantly, even raising this issue begins to unravel the fragile political coalition that has supported Amtrak's ever-growing annual subsidies. Imagine the impact upon our nation's economy if other businesses faced similar structural and political impediments that prevented them from implementing any service changes.

So, more money alone is not the answer. What to do? In short: embrace a new business model for passenger rail. And because meaningful change will be difficult, we should be willing to implement needed reforms at a deliberate, but measured pace. In fairness, I believe that many Members who voted for the last authorization of Amtrak thought they were doing just that. In retrospect, that legislation was insufficiently bold and fundamentally flawed to the extent that it relied upon Amtrak to reform itself.

Passenger Rail Authorization. The Administration supports an authorization period of six years rather than four. This will give us time fully to implement needed restructuring in one authorization cycle. Perhaps it is useful to start first with a summary of where we hope to end up in those six years.

Intercity passenger rail would become an economically viable and strategically effective mode of transportation supporting numerous successful rail corridors nationwide. The Federal role in passenger rail would, however, be reformed and strengthened to mirror much more closely the current Federal program supporting mass transit.

The Federal government would continue to define rail safety standards and enforce them. The Department of Transportation would provide capital grants directly to states and interstate consortia of states operating passenger rail. State government agencies would determine the level of passenger services needed, the price for such service, and they would contract with third-party operators to provide long-distance and corridor trains. The same program would apply to legacy long distance routes, current and new corridor services -- at higher speeds or not. To the extent that states' service choices require operating subsidization, state governments would be required to provide that subsidization, no later than a specified date to be determined but within the new authorization cycle.

For a period of years, the Federal government would continue disproportionately to fund the capital backlog for certain passenger rail projects. By the end of the authorization cycle, however, state governments would provide at least 50 percent of needed capital investment for all intercity passenger rail service.

The Federal government would assume several new or expanded roles, particularly to support the formation of corridor-based rail services. The Administration will request continuation of the type of grant making discipline and oversight that was incorporated into the Omnibus Appropriations Act of FY2003. The Department, rather than Amtrak, would exercise statutory authority to assign passenger train operating rights to a single party to operate intercity rail in a given corridor. Of course, such rights would be allocated to Amtrak exclusively in the first year of the new authorization period, and presumably throughout much of this transition period.

We do not propose to eliminate Amtrak, but we do propose comprehensive structural changes to be implemented at a prudent pace spanning the entire six-year period of the next authorization cycle. Amtrak would be required to form a pure operating company -- one that does indeed make a profit by providing excellent service for its government customers. It would be irresponsible to eliminate Amtrak altogether, but it would be an equal folly not to reform a corporation suffering such a persistent and thoroughgoing crisis.

One cornerstone objective is to continue vital rail services while implementing fundamental reform. The future of the Northeast Corridor (NEC) should be preserved and nurtured by a new governance structure that can be sustained for the long haul. The Administration will have very specific proposals about a process to create this new governance structure, and its ultimate performance characteristics. But we start from the conviction that, because of the complexity of this matter, the pending authorization should specify only the *process* for creating such a new institution or compact, rather than attempting to impose at the outset a specific organizational structure. An appropriate mechanism would then be included within the Congressional legislation that will, in turn, yield the new governance structure prior to expiration of the authorization cycle.

We must balance carefully the interests of each of the states served by intercity passenger rail. The needs of commuter rail systems and the freight railroads are also essential equities that must be served fairly by the new partnership formed by the states and the Federal government to own and operate intercity passenger rail.

When this model is embraced, I personally think that the nation will likely see *more* rather than *less* passenger rail service. Effective reform need not eliminate protections afforded by the Railway Labor Act, the Federal Employer's Liability Act (FELA) and railroad retirement. I also think the transition can be structured to make supporters of Amtrak's employees, ensuring that the reformed businesses retain good jobs that are more secure.

This is a very brief sketch of what the Administration thinks is achievable for reforming Amtrak by the end of FY2009. Without summarizing all details of the transition path that would yield these results, it is important to say a bit more about several key institutions that would make this happen.

The NEC Federal-State Compact. The Administration's proposal would create a new legal entity, a Federal-state compact to operate the NEC spine infrastructure under a 99-year lease from the Department of Transportation. It would likely take at least two years to put the new organization into place, during which period Amtrak would be required to begin its own transformation. The new NEC Compact would annually apply for and receive capital grants from the Department for corridor investment.

It would have the authority to enter private debt markets to finance NEC improvements. The NEC Compact would, with the Department of Transportation, develop a business plan to alleviate the capital backlog of projects needed to place the NEC in reasonable shape.

For most, if not all of the period of the pending authorization, the NEC Compact would contract with the NEC Infrastructure Corporation, an offshoot of the current Amtrak organization (see below) to maintain and operate the NEC in support of intercity passenger rail and commuter rail services on the corridor. At the same time, the NEC Compact would contract with Amtrak Operations to run the corridor trains.

By the end of the authorization cycle, and periodically thereafter as determined by the new organization, the NEC Compact would be required to solicit competitive bids to operate the infrastructure and to operate its intercity passenger trains. Because the Federal government would continue to own the corridor infrastructure, it would continue to play a role in the governance of the compact for the life of the lease.

State and Regional Rail Operating Companies. The Administration's proposal would authorize multi-state interstate compacts to operate intercity rail in areas served by access to freight railroad tracks. Either individual states or Regional Rail Operating Companies (RROCs) formed for this purpose could apply for and receive capital grants from the Department for corridor modernization. They would also have the authority to enter private debt markets to finance capital improvements.

The states and RROCs would contract initially with Amtrak Operations for corridor and long distance rail services. After a transitional period to be determined, such entities would be required to solicit competitive bids to operate intercity passenger trains supported by Federal funds. The Federal role relative to these entities would ultimately be similar to the Federal Transit Administration's relationship with local transit authorities. In the transitional period, the Federal government would have an additional role of facilitating the formation of such entities.

Restructuring Amtrak. The initial year of the new authorization cycle would, in the Administration's proposal, continue the existing basic legal and operating structure of the National Passenger Rail Corporation (Amtrak). The Administration advocates immediately increasing the size of Amtrak's Board by six persons to improve corporate governance and allow the Board adequately to staff the committee structure needed to provide appropriate management oversight.

Some functions, such as management of certain existing principal and interest payments on Amtrak's legacy debt, would, after a transition period of at least one year, be assigned to newly created structures that facilitate the statutory reform. For purposes of this testimony, I would like to highlight the Administration's recommendation to create two new organizations from within Amtrak as currently structured.

> **NEC Infrastructure.** The NEC Infrastructure Company would be a private company under contract to the NEC Compact to perform maintenance and manage the capital investment backlog program on the NEC. Both maintenance and capital work are performed with its own workforce as well as through the selection and oversight of contractors. It would be composed largely of the Chief Engineer's functions and workforce from the old Amtrak.
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> **Amtrak Operations.** Amtrak Operations would be a private company that operates long-distance and corridor passenger service and maintains passenger equipment under contract to the states. Service provided is determined solely by the states and all operating equipment is either provided by the states or by Amtrak Operations, as negotiated in agreements between Amtrak Operations and its customers. It would be composed largely of the intercity train operations and equipment maintenance staff of the old Amtrak.

As with the NEC Infrastructure functions, Amtrak Operations would, for a period, still enjoy its current monopoly status to operate intercity passenger rail service. In time, however, Amtrak Operations would compete in the marketplace to provide such services. AS such, it ultimately should be entirely independent of direct Federal Government grants. States or RROCs operating intercity passenger rail with Federal assistance would be required to seek competitive bids of appropriate duration for rail operations.

Having announced today these broad details of the Administration's approach to the pending authorization of passenger rail, the Administration looks forward to further near-term dialogue with Congress and other key parties prior to finalizing details of our intercity passenger rail legislative proposal in the coming weeks.

Conclusion. Passenger rail is an important component of our nation's transportation infrastructure. We stand ready to work with Congress and the states in the upcoming authorization to create an intercity passenger rail system that is driven by sound economics, fosters competition, and establishes a long-term partnership between states and the Federal government to sustain an economically viable system.

Today there are at least two competing approaches to dealing with the Amtrak problem. On the one hand, serious colleagues believe that the best way to save intercity rail is to drop back, and spend the next four years stabilizing Amtrak as it currently exists in the hope that it can somehow gather enough political support for the substantially larger investment Amtrak would need to survive. On the other hand, the Bush Administration, the Amtrak Reform Council and numerous others have concluded that true structural reforms are needed, and needed now.

Members of Congress committed to passenger rail need not mistake or fear this latter conviction. It is not advocated by this Administration as a Trojan horse aimed at abolishing passenger rail. Instead, it is animated by a fair desire to make some form of passenger rail service viable for the long term.

Some will disparage the call for root and branch reform in part because it is so difficult. The Bush Administration does not propose a quick fix. Indeed, not even a simple fix. But securing true structural reform is the only worthy solution for addressing such a persistent and important public policy dilemma.

There is, then, much work ahead as Congress digs deep into these issues. Secretary Mineta and his team also look forward to working with Congress to assess and implement long-term solutions to the recurrent crises that plagues intercity passenger rail. I would be pleased to respond to any questions you may have.

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Appendix 1

FY 2003 Amtrak Revenue, Expense and
Contribution/(Loss) Allocations