S. HRG. 105-550

LONG-TERM VIABILITY OF AMTRAK AND THE NEED FOR A DEDICATED FUNDING SOURCE

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

ON

S. 436

APRIL 23, 1997

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

48-276—CC WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-057261-4

COMMITTEE ON FINANCE

WILLIAM V. ROTH, JR., Delaware, *Chairman*

JOHN H. CHAFEE, Rhode Island
CHARLES E. GRASSLEY, Iowa
ORRIN G. HATCH, Utah
ALFONSE M. D'AMATO, New York
FRANK H. MURKOWSKI, Alaska
DON NICKLES, Oklahoma
PHIL GRAMM, Texas
TRENT LOTT, Mississippi
JAMES M. JEFFORDS, Vermont
CONNIE MACK, Florida

DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
JOHN D. ROCKEFELLER IV, West Virginia
JOHN BREAUX, Louisiana
KENT CONRAD, North Dakota
BOB GRAHAM, Florida
CAROL MOSELEY-BRAUN, Illinois
RICHARD H. BRYAN, Nevada
J. ROBERT KERREY, Nebraska

LINDY L. PAULL, *Staff Director and Chief Counsel*
MARK A. PATTERSON, *Minority Staff Director and Chief Counsel*

CONTENTS

OPENING STATEMENTS

CONGRESSIONAL WITNESSES

PUBLIC WITNESSES

ALPHABETICAL LISTING AND APPENDIX MATERIAL

COMMUNICATIONS

LONG-TERM VIABILITY OF AMTRAK AND THE NEED FOR A DEDICATED FUNDING SOURCE

WEDNESDAY, APRIL 23, 1997

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to recess, at 10:04 a.m., in room SD–215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Chafee, Grassley, D'Amato, Jeffords, Moynihan, Baucus, Graham, and Moseley-Braun.

OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will please be in order. Today we are going to address Amtrak's current financial condition, as well as its long-term viability. In the process, I would like our best efforts to focus on the latter, the future of Amtrak.

There is little question concerning Amtrak's importance to the economic and environmental vitality of the east coast corridor, the west coast, as well as to the well-being of our country at large.

I, for one, cannot imagine the USA, the sole superpower, without a passenger rail system as part of the national transportation system. At the same time, it is fair to say that Amtrak is in a crisis condition. The GAO reports that Amtrak needs approximately $1 billion annually to pay its long-term debt.

In addition, Amtrak will incur new debt of $1 billion within the next 2 years, principally to modernize the system with new equipment. Amtrak is currently borrowing to meet payroll needs, and the president of Amtrak has previously testified that Amtrak could run out of money during fiscal year 1998.

The future of Amtrak is in our hands, together with management and the union workers. Frankly, it is going to take the best efforts of all of us. Insofar as Congress is concerned, either it forces Amtrak to limp along until crushing debt, operational expenses, and aging infrastructure and rolling stock kill Amtrak or we look for innovative answers to meet Amtrak's long-term needs.

This condition, and there are arguments on both sides, bring to mind something Mark Twain once said. When you are confronted with a difficult decision, he said, "Do what is right. You'll please a few and you'll amaze the rest." [Laughter.]

We must do what is right. We must look to Amtrak's future. The Nation needs Amtrak and we must do everything we can to ensure its survival. Amtrak has a business plan to put their operations on a sound foundation. I know there are questions concerning this plan.

But one thing is certain, without a stable funding source, Amtrak will not remain viable. It will not be able to meet the needs of those who depend on it. It will not be able to provide critical service along the east and west coasts, as well as across America.

So, towards providing a stable source of revenue, Senator Moynihan and I have proposed legislation, the Intercity Passenger Rail Trust Fund Act of 1997. This legislation takes one-half cent of the 4.3 cent per gallon motor fuels tax now being deposited into the general fund and creates a new trust fund for Amtrak.

Our legislation would raise about $4 billion over 5 years for the rail trust fund. It would allow Amtrak to make capital improvements necessary to operate a modern and efficient railroad. This legislation in my judgment is necessary.

At this stage I would like to recognize my good friend and colleague, Senator Moynihan.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator MOYNIHAN. And co-sponsor, sir.

The CHAIRMAN. And principal sponsor.

Senator MOYNIHAN. Mark Twain once also commented, "Be good and you will be lonesome." [Laughter.]

We are going to find out a little bit more about that this year. Thanks to you, Mr. Chairman, I think we are going to disprove that proposition, in all events.

We are about to reenact the ISTEA legislation of 1991. Back in 1991, here in the Senate we provided trust fund monies on a regular basis for Amtrak. That did not survive the House, where there was a jurisdictional dispute between committees. That has been resolved by changing the committee structure over there, and there is every reason to think that the track is clear.

We are going to hear from Senator Wyden how important it is to the west coast, as well as the east coast, and such like. We are going to hear from Mr. Downs, I do believe, that this is it. It is make or break down. We have a huge opportunity. If we do the right thing, we can be pretty sure it will be forgotten. If we do not, we will be remembered.

The CHAIRMAN. So much for being good.

[The prepared statement of Senator Moynihan appears in the appendix.]

The CHAIRMAN. At this stage, we would like to welcome and hear from our good friend and colleague, Hon. Ron Wyden, who of course is the U.S. Senator from the great State of Oregon. We are particularly interested in hearing from you, sir, because of the importance of passenger rail to the west coast.

Senator Wyden?

STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM THE STATE OF OREGON

Senator WYDEN. Well, thank you very much, Mr. Chairman. Let me commend you and Senator Moynihan for your outstanding advocacy of the half-cent effort. You all have been doing yeoman work, and I want to join you in this effort.

Let me spare you the filibuster here this morning and just make a few comments about these issues with respect to the west.

The first point I would make, Mr. Chairman and colleagues, would be that in the rural west this is not just about cars and track, this is literally a lifeline to communities in the rural west, particularly during the winter and the bad weather season when the highways are closed.

So, if we do not have this transportation option, particularly for older folks, for the handicapped, for veterans, they are simply not going to be able, for example, in eastern Oregon, to get to medical appointments in the metropolitan areas. This is literally a lifeline.

The second point that I would make, Mr. Chairman, is that I think that the legislation that you and Senator Moynihan are offering can really serve as a trampoline to reinventing Amtrak for the 21st century. Let me be very specific with regard to my concern here.

After the Senate, with the help of so many on both sides of the aisle, voted to allow us to have a 6-month extension for a number of the trains that were not economical, such as the Pioneer that serves eastern Oregon, I went to work in a very aggressive way with Mr. Downs of Amtrak to look at the long-term future for serving the rural west, and particularly eastern Oregon.

What Mr. Downs essentially showed us was that any one of the traditional approaches for serving the rural west and rural Oregon would just lose a bucket of money over the long haul.

In fact, not just one bucket, more like 15 or 20 buckets. Vast sums would be lost and, clearly, it would not have been consistent with the approach that the Senate has been looking to to really get Amtrak to the point where it did not need massive operating subsidies.

So we went to work with Mr. Downs at that time on, in effect, trying to reinvent Amtrak so that it would operate as a mail and express kind of service in addition to operating as a passenger service.

So what you would have in the rural west, for example, is a mail and express option that would carry computer parts, flowers, U.P.S. mail, and a wide variety of services that would allow it to be an economic catalyst for the region and be a profitable entity over the long term.

We are not going to be able to make this work as we go to the next reauthorization unless there is some transition funding which the half cent would make available. We now have a plan. We are ready to go.

We are prepared to say to our colleagues that have been skeptical about whether there should even be an Amtrak in the 21st century, we get the message. We know that this has got to be something that goes forward without massive operating subsidies. We have a plan to do it, but we are going to need, over the transition kind of period, some funds to get this off the ground.

So, I think the stakes are very high here, Mr. Chairman. There are a variety of other reasons to do this. The environmental benefits, which you and Senator Moynihan have talked about in the past, should be obvious at a time when we have pressure on a variety of fronts to take other environmental steps to clean up our air and the like.

This is one of the easier steps that we can take in order to promote environmental protection. So there are reasons now to do it as it relates to the needs of the rural west, there are reasons to do it with respect to the environment. We have areas of high population growth, such as the Cascadia corridor in the west, that will benefit greatly from it.

But I would make as the central argument for your important legislation, is this gives us a chance to reinvent this service as a national service for the 21st century in a way that will not require massive operating subsidies.

I am very fond of your areas in the east coast of the United States, but I am also interested in saying, I want a national railroad, a national Amtrak system, that can be economically strong and still serve more than those 13 original colonies.

I thank you for the chance to come, and I intend to support your legislation very strongly. It will have, in my view, overwhelming support from folks in the west.

The CHAIRMAN. Well, thank you very much for joining us today. We appreciate your interest and your leadership in this most important matter.

It is now my pleasure to call forward our first panel. Thomas Downs, who is, of course, president and chief executive officer of Amtrak, and Phyllis Scheinberg, who is Associate Director of the Transportation Issues, Resources, Community, and Economic Development Division of the General Accounting Office. We are very pleased to have both of you here.

I will say to you, as I will to future witnesses this morning, that their full statements will be included in the record as if read. We are, of course, asking that everyone summarize their written testimony. So we will start, if we may, with Thomas Downs.

Mr. Downs?

STATEMENT OF THOMAS M. DOWNS, CHAIRMAN, PRESIDENT, AND CHIEF EXECUTIVE OFFICER, NATIONAL RAILROAD PASSENGER CORPORATION (AMTRAK), WASHINGTON, DC

Mr. DOWNS. Thank you, Mr. Chairman. I want to take the opportunity on the front end to thank you publicly for your leadership in this area. I agree with both you and Senator Moynihan that the stakes are now with the reauthorization of ISTEA, decisions about the Nation's transportation system to the beginning of the next millennium.

My only comment about that, to follow up on Senator Moynihan's point, is that if it is not now, I do not believe it ever will be the time to make these decisions about the future of Amtrak.

Senator Moynihan, I also want to thank you for reminding me in an earlier conversation about the role that passenger railroads played in the settlement and the development and the economics, not only of the east coast, but of the Midwest and the West.

We also shared some recollections about the role of mail and express on passenger trains contributing to American economics around transportation. We are trying to reinvent, as Senator Wyden said, this corporation in that guise again.

We have a company that is a quasi-governmental corporation, if there is such an animal, and we have been the subject of an intense national debate for a quarter of a century, whether we are a business, whether we are a government corporation, whether we should be profitable, not profitable, make our cost of capital.

Those arguments, I think, have screened us from an essential debate about the role that rail passenger service plays in any industrialized developed country in the world today.

We provide an essential service on the east coast. I want to mention it just in passing, because people are not fully aware of how much of the east coast we serve. Seventy percent of all of the air/rail traffic, if you count intermediate destinations like Wilmington and Philadelphia, is served by Amtrak. In other words, 30 percent of the combined air/rail trips are on airplanes, 70 percent of it is on trains.

If we did not exist on the east coast, we would need, just on the highway side—and Senator Moynihan would understand the difficulty of doing this—20 full additional lanes of highway capacity in midtown Manhattan and 10 additional tunnel lanes under the Hudson River to just make access in and out of New York City workable.

If we were an airline, we would be the third-largest airline in the United States. But, as Senator Wyden pointed out, we are also something else in this process. It comes to the fore most often when we are eliminating services for cities and towns.

Twenty-two million of our 55 million passengers depend on us for travel between urban centers and rural locations.

The CHAIRMAN. How many was that again?

Mr. DOWNS. Twenty-two million of our 55 million passengers either begin or end in a small urban or rural location. When it comes to services in States like Montana, North Dakota, Oregon, Mississippi, and Texas, we are often the most essential, last surviving national connection other than driving.

If you cannot, either because of age, disability, or otherwise travel by car, we are often the only thing left. That is essential to recognize. We will never be a dominant player in transportation, but we will be an essential part and partner in a national transportation system.

If, in this process of debate, we lose sight of what has happened to the company over the last decade and a half with severe decapitalization, we will fundamentally misunderstand the economics of the situation we are in now. Our depreciation account is about a quarter of a billion dollars a year. That is how much capital our railroad consumes in a year.

During the mid-1980's, whether by design or by intention, we were given a starvation diet for capital. In 1986, our capital budget was $3 million. That was enough to replace some broken windows. The next year it zoomed all the way to $25 million, and it stayed at about that level for the rest of the 1980's.

Our depreciation account continued on. That meant that we depreciated the railroad by about a billion and some odd dollars, and we were told to go to the private marketplace to make that up. We have tried. We have probably exhausted that. As Senator Roth points out, we do have a relatively large private sector debt.

We are doing much better financially. You told us to reform the system, reduce our costs, reduce our route structure. We think we have done that, to the tune of about $400 million a year worth of improvement.

In spite of that, our revenues this year are up 13 percent, our ridership is up almost 5 percent. On-time performance is up every month this year from December to now. But in that context, while we have done our share, while we have tried desperately to make this railroad work to the Nation's expectation and the Congress' expectations, we have always said we have to have a couple of key elements.

One, is some structural reform in a reauthorization bill, but most importantly is a dedicated capital funding source. We believe, 100 percent, everybody in this corporation, top to bottom, that with adequate capital funding and with a reauthorization bill that will give us the ability to act in a more businesslike fashion, that we can and will make it to operating subsidy free by 2002.

I know there are those who do not necessarily believe that fully, but if you look at our progress over the last 3 years, if you look in detail at our 5-year business plan, and understand fully the role that capital plays, we know we can make it. We know we can be a passenger railroad you and the American public can be proud of.

But my challenge again is, recognizing the capital, recognizing the stakes, the country has had the luxury of piecemealing these decisions. The country has had the luxury of making assumptions about a smaller railroad, less funding, less capital, and assuming that it would be there in the next year or two. We have run those assumptions out. If it is not capitalized, it is not going to make it as a functioning, national railroad.

The irony is, we now know the answers. We now know what it costs to dissolve the corporation, we know how much it would cost to capitalize it. Cost of capitalizing is far cheaper than unwinding or bankrupting the corporation.

The advantage of funding it is, the Nation gets a functioning passenger rail system that will hold it in good stead in the next century. We know we can be good stewards. The question back again is, if it is not now, we need to recognize that it will not be in the future.

Mr. Chairman, thank you.

The CHAIRMAN. Thank you, Mr. Downs.

[The prepared statement of Mr. Downs appears in the appendix.]

The CHAIRMAN. It is now my pleasure to call on Ms. Scheinberg, who, as I said, is Associate Director of the Transportation Issues, Resources, Community and Economic Development Division of the GAO. It is a pleasure to welcome you, and would you please introduce your colleague?

STATEMENT OF PHYLLIS F. SCHEINBERG, ASSOCIATE DIRECTOR, TRANSPORTATION ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC, ACCOMPANIED BY RICHARD A. JORGENSON, SENIOR EVALUATOR, GENERAL ACCOUNTING OFFICE

Ms. SCHEINBERG. Thank you. Thank you, Mr. Chairman and members of the committee. I would like to introduce my colleague, Richard Jorgenson.

We appreciate the opportunity to appear before you today to discuss Amtrak's financial condition. Specifically, we will focus on Amtrak's current financial condition and progress towards achieving operating self-sufficiency by the year 2002, Amtrak's need for and use of capital funds, and the factors that will affect Amtrak's future viability.

Amtrak is in severe financial straits, with significant capital needs. The information I will be presenting underscores the need for policymakers to decide on Amtrak's future. If the decision is to continue to have a national passenger rail system as it is currently constituted, then Amtrak needs substantial capital funding to provide high-quality service to attract passengers and increase revenues.

The legislation under discussion this morning, S. 436, would provide a significant increase in Federal capital funding over the next 5 years to help Amtrak address its capital needs. As you know, Amtrak's passenger rail service has never been profitable, and to date the Federal Government has provided Amtrak over $19 billion for operating and capital expenses.

In 1995, in response to continually growing losses, Amtrak developed a strategic plan to increase revenues and control cost growth with the goal of eliminating its need for Federal operating subsidies by the year 2002. Despite some gains, Amtrak is still in a very precarious financial position. It remains heavily dependent on Federal support to meet its operating and capital needs. Amtrak expenses have exceeded its revenues by at least $760 million in every year since 1988. Amtrak had hoped that increases in passenger revenues would help close the gap, but for the most part passenger revenues have actually decreased, when adjusted for inflation.

Furthermore, Amtrak's operating deficits exceed the Federal operating subsidy. In 1996, this gap reached $82 million, the highest level of any of the last 9 years. To pay for the gap between operating deficits and Federal operating subsidies, Amtrak has had to draw upon its financial resources. To illustrate, Amtrak's working capital position indicates its ability to pay short-term bills out of current assets, such as cash and short-term receivables. Amtrak's working capital fund has decreased from a surplus position in the late 1980's to a deficit of $195 million in 1996. This affects Amtrak's ability to pay its bills over the short term.

A related concern is with Amtrak's debt level, which has doubled since 1993 from about a half a billion dollars to almost $1 billion. Amtrak expects to borrow an additional $1 billion in 1999 to finance the high-speed train sets and maintenance facilities. As Amtrak's debt levels have increased, interest expenses on this debt has also increased. In fact, over the last 4 years, annual interest expenses have tripled, from about $20 million to about $60 million. Interest expenses now consume about 21 percent of the Federal operating subsidy and will consume an even higher proportion of the subsidy as Amtrak assumes more debt.

On the positive side, Amtrak's actions to reduce some routes and services, cut management positions, and raise fares have helped improve its financial performance. For example, Amtrak's net losses, which are the total revenues less total expenses, declined, from over $1 billion to about three-quarters of $1 billion in 1996. Despite these efforts, Amtrak is projecting that its 1997 net losses may be even greater than those of last year.

Amtrak's goal of eliminating Federal operating subsidies by the year 2002 is heavily dependent on capital investment. For the northeast corridor alone, Amtrak estimates an additional $1.4 billion are needed to bring high-speed rail service between New York and Boston, and about $2 billion would be needed over the next few years for the south end of the corridor, just to preserve its ability to operate at existing service levels. In addition, Amtrak plans to spend over a half a billion dollars over the next 6 years to acquire new equipment and overhaul existing equipment system-wide.

However, an increasing portion of Amtrak's Federal capital is being devoted to debt service, capital overhauls, legally mandated uses such as equipment modifications, and environmental clean-up. As a result, the portion of the capital grant available to meet general capital investment needs continues to shrink. In fiscal year 1997, only about 5 percent of Amtrak's Federal capital grant of $223 million is expected to be available for general capital needs.

Regarding the future, Amtrak anticipates significant increased levels of Federal capital assistance, about $750 million per year, compared to the $478 million in capital funding that Amtrak received this year.

S. 436 would provide a source of increased capital funding over the next 5 years to help Amtrak address its capital needs. However, even with increased capital needs Amtrak will continue to find it difficult to take those actions necessary to further reduce its costs. While Amtrak was somewhat successful in making route and service adjustments in fiscal year 1995, it was less successful for adjustments planned for fiscal year 1997. Amtrak has also been less successful in negotiating productivity improvements with labor.

To conclude, although Amtrak's business plans have helped reduce net losses, currently we see little hope for Amtrak to reach the goal of operating self-sufficiency by the year 2002. We believe that, as currently constituted and as currently funded, Amtrak will continue to require significant Federal financial support, both operating and capital, well into the future.

Mr. Chairman, this concludes my statement. We would be happy to answer any questions.

[The prepared statement of Ms. Scheinberg appears in the appendix.]

The CHAIRMAN. Thank you, Ms. Scheinberg.

Mr. Downs, as I understand the picture presented by GAO, Amtrak has a cash flow deficit of about $76 million, which may increase to approximately $128 million at the end of fiscal year 1998. In March of 1997, Amtrak began to borrow to meet payroll and other expenses.

Further, Amtrak maintains short-term lines of credit of $150 million. You have stated that these lines of credit may be exhausted during fiscal year 1998. Amtrak needs approximately $1 billion annually for payment of long-term debt.

In addition, Amtrak will incur new debt of $1 billion in the next 2 years. It is currently paying $60 million of interest a year. Those payments use up about 20 percent of Amtrak's operating subsidy. Is this an accurate picture?

Mr. DOWNS. It is, as far as it goes. Yes, as Ms. Scheinberg was saying, we do increase our debt load in 1999 for the delivery of the 18 high-speed train sets and their operating facilities. What is not implicit in that, is that the private banking community has said they are willing to finance that amount because they are comfortable with the rate of return on that investment, that is supposed to spin off, after that investment on high-speed rail in the Corridor, an additional $150 million worth of working capital for the corporation. That is after all principal and interest.

Yes, we have challenges around capital that we cannot meet without this dedicated trust fund. I do disagree, though, that with this capital investment, with the assumption that we cannot get to operating self-sufficiency around subsidy. We have said that.

Our 5-year business plan, to 2002, is relatively conservative, in that it does not envision a full structural reauthorization of Amtrak and the benefits that we could gain there in areas like tort liability reform. It does not envision the revenues off of the development of the mail and express business.

It shows that with the capital investment, we can almost make it to operating self-sufficiency by 2002. With any of the other of those elements in place, including the ones that the Congress controls, we can make it to operating self-sufficiency, if we have the capital.

The CHAIRMAN. That leads me to my next question. How important is the half-cent legislation in view of the current financial situation?

Mr. DOWNS. I, frankly, do not believe that the company can survive longer than 18 to 20 months in its current configuration without the capital funding. The President's budget request is a pretty severe test for us. It is $200 million worth of operating subsidy and $420 million worth of capital.

At those levels, and with our limited ability to borrow more for short-term cash from our consortium of banks, probably no more than $150 million with our current private sector debt structure, whereby we have gone to the private marketplace to finance our equipment as we were instructed by everyone when we were not receiving any other capital: Given our private sector debt and our limits on liquidity in the company, without this capital investment fund, we cannot make it as we are structured.

The CHAIRMAN. Let me ask a further question. Will the half cent enable you to move ahead as you plan?

Mr. DOWNS. Absolutely. A railroad is a capital consumption machine. We have been consuming it, we have not been putting it back. With capital investment you can make the plant more effective, you can get better shops, better equipment, better stations, better information systems.

All of that is translatable into productivity gains that help make this economic company, this engine, literally, work much better for the American public in providing these services at a lower cost.

We understand the discipline here is 5 years. We have to recapitalize the railroad, make it work, squeeze every last ounce of efficiency out of that investment, and get to operating self-sufficiency in 2002. We cannot do it without the trust fund.

The CHAIRMAN. Let me turn to Ms. Scheinberg for a moment. Given the distressing financial picture you have painted for Amtrak, in your opinion, what is the most effective action Congress can take to reverse Amtrak's decline?

Ms. SCHEINBERG. If the Congress wants Amtrak to continue with the current system the way Amtrak is currently configured, the most effective action that Congress could take would be to provide substantial funding for its capital needs. Clearly, Amtrak needs this capital funding to improve the quality of its service, to attract ridership, and increase revenues.

The CHAIRMAN. Let me ask you this. If Amtrak continues to receive funding through the appropriation process and does not receive the secure capital funding source that Senator Moynihan and I have been arguing for, what happens to Amtrak? How long can Amtrak go on?

Ms. SCHEINBERG. If the present course is continued, which is the same funding level and the same service, the same system, then Amtrak will not be able to improve its capital base and the service will deteriorate, ridership will decline, and revenues will decline.

The CHAIRMAN. That is frank.

Senator MOYNIHAN. Why is Ms. Scheinberg so ambiguous? [Laughter.]

The CHAIRMAN. So you do not understand it, either.

Let me ask you, Mr. Downs, a couple of questions. You can answer both of them together.

What would America look like without a national passenger rail system? How does the United States compare with other industrialized nations with respect to government investment in rail passenger service?

Mr. DOWNS. I will answer the latter, first. I believe on a per capita basis, including an investment of both operating and capital subsidy levels, we rank below Bolivia. I think we rank just a little above Bangladesh in terms of what industrialized countries invest in rail passenger service.

It is kind of inconceivable for me. One of the nightmares that drives us all is that, somehow, in another generation people will ask how we let this go, because if it is gone it will never come back. Passenger railroading will never come back in America, as we know it. Even if we desperately need it at some point in the future, people would be asking, why could they not see that this is part of an essential, intermodal transportation network in America? Why could they not make the minimal investments that would keep it going for us to be able to use it? Why did our parents let it go? I do not want that to happen. I cannot imagine an America without rail passenger service. Rail passenger service built this country.

It is still an essential link. It is not the dominant link; it will never be. But if you are in Meridian, Mississippi or Whitefish, Montana, or Flagstaff, Arizona, oftentimes we are the dominant provider of transportation other than the automobile. Not air, not bus, but Amtrak. We are an essential linkage. We are part of the transportation fabric of the United States. It is inconceivable that we would make a conscious decision to throw it away.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Well, sir, we have heard epic testimony here. We are at a moment of decision. We can save a passenger rail system and then watch it grow in the years ahead, or we can lose it. And we will decide that in this session of this Congress, and Ms. Scheinberg has said, the issue will be capital provision. That is what your bill provides.

I think it should be said, the public never says its thanks very well, but Mr. Downs, we owe you profound gratitude for coming here and telling us exactly what the decision is that we will make or not make. It will be a decision one way or the other, to keep passenger rail alive or not.

You mention that you would need about $2 billion to complete the high-speed connection between New York and Washington. That is about a 200-mile run, is it not?

Mr. DOWNS. Yes, it is.

Senator MOYNIHAN. I am sure you are aware that there are segments of interstate highway in urban areas which cost $2 billion a mile. I mean, these sums are astronomical, these funds we have put into a highway system which does not work in the cities. As you say, Bolivia spends more money than we do, India does, Namibia does. It is just astounding, our decision.

It is true, is it not, that railroads carrying freight have had a very considerable revival and are now effective and profitable in this country.

Mr. DOWNS. Absolutely. The years of very hard work about restructuring themselves have paid off, and I think the net industry profits last year were in excess of $5 billion.

Senator MOYNIHAN. Yes. I think it is the case, is it not, that the coast-to-coast freight carrying, double-decked and so forth, has left us with no need for a Panama Canal.

Mr. DOWNS. Absolutely, it is true.

Senator MOYNIHAN. Yes.

Mr. DOWNS. The land bridge.

Senator MOYNIHAN. And no need for a military, et cetera, et cetera.

Also, is it not the case—and I do not want to generalize just from our own local experience—the cost and the availability of air transportation to other than major hubs, most of which specialize in casinos, that they are falling off very quickly?

I mean, it costs more money to fly from Washington to Albany than from Washington to Australia, and twice as much as Washington to London. These are just judgments about what the traffic is. Deregulation has almost wiped it out.

Our dear friend and colleague, Senator Rockefeller. There is no airline flying out of West Virginia or into West Virginia. It is true of many parts of upstate New York and Montana. Routinely, to find American Airlines, it is difficult. In Binghampton, there is nothing there.

Would that be your judgment, sir?

Mr. DOWNS. We stop in about 530 cities and towns in the United States. That is more cities and towns than are served by the entire domestic American aviation industry. We serve communities, while they may have residual air service—Senator Baucus' State is one, I talked to the Governor of Wyoming recently about the loss of service in Wyoming and Wyoming is another—the air fares on small commuters, as you point out, sometimes, to get to a major hub are more than the entire rest of the trip, $500, $600 roundtrip from smaller communities to places like Minneapolis or Denver. We serve those communities. We serve them well. It is a forgotten part of what our service is.

Senator MOYNIHAN. I would make that point, Mr. Chairman. You can spend $600 to go 180 miles to get to Minneapolis, but Amtrak stops in 532 cities, more than the entire aircraft industry put together.

We said in ISTEA 6 years ago that we had finished the interstate highway system. A proposal came out in 1939 at the World's Fair. A defense highway system. Defense was a very important ground for the subsidy. It mattered a great deal to President Eisenhower, from his own experience, and properly so. But that was done.

We were not going to build another one, we were going to move to an intermodal transportation system, seeking efficiencies and externalities. I think Amtrak is an example of both, and I am just so proud to be your co-sponsor, sir, on this legislation.

Mr. Downs, again, the public never says its thanks very well, but thank you for coming to us and telling it as it is. This is the moment of decision, and if we do not act to preserve rail transportation passenger service, we will never see it again, unless we go, excuse me, to Bolivia. [Laughter.]

Mr. DOWNS. Thank you, Senator.

Senator BAUCUS. Mr. Chairman, I know there are two Senators ahead of me, but I have an important engagement I have got to make, if I could just very briefly ask, maybe one minute or two minutes.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Thank you very, very much.

I want to echo, Mr. Downs', the statement of Mr. Moynihan just what a great job you have done. I know how hard you have worked under very trying circumstances in all parts of the country. Speaking for Montanans, we are very proud of what you have done with Amtrak. It is clear in our part of the country, that is about it up in the high line, as you all know. Communities like Libby, Whitefish, West Glacier, Essex, East Glacier, Browning, Cut Bank, Malta, Shelby, Havre, Glasgow, Wolf Point. They all——

Senator CHAFEE. That is what the ads say for Amtrak.

Senator BAUCUS. That is what it is, too, I will tell you.

I also will be introducing legislation today directing the 4.3 cents of the State gasoline, the half a cent going to Amtrak and the remaining 3.8 cents going to the highway account of the Highway Trust Fund. Senators Warner and Byrd are co-sponsors of that legislation, and I hope to have others as well.

It is a major effort to try to boost up our Amtrak support for this country, particularly the capitalization, and also make sure that the highway taxes that we pay go into all the wide variety of transportation needs that this country needs.

Again, I want to thank you very, very much. Thank you, Mr. Chairman, for your efforts to boost Amtrak, too. Just like in northeast, we did it in the highline section of Montana as well. Thank you very much.

The CHAIRMAN. Thank you, Senator Baucus.

Senator BAUCUS. I thank Senators Grassley and Graham for their forbearance.

The CHAIRMAN. I appreciate the leadership you are showing in this most important matter.

Senator Grassley?

Senator GRASSLEY. Yes. Mr. Downs, you alluded to the success of railroads for commerce, you alluded to the fact they are doing very well. That is a direct result of deregulation of those railroads that we had an opportunity for them to build their own capital after years of deterioration.

Some of that is directly related to more efficiency per employee, work rules have been changed. To what extent in the last 10 years has Amtrak become more efficient from the standpoint of work rules; specifically, how do you justify an agreement with the unions that, if there is anybody laid off, they will be paid for 6 years?

Mr. DOWNS. Well, first, let me recognize that we went through a 4 and a half year period without any contracts with our labor unions and a very hard-fought struggle that was bitter on both sides, labor and management, about changing work rules.

For example, the mileage rule, which said a unit of work equaled 100 miles' worth of travel instead of 8 hours, we changed most of those types of rules, labor and management, through the contract process, to make Amtrak a more economical railroad. We have some operating terms that even freight railroads do not have today as part of our contract process.

Senator GRASSLEY. Is that the implication, that they are better?

Mr. DOWNS. Absolutely, in a number of instances, including incidental work rules that some of the freight railroads would be very happy to get in terms of the agreement.

We have had a long, and at sometimes difficult, working relationship between management and labor. It is part of the culture and the railroad industry, whether passenger or freight, that these relationships are difficult.

On our side of the ledger we have always been able to meet with labor and management about deciding the critical issues to Amtrak's survival. We have 13 labor unions and 25 contracts. Every one of those 25 contracts has expired. We are in mediation with most of the unions, expect to be in mediation soon with all of them, about what our contract expectations are.

We have clearly said there is no money for the freight railroad settlement. The freight railroad settlement, over 5 years, would cost us about $220 million. We have not got that kind of money. We have said, for gains in productivity we will share those and share those aggressively with unions, but we cannot have wage settlements that increase our operating costs.

I think that railroad labor understands that, but it is very difficult for them, given the fact that 90 percent of their members belong to freight railroads where profits are hefty and they can bargain in a better economic climate than they can with us.

It is a very difficult environment for rail labor leadership, and I know that you have got one of rail labor's best leaders on the next panel, Sonny Hall, and I am sure that he will speak to that.

The 6-year rule is not a contract item. That was created by this Congress. That is part of our authorizing statute. It is in Federal law.

Senator GRASSLEY. And it has been since the existence of Amtrak?

Mr. DOWNS. Since we were created in 1971. It was to guarantee, in effect, employees who came over from freight railroads, that if they chose to come over from a freight railroad they would be guaranteed 6 years' worth of work.

That is the original understanding that the Congress had, to guarantee that if they took a risk on joining this company they would at least have 6 years' worth of work if the company went out of business.

Senator GRASSLEY. All right.

Ms. Scheinberg, would you not only respond to the question I asked him, but also would you finish on another point, and I will not ask any more questions then.

To the extent to which the General Accounting Office has done any study of privatization, and the extent to which you have or have not, what is your judgment on how much of Amtrak would be left of a national system if it were privatized?

Ms. SCHEINBERG. To answer your first question about productivity improvements, I believe, as I said before, capital investment is a critical component in Amtrak's future financial viability. But, in addition to the capital funding, Amtrak will have to make necessary cost reductions and productivity improvements, such as some of the things that you are alluding to, including negotiating with labor and making further productivity improvements on labor costs. That is critical to reaching any kind of operating self-sufficiency.

Regarding privatization and the implications of that for Amtrak, we have not done any full-blown study of that. But I would say that, given the capital needs, especially in the northeast, it would be very difficult to privatize Amtrak without making those capital improvements, first.

It would be very difficult to find a buyer or someone to take over the capital structure as it currently exists because Amtrak needs such extensive improvements. There is one Amtrak route right now that covers its fully allocated costs, and that is the Metroliner from Washington, DC, to New York.

The regular train from Washington, DC, to New York covers its direct costs, but other than that there is no route, no train, that covers its costs. It would be very difficult, I think, to find a private concern to take over the railroad.

Senator GRASSLEY. In a very real sense, you are saying that government subsidy and partnership has caused the railroad to deteriorate considerably. We do not have much of a product to sell.

Ms. SCHEINBERG. At this point, yes.

Senator GRASSLEY. It is kind of a sad commentary, considering the Federal Government's involvement, right?

Ms. SCHEINBERG. Yes, sir.

The Chairman. Next, we have Senator Graham, who I think has legislation that recognizes that.

Senator Graham?

OPENING STATEMENT OF HON. BOB GRAHAM, A U.S. SENATOR FROM THE STATE OF FLORIDA

Senator GRAHAM. Thank you, Mr. Chairman. I would like to make an opening statement for a couple of minutes and then ask some questions to our panelists.

I think what we are seeing here today is that, as a Nation, in a whole variety of areas, from Amtrak, to highways, to our schools, to our environmental systems, that we have been disinvesting and we are paying the cost of that.

I take a different job every month, and yesterday my job was laying bricks at a middle school in Pensacola, Florida. That is a middle school that has almost 1,000 students. It is a school which has about a third of its students who are handicapped, yet it has no elevators to allow handicapped students to get from the first floor to the upper levels.

It also is a school which, as they said, when you talk about being connected to the world, their connection to the world is an electrical outlet. They can plug in for electricity, but they do not have the capacity to access the Internet and all the other educational technologies.

I cite that as just an example of literally thousands of schools in America that are going to need a substantial investment if they are going to bring us children who are prepared to deal with the realities of the 21st century.

So I think what we need is a national, comprehensive strategy on how we are going to meet this diversity of infrastructure needs. As we are hearing today, the depth of one of those needs is passenger rail.

Under the leadership of Senator Moynihan when we passed ISTEA in 1991, we established a commission to do a study of how we should finance the future, and this is the product of that study entitled, "Financing the Future," by the Commission to Promote Investment in America's Infrastructure.

If you looked at the series of recommendations, beginning with recommendation number one, which is "to create a National Infrastructure Corporation to leverage Federal dollars and boost investment in infrastructure projects with the capacity to become self-sustaining through user fees and dedicated revenues" sounds very much like what we have been talking about in terms of using this half cent in order to accomplish that purpose as it relates to Amtrak.

All of that is to say that I think we ought to look at the 4.3 cents that currently is going into General Revenue as a key component of establishing such a National Infrastructure Trust Fund.

By its nature, it has the characteristics of predictability, sustainability, moderate but significant growth over time that makes it an ideal funding source for the Federal Government to use in order to leverage other important objectives. It also will not require, as some other proposals have, a diversion of funds from existing uses in order to achieve this infrastructure commitment.

Finally, it recognizes the diversity of concerns among the 50 States. Some States have more severe needs in transportation, others in environmental projects like water and sewer, others in schools. I believe we ought to have a degree of respect for that diversity and different sense of priorities and allow a more decentralized establishment of the priorities within the infrastructure fund.

Our proposal, which we have acronymed ASSET, would relate to Amtrak in the following way. It would provide that, from now until 2002, one-half cent of the 4.3 cents would go for the basic purposes that we have been discussing today.

What is significant thereafter is that, as the States would continue to receive funds from this source, States would be allowed and would have the capacity to be an ongoing contributor to meet the future capital and operational needs of Amtrak.

I agree with Ms. Scheinberg that the prospects are more likely that Amtrak will still need a reliable source of funding beyond the year 2002 than the prospect that all of its needs will be met and that it will become self-sufficient after that date.

So, with that background in terms of what we are going to be proposing, and hope that that will strike the interest of some other members of this panel, let me ask Ms. Scheinberg the question, do you believe that it is important for Congress, as it looks at the needs of Amtrak, to be focused on a time period more than just the next 5 years where the focus is on meetings its immediate capital needs, but thinking about a financing base that would provide a source of support for Amtrak beyond that date?

Ms. SCHEINBERG. I think the next 5 years and the amount of capital funding for Amtrak is critical because of the projects and the undertaking that Amtrak has in mind over that period of time. But, as Mr. Downs said, a railroad is very capital-intensive. Certainly there will be capital needs beyond the next 5 years.

At a minimum, as he said, it would be $250 million a year in their annual depreciation costs. So, the capital needs are not going to go away after 5 years. There is a big capital program in the next 5 years, but it will not go away after that time.

Senator GRAHAM. Thank you.

The CHAIRMAN. Thank you, Senator Graham.

Senator Moseley-Braun?

Senator MOSELEY-BRAUN. Thank you very much, Mr. Chairman. I thought Senator Chafee was next, but thank you very much.

I love the trains. I love the train system. I am a real fan. It is more than just transportation for people like me, it is the tranquillity and the quality of the experience that is important.

I have to tell you, my experience as a regular train rider every chance I get, and my son was an avid train aficionado at one point, I can tell you that the quality of service, the people who work there, this is really a national asset, one that ought not be squandered.

I am afraid that what has happened over time is the American people have just gotten accustomed to the trains being there and did not really think about the fact that, in order to preserve an asset, one has to make investment, one has to care for it, one has to nurture it, one has to help it function.

So I very much applaud the Chairman and Senator Moynihan for their initiative and hope to be a constructive part of this debate. Senator Graham and I are working on my school infrastructure initiative, and certainly there are infrastructure needs all over.

But I hope that something as vital to this country as the train system that allows people to get from place to place that might not happen if we did not have a publicly supported system, I hope that that is one of the infrastructure needs that we make an absolute priority.

Having talked about the global, I want to get to something very parochial and specific with Mr. Downs. We met recently regarding the fate of the Chicago reservation facility and your planning in that regard.

Senator Grassley raised the point about the unions and their involvement. It is my understanding that, subsequent to our meeting, that the city of Chicago has offered concessions to Amtrak, to help it find a place from which to operate their reservations facility, and the unions have made concessions to you as part of that. So I wanted to inquire, what was the current status, because I understand you are to make a decision about it in the next week.

Mr. DOWNS. You are right. In addition, the State of Illinois has committed additional training funds to meet some training needs there. We have got a very aggressive reaction back, as you say, both from the city and the State, as well as from the unions. We are going to evaluate that within the next week or so.

As I said, I think there are a lot of people in management within the company where you are an emotional favorite. People want to be there. People like your city, the Big Windy, and we do have a good work force there and we are anxious to retain it.

It also points out the critical nature of capital, as I said. The existing facility is woefully undercapitalized. The equipment is outdated and falling apart and very difficult to maintain. It illustrates again, if you cannot make investments you cannot be productive, and that is what we are after in this. I understand directly from you and our meeting about the importance of making the right decision in this case.

Senator MOSELEY-BRAUN. Well, I thank you very much. I want to be helpful, as I have said in the past, and certainly to work with our Chairman and Ranking Member in this regard. Thank you.

I have no further questions. Thank you very much.

The CHAIRMAN. Well, Thank you.

Let me just add that I join you in saying what comfort there is in riding on a train. I probably ride the train almost more than any other member of Congress, Joe Biden and I, anyway. It is an experience I do not want to forget, and I do not want to have to drive.

Let me turn, now, to Senator Chafee.

Senator CHAFEE. Thank you very much, Mr. Chairman. First, I want to thank Mr. Downs for the wonderful cooperation you gave us in Rhode Island in connection with the sale of land for the construction of the Providence Place Mall. You were very, very helpful.

I know I came to you, I think, four different times for additional postponements in the sale of that, and you were always cooperative. I want to express my appreciation and the appreciation of the people of Rhode Island for what you did in connection with that.

Mr. DOWNS. Well, Senator, also your leadership in making it happen. We both can celebrate a victory there.

Senator CHAFEE. Thank you.

I want to say, Mr. Chairman, that I wholeheartedly support the half cent going to Amtrak. Americans, I believe, have to realize, as Mr. Downs has pointed out in his testimony, that there is not a passenger rail system entity in the world that is self-supporting solely from the fees of the riders. That is just economic reality. People can make mark of that and the public subsidy, if that's what they call it, but think of the alternatives.

The alternatives are set forth in Mr. Downs' testimony where he says just in the corridor here—you have got that corridor down now to Richmond, which is stretching it a bit. I thought it was Washington to Boston, but that is all right, add Richmond in. Pick up a couple votes, hopefully, there. [Laughter.]

Mr. DOWNS. Maybe a subcommittee chairman.

Senator CHAFEE. But I think you said there are 7,037 757 loads required to take the traffic that goes on that road. I do want to make it clear, Mr. Chairman, that in supporting that half cent of the so called 4.3 cents, I do not favor taking the balance and putting it into the so-called highway trust fund. That money is presently—indeed, the whole 4.3 cents, as we all know—going into the general fund which helps us in holding our deficit down.

Senator D'AMATO. Would you consider some other use of it, maybe? We could tickle you with it.

Senator CHAFEE. Well, perhaps you followed the proposals that we have suggested, namely that Senator Bond and I, in the Chafee-Bond proposal—at least it is known as that in Rhode Island——

[Laughter.]

Senator CHAFEE. Bond-Chafee in Missouri. Our proposal provides that what went into the highway trust fund last year all comes out in the following year. Now, that is somewhat different than the current system. Our proposal will increase the monies available for the ISTEA legislation. As we all know, that money does not all go into roads, it is available for other things.

But my point is, I am a deficit hawk, as everybody here knows. I feel very strongly that, while I support the half cent coming back, I do not support the legislation that Senator Baucus was previously discussing, which directs the entire amount into the so-called highway trust fund, the balance, in other words, which is 3.8 cents.

I would like to follow up on the point you made in answer to Senator Grassley's question. As I understand it, there is frequent criticism from members of Congress on this point that a worker on Amtrak, because of Amtrak's settlement with the unions, receives 6 years' pay if he is about to be laid off.

First, as I understood what you said, it was not negotiation that brought that about, it is the law of the Congress. It is the old Pogo story—we look around and the enemy is us. So, it is important to remind Senators, that they wrote the law that did that.

Second, if I understand what you said, the 6-year period extends from the time they came over onto the payroll of Amtrak. For instance, if they work at Amtrak for 6 years and are subsequently laid off, they would not get 6 years' pay, would they? I am not sure.

Mr. DOWNS. Yes. I was trying to explain the motivation behind the legislation. But the 6-year rule applies to anybody hired even within the last year or two, so it is up to today. I have to say that it is overstated in its economic impact.

Yes, it is an issue that is raised as a criticism about the company, but what is called *New York Dock* also applies to a number of freight railroads, private railroads, as well as to Amtrak. So, this is not an unusual industry practice.

In effect, while we have lowered our employment numbers by about 3,000 people, we have paid only a handful of C–2 settlements in this. I think our total exposure in reducing employment by about 3,000 was less than a couple of million dollars.

The reason for that is that if you are reemployed in the railroad industry, for instance, if you leave Amtrak and you go to Conrail, or CSX, or Union Pacific, you receive no C–2, and most of these individuals have been picked up within their craft by another railroad.

The other, is that there are only a limited number of applications of that provision. For instance, when we down-size the corporation by reducing a route from less than daily to, say, 4 times a week, those employees who lost their job got 2 weeks' notice and that was it. They were then furloughed. They did not get any C–2 provisions. If the route is eliminated, the service is eliminated, or the company is bankrupted, that law applies for all of the positions within the company.

So, it is overstated in its economic impact. It is often used as a weapon about trying to make us appear somehow more inefficient, as a kind of a government corporation, rather than it being required and understood as an industry practice.

Senator CHAFEE. Let me see if I understand it correctly. I do understand that, if you start from the beginning, in other words, where those workers came over to Amtrak from somewhere else, they were guaranteed 6 years of work. But let us say a worker was employed now, came to work today and worked for Amtrak for 7 years, and at the conclusion of the 7th year was laid off.

Now, would that employee then, if he or she could not get a job in the railroad industry somewhere, at that point be entitled to 6 years of pay?

Mr. DOWNS. Yes, because they had worked 7 years. If they had worked less than 6 it would be prorated. You would earn it, in effect, year for year as you were employed up to 6, but it would only be triggered if the service itself was eliminated.

If we reduced employment by means of technology improvement, automation, different type of work being done, they do not qualify for what is called C–2 payments for 6 years. But, yes, if someone was hired 7 years ago and was laid off as a result of elimination of service, they would be entitled to 6 years' worth of wage severance.

Senator CHAFEE. I think there is a little misunderstanding in what you said to Senator Grassley, and maybe I just think I misunderstood it. I thought it was just protection for 6 years when they came over, and then it ended. But I understand what you are saying now.

Mr. DOWNS. It was, I think, the Congressional intent.

Senator CHAFEE. But, in addition, this is all set out by statute by Congress.

Mr. DOWNS. Yes.

Senator CHAFEE. So if there is a villain in the piece, it might be us. I am not asking you to confirm that. [Laughter]

Senator CHAFEE. All right, fine.

Thank you very much, Mr. Chairman.

THE CHAIRMAN. Thank you.

Senator CHAFEE. I also want to just thank Mr. Downs for the leadership he is exhibiting in accomplishing a very, very difficult task. It is no bed of roses to run that railroad, particularly with the funding shortages. I think it is good to have sounded the alarm the way you have, that there is going to be bankruptcy in this railroad unless we do something at some point. I am not sure when the point is.

Senator MOYNIHAN. This year.

Senator CHAFEE. This year. This calendar year.

Thank you.

THE CHAIRMAN. I, too, want to thank you, Mr. Downs, and Ms. Scheinberg, for being here today. I think it is important that the situation, the status of the Amtrak, be fully understood.

I think we have an opportunity to do something about the long-term viability of Amtrak. As I said, it is going to take the close co-operation and hard work of all interested groups. Congress is key, but so is management and so is the union.

Again, let me say, I think, speaking for both Senator Moynihan and myself, as well as most of the other Senators here today, we do think it is critically important that this country maintain a viable passenger rail system and we look forward to working with you. Thank you very much.

Mr. DOWNS. Again, Senator, I want to thank you both publicly again for the leadership you are showing on this. Without your leadership, I know we would not be here today, literally.

The CHAIRMAN. Thank you.

Now it is my pleasure to call the second panel forward: Brent Blackwelder, president, Friends of the Earth; Ms. Doras M. Briggs, a citizen who believes in being involved and active, and I congratulate her; and we are pleased to have Ross Capon, who is executive director of the National Association of Railroad Passengers.

We are also very pleased to have Sonny Hall, the international president of the Transport Workers Union, on behalf of the Transportation Trades Rail Labor Division of the AFL–CIO, and finally, William Lochte, vice president of Marketing and Business Development, Bombardier Transit Corporation, and chairman, American Passenger Rail Coalition.

It is my pleasure now to call on Mr. Blackwelder. We will start with you, if we may.

Senator D'AMATO. Mr. Chairman, if I might, I did not say anything at the other panel, but I would like to take this opportunity because I do not know how long I am going to be able to be here, to give a strong welcome to Sonny Hall, who is the international president of the Transport Workers Union of America.

I tell you, I do not know anyone who is more dedicated to the totality of mass transit, whether it is the commuter lines, whether it is our subway lines, whether it is the totality of moving people in the best and most economical way, over the years he has distinguished himself not only as a great advocate on behalf of the men and women who run these systems, but in terms of the general public who are served by them. He has been outstanding in taking positions that sometimes really require courage and leadership, and I want to commend the Chair for having Mr. Hall here today.

The CHAIRMAN. Let me say that not only are we very pleased to have Mr. Hall here, we have a number of rail workers from my home State of Delaware. They are, each one, outstanding individuals.

I do not know of a finer group, Pat, than those that work for the railroad at home. They are hardworking. They represent, in my judgment, what is right about this country, and I am pleased to have all of them here today.

We will introduce them when we get to Mr. Hall. But, first, let us hear from Mr. Blackwelder.

STATEMENT OF BRENT BLACKWELDER, PRESIDENT, FRIENDS OF THE EARTH, WASHINGTON, DC

Mr. BLACKWELDER. Yes. Good morning, Mr. Chairman. I am Brent Blackwelder, president of Friends of the Earth. We are a national environmental organization. We also have member groups in 61 countries around the world. Many of those countries have excellent rail service, far better than we do.

We are here in support of the legislation which you, Mr. Chairman, and Senator Moynihan have introduced. We give it our full support. We think it is really essential to have this kind of legislation because we should have a first-rate passenger rail system in the United States. Sadly, it has gone downhill.

There is widespread support across the country from citizen groups, and I would like to introduce for the record, if I might, a letter signed by 17 such organizations from all parts of the country, testifying in favor of your legislation.

I wanted to point out one quote we found in looking at the history of transportation rail over the past century. In 1923, Thomas McDonald, who would oversee the Nation's highway building program in the 1930's and 1940's as director of the Bureau of Public Roads said, "The highway will never be a competitor of the railway. Far from being a danger to the railroads, the highways we are building will be their faithful allies."

Unfortunately, we have seen the opposite happen. Now we have a situation in the country which is not a balanced transportation system, it is terribly unbalanced. Your proposal would go a long, long way towards correcting that imbalance.

Let me just give you a couple of figures to show some hopeful signs. In the Pacific Northwest, which Senator Wyden was mentioning, we have had a 312 percent increase in ridership from 1982 to 1996. That is very significant.

Senator Chafee mentioned that figure. It would take 7,500 fully-booked 757s to handle the passenger traffic between New York and Washington. Think of the reduced pollution loads in addition to the congestion reduction as well, because Amtrak is 40 percent more efficient than commercial airlines, 70 percent more efficient than general aviation in terms of energy usage. So these are some compelling factors that we think justify moving forward with a program.

Unfortunately, as we look at the spending in the transportation area and you take a look at the falling of revenues, Amtrak's funding has shrunk as a percentage of the total rail, air and road spending, from 7.3 percent down to 2.9 percent, if we look over the past period of time from 1982 to 1996. So that is serious neglect of this very important component.

As many organizations look towards sustainability following that major conference in Rio de Janeiro in 1992 to see where our country is headed, we see passenger rail as a fundamental element of creating sustainable societies.

Another factor that has not been dealt with well is the sad state of transportation safety. Roughly 100 people a day are killed on our highways. You can have a system to move people around that will not result in anywhere near that level of fatalities, nor with those injuries.

I will also say that there has been some discussion of the question of subsidy and can we afford to subsidize passenger rail. The real fact is, the highways and the automobile users do not pay their own way.

There have been some studies suggesting that annually the subsidies to the automobile are over $300 billion, that is to say above and beyond what people pay into the highway trust fund. So compared to that kind of subsidy for highways, what we are looking at for Amtrak is just a mere drop in the bucket.

So, we hope that you will move forward with this legislation. You have our wholehearted support.

The CHAIRMAN. Thank you very much. We appreciate you being here today, Mr. Blackwelder.

[The prepared statement of Mr. Blackwelder appears in the appendix.]

The CHAIRMAN. It is a pleasure to welcome Ms. Briggs here, a concerned citizen.

We congratulate her for her participation.

Ms. Briggs?

STATEMENT OF DORAS M. BRIGGS, KENSINGTON, CA

Ms. BRIGGS. Thank you very much, Senator Roth, for this opportunity, and thank you again for your remarks last year in support of Amtrak when you accepted the award from our National Association of Railroad Passengers.

I am Doras Briggs, from Kensington, CA, just north of Berkeley and across the bay from San Francisco. Iowa-born, transplanted to California as a result of the Great Depression. I was fortunate to be part of a hard-working, loving family.

One of the great events of my life occurred on my 5th birthday, the 4th of July in 1923, when my father gave me my first train ride, and I have never ceased believing in the value of trains. For those of you who may not have a calculator, I will be 79 this coming July 4th and it is my full intent to challenge Methuselah in the competition for longevity. [Laughter.]

I am here today to speak for myself, and hopefully, for the millions like me, who have lived through wars and depressions, happy times, and the sad losses of spouses and other loved ones.

Through these experiences we have discovered that maintaining ties with family and friends is more priceless than acquiring a vast array of material possessions. That is where Amtrak comes in. Amtrak is an essential mode of travel for seniors, especially those of us 65 and over, the ones I call the senior seniors.

For many, flying is no longer an option, whether because of health concerns, out of fear, or simply from preference. If Amtrak would build a bridge across the Atlantic I would be in seventh heaven; I would never have to fly.

The exploding traffic on our highways in the west has caused driving to lose its luster for most of us. Many of us still drive out of necessity, but not out of love for it. Add to that the several States that now are seeking to tighten the requirements for drivers licenses and it is likely that more seniors will face denial of driving privileges.

It is a traumatic event that most people do not want to even think about, let alone experience. Yet the shock can be eased if we know there are other ways to travel. That is being recognized in my own area, where senior centers and AARP chapters are teaching seniors how to use public transportation.

But the biggest problem for many is not local transportation, it is long distance. Without a means of keeping personal contacts with distant family, we face a quiet sense of loss and isolation that can be devastating. In my own case as a widow with family in Oregon, Iowa, Virginia and many other places, Amtrak is my lifeline, and I'm not alone in this.

I still drive, but it would be the height of folly for me to drive 1,400 miles round trip to Oregon to visit the ones I love, and going by one's self can be a very lonely experience.

Imagine dreading a journey alone and suddenly discovering the companionship, the camaraderie, the sense of safety that Amtrak offers. Picture yourself in the diner, like I was, sitting across the breakfast table from the president of Oregon's technical university discussing the pros and cons of magnetic levitation over bacon and eggs while climbing through Oregon's magnificent forests. I can tell you, he was a challenging teacher.

Imagine sharing three leisurely hours of conversation with a man who wrote the original scripts for TVs M.A.S.H. series, or listening dumbfounded to a British visitor describing how terrified she was to come to our country because she thought we all carried guns.

I wish you could have been with me last October on the Texas Eagle from St. Louis to Chicago when I learned that the charming young lady who was my seat-mate was Jimmy Hoffa's granddaughter. Her vivid memories of a generous, kind, and caring grandfather and her quiet statements of the sadness her family still feels over his disappearance taught me again how complex people are.

Encounters like these await every Amtrak traveler because there is time and the atmosphere in which to listen and learn while viewing our Nation's mountains and valleys, its beauties, and yes, I must say, its ugliness. Train travel is joyous and educational, as well as practical. Because I feel so certain it is right, I am optimistic for its future. I mentioned this to a friend recently and she said, "You remind me of my husband. At age 80, Paul has signed a contract for a new roof for his greenhouse with a 50-year guarantee." Now, that is my kind of optimism.

But, we are told, it costs millions to support Amtrak. That is true. But it costs billions of tax dollars to support the other modes. We seniors who pay our share of taxes do not begrudge helping others, even though we use highways and airways less and less, but we do ask for fair allocation of transportation money, through recognition of Amtrak's value to us and to our entire country.

We sometimes hear people will not ride trains so it is a waste of money. I am here to testify that the only problem is that you cannot ride a train that is not there. Give us trains and we will help take the load off our highways by getting out of our cars. Give us trains and we seniors will lead the way on board.

I am grateful to all of you for considering how Amtrak can best be preserved, strengthened, and eventually enhanced and I have confidence that you will do what is right. I thank you very much for this opportunity.

The CHAIRMAN. Ms. Briggs, I have to tell you, I think we are going to need you on the Senate floor when the debate comes on. [Laughter.]

Ms. BRIGGS. I don't think I'm that foolish. [Laughter.]

The CHAIRMAN. We will try to talk you into it. I want to congratulate you for bringing a whole new dimension into the discussion—the importance of passenger rail to our senior citizens. Let me just, out of order, ask you a quick question.

Ms. BRIGGS. Certainly.

The CHAIRMAN. I think it is important to note that when you look down the road to 2010 you find the baby boomers moving into the senior citizens' ranks. Consequently, we are going to have a tremendous explosion of senior citizens. Does that mean that rail will become even more important in the future as the number of senior citizens expands?

Ms. BRIGGS. Absolutely. No question about it. Of course, if they are denied driving privileges, that is going to be even more a possibility. As I look around this room, I realize all of you are younger than I am.

The CHAIRMAN. You are very flattering.

Ms. BRIGGS. I would like to suggest that maybe someday you will hear the patter of little crow's feet and you will begin to think about these things. I appreciate what you are doing for us.

The CHAIRMAN. I understand that you traveled across country to get here and that you traveled by train, is that correct?

Ms. BRIGGS. Always. It is the only way I come, and I love it.

The CHAIRMAN. Congratulations, and thank you.

Ms. BRIGGS. Thank you.

[The prepared statement of Ms. Briggs appears in the appendix.]

The CHAIRMAN. Mr. Capon, please.

STATEMENT OF ROSS CAPON, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF RAILROAD PASSENGERS (NARP), WASHINGTON, DC

Mr. CAPON. Thank you very much, Mr. Chairman.

After hearing Doras, I am reminded that at age 79 Giuseppe Verdi still had ahead of him his most complex opera and only comedy, Falstaff, so I am confident that she will save our rail system.

I thank you for all of your hard work for balanced transportation, all three of you, and particularly from 1991, Senator Moynihan, the hard work that you did which, if it had been endorsed, we might not be here today. We are very much in your debt and we appreciate that you are all still fighting for it.

We strongly support creation of a dedicated funding source for Amtrak such as S. 436. We think the Nation is with you. We commissioned a poll in 1995 which found that 63 percent on a nationwide basis supported both earmarking a full cent and the flexibility proposal. The exact text of the poll questions is in Appendix 1 of my statement.

I want to note that yes responses were the majority in all geographical sections of the Nation, even where Amtrak service is sparse, and that for both questions only 10 percent of women and 16 percent of men were strongly opposed.

The poll tells us that the public does not view gasoline purchases strictly as votes for more roads. America is in love with travel, but not with the automobile. In spite of a tiny ad budget, modern passenger trains of all types are well-used in most places where they exist.

On page 3 of my statement there is a little table that makes this point. I want to make one correction, and that is that the passenger mile figures are for 1996, not for 1994, as the table says.

I frequently hear Americans wonder why we cannot have a train network as good as they have in Europe. One answer is, you get what you pay for. You get what your leaders pay for.

Appendices 2 and 3 of my statement illustrate the fact that what we are paying for mostly is more roads, and some for airports. This country is fairly unique in the very high proportion of gasoline taxes that are devoted to highways.

The half cent and the ability to spend it would enable Amtrak to improve service quality and provide more service, new rolling stock, improved maintenance facilities and stations, more track capacity, the rehabilitation of the Northeast Corridor that we heard about, and new mail and express investments which would enhance Amtrak's efforts to meet its zero operating grant by 2002.

Pages 4–6 of my statement are devoted to a list of what we see as the benefits of Amtrak. I think that I tried to put in one sentence, number 13, "Trains offer a form of social contact almost lost in this country today," and I think that that shows you the shortcomings of those notes that you can buy to cheat on exams about books. If you compare that one sentence with Doras' testimony, you will see how important it is to read the whole book.

I do want to emphasize and give you an update on number 4, which is at the bottom of page 4, on the energy efficiency comparison between Amtrak and the airlines. After submitting this statement I was able to get from Oak Ridge the 1994 data, which show that Amtrak is 45 percent more efficient than the commercial airlines' energy efficiency per passenger mile, up from 42 percent. That is with Amtrak still operating a large fleet of obsolete equipment that was mostly retired subsequent to 1994.

I want to call to your attention Appendix 4 of my statement, which tracks annual dollars per capita spent on roads against annual rail passenger miles per capita. That is actually including commuter railroads, not just Amtrak.

Guess what? There is kind of an inverse relationship. But the point I want to make regards Federal support of Amtrak, as well as Federal support of commuter railroads. The graph shows that, starting in about 1970, the Federal involvement has managed to keep rail passenger-miles per capita stable; this measure has even risen slightly. So, I see that as a positive for Federal involvement.

Thank you very much for your time, and I appreciate your work.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Capon appears in the appendix.]

The CHAIRMAN. Mr. Lochte.

STATEMENT OF WILLIAM LOCHTE, VICE PRESIDENT FOR MARKETING AND BUSINESS DEVELOPMENT, BOMBARDIER TRANSIT CORPORATION, BENSALEM, PA, CHAIRMAN, AMERICAN PASSENGER RAIL COALITION (APRC), WASHINGTON, DC

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

My name is Bill Lochte. I am vice president of Marketing and Business Development for Bombardier Transit Corporation. I am here this morning as chairman of the American Passenger Rail Coalition, which is a national association of passenger rail equipment manufacturers.

I want to strongly state at the outset that the APRC member companies believe that our Nation must maintain and improve our National intercity passenger rail system.

A national passenger rail system provides transportation services to communities in rural America that airlines and buses have all but forgotten, while at the same time providing an environmentally sensitive and rational transportation alternative to the congested airways and highways of urban America.

Mr. Chairman, APRC is pleased to appear before you this morning and offer our strong support of S. 436. Simply stated, we believe this legislation is critical to the very survival of Amtrak. In 1994, the Congress challenged Amtrak to develop an operating and financial plan that would eliminate the railroads' dependence on operating assistance by 2002. Amtrak's board of directors, its president, Tom Downs, and his management team has developed a three-prong response to satisfy Congress' mandate.

Amtrak's proposal consisted essentially of three integral and cooperative strategies. The first, a comprehensive management and route system restructuring of the railroad; second, the expectation of securing a reliable source of capital investment, both from public and private sectors; and finally, the third element, the assumption of further cost reduction opportunities realized through legislation reform.

Thus far, Amtrak has lived up to its responsibility for the first prong, management and route system reform. In 1995, Amtrak understood a series of management, labor and route reorganizations which resulted in almost $400 million in combined cost savings and revenue increases on an annualized basis, including the reduction of almost 2,000 management and labor employees.

Though difficult and painful steps, Amtrak was able to secure additional financial support from States, many of which are represented on the panel today, to finance rail service that would otherwise have been discontinued.

At the same time, Amtrak has explored other entrepreneurial means of revenue generation, including successful effort to provide contract operating services to commuter rail authorities and improving its marketing and reservation efforts.

S. 436, which would transfer one-half penny of the 4.3 cents per gallon motor fuel tax that currently goes into the general fund to a new Intercity Passenger Rail Trust Fund is, we believe, a vital second prong of Amtrak's recovery strategy.

While Amtrak has retired many of its oldest rail cars and locomotives, they still today have an average car fleet of over 23 years. This is well past the economic asset life of that vehicle. Your legislation, Mr. Chairman, addresses the investment deficit that Amtrak has suffered through the course of the last 10 years and it must address it immediately in order to turn it around.

A substantial portion of Amtrak's operating funds have been consumed by continued breakdown of its aging fleet. Significant operating savings can be realized if Amtrak is able to invest in new equipment.

To offer a bit of contrast, in reference to study data assembled by the National Association of Railroad Passengers in 1994 that focused on rail capital spending per capita in countries throughout the world. In that survey, the United States ranked 35th in the world in capital spending per capita. We are talking about ranking below countries such as Botswana, Bulgaria and Guinea.

The U.S. Government spends approximately $1.64 on real capital improvements, much, of course, going to Amtrak, while countries such as Sweden, Germany, and France average $103 per capita investment.

I contend that if we would liken this per capita comparison to an Olympic competition, the U.S. would not be satisfied in finishing 35th.

Despite this abysmal capital investment level, Amtrak is able to recover more of its costs of operation than any other passenger railroad in the world. That is a significant event, Mr. Chairman.

S. 436 is, indeed, a critical component to Amtrak's recovery plan. Moreover, it has much broader economic implications. The railroad supply industry generates approximately $12–14 billion a year in sales and employs more than 150,000 people. Products manufactured by APRC member companies and their subcontractors are produced in states across America, from New York to California.

The result of your legislation, Mr. Chairman, utilizing the U.S. Commerce Department analysis for economic multiples for the rail equipment industry will be that the estimated $3.9 billion over 5 years generated for intercity passenger rail improvements will have a net economic effect of $5.8 million. We in the private sector believe that is a good return on investment.

A wise man once said, "In great states and when hope is small, the boldest counsel is the safest." S. 436, Mr. Chairman, is a bold legislation which we at APRC believe is timely and past due.

We believe that this legislation is not only important for Amtrak's revival and its intercity passengers, but perhaps more importantly, from an economic sense, the most intelligent and responsible thing to do for America.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Lochte.

[The prepared statement of Mr. Lochte appears in the appendix.]

The CHAIRMAN. Before I call upon our next speaker, Mr. Hall, let me introduce the delegation we have from my State of Delaware. We are very pleased to welcome them. I would ask them to stand as I call their names.

James Riley of TWW; Vince Owens, an electrician, IBEW; J.J. Riley of the Sheet Metal Workers; Mike Hill, a machinist; and Harry Frisch, of the Electricians Union. Gentlemen, I appreciate you taking the time to come down here. I particularly appreciate your help and cooperation in a matter of critical importance to us all. Thank you very much.

Senator MOYNIHAN. Welcome to you.

The CHAIRMAN. It is now my pleasure to call on Sonny Hall, who is, of course, president of the Transport Workers Union.

Mr. Hall?

STATEMENT OF SONNY HALL, INTERNATIONAL PRESIDENT, TRANSPORT WORKERS UNION, NEW YORK, NY, ON BEHALF OF THE TRANSPORTATION TRADES RAIL LABOR DIVISION OF THE AFL–CIO, WASHINGTON, DC

Mr. HALL. Thank you, Mr. Chairman.

Let me first state, though, as a transit person all my life, it is going to be very difficult for me not to obey the rule of a red light. [Laughter.]

Frankly, if the brothers and sisters that testified earlier, even on that side of the house, were held to the rule that Amtrak would hold and freight would hold, you would all be suspended.

The CHAIRMAN. Duly noted.

Mr. HALL. Another one, too, is I got some praise not only from a great Senator whom I have a great respect for, but also from Tom Downs, which may end my career. [Laughter.]

I will be submitting my testimony in writing. I would just like to talk for a few minutes.

The CHAIRMAN. Please.

Mr. HALL. I think there is a threshold question. The threshold question is, do we want Amtrak to survive? Do we want to fund it, or does it die? Do we want a national passenger railroad that we can be proud of, or do we not? The States have made that commitment. I represent across the country mass transit, even in right to work States across the country.

The States have made the commitment that they want to have service within their own area for all their people. Not just those who use business cards, but all the people. That is the decision that has to be made here.

It is odd to hear once in a while, like today I heard earlier, talk about, well, Amtrak has a very heavy debt service. At the same time, Mr. Downs stated that for years that they were underfunded by capital, $2 million he said in 1 year they got for capital funding. As he said, it would not pay for all the broken glass that is going on in the system.

Then there is some criticism talking about, well, there is a big debt service. Then I hear the thing that has to break the heart of my brothers back here when they say, well, what have you rung again from the workers? I think Senator Moynihan stated and quoted Mark Twain, "Be good and you will be lonely."

You have just described the Amtrak worker. He and she have for years been paying the price for an underfunded operation, paying the price to keep it going at all costs so it does not disappear. Frankly, it angers me. Every once in a while I will hear people say, well, how much more can we get from the worker?

I was pleased to hear some final explanation that has come about the myth about C–2 and 6 years. I guess the easiest way to describe it is that they have over 1,000 workers laid off in Amtrak today because of the cutback. None of them are getting one cent of that 6-year protection.

The whole operation would have to fold in that particular area. There would have to be no service in that particular area before they are entitled to it. Yet they go back to that same argument, what can we get from the workers?

The workers in Amtrak—all the workers, but I will say in particular the maintenance workers—are the best in the Nation. There are none better. They are as good as any other worker in the system, any other worker in the country, yet they are by far the lowest paid. I came out of the transit industry, as the Senator knows, and I was appalled. I had been appalled for the last 4 years that I have been the international president about how badly these Amtrak workers had been treated. Bus drivers get treated better, maintenance workers in subways get treated better, Metro North gets treated better, freight gets treated better.

Yet I think the statement is going to be made again, what can you get from your workers. This, I tell you, astounds me to see how people can still come in good faith, working people, you and I. We are working people, regardless of which aisle you may sit on. We are all working people.

How can we come back constantly and say, at the end of the rainbow, at the end of the problem we have got to get it from the worker? I tell you, it is disheartening to hear that from some people. Obviously not the people here, but some. We are going to hear some more of it. I tell you this, the workers are willing to pay the price. They have paid the price.

I heard earlier about productivity. Give us one. Tell us one that we have been approached with that did not have anything to do with safety, not only for the workers themselves, but for the riding public.

Have we not learned from other areas, in particular, airlines, that when you tell people you have got to cut back and cut back, and if they cut back in maintenance you endanger the lives of people. It just seems to me we should be able to say here, if somebody gets up and sits on this side or that says we need more productivity, name one. Name one item that is on the table that makes sense to do in this union, and I am sure the other unions would address it. We have always done that. I would like to see us get past the idea to take any more from the workers.

Four years without a raise. The lowest workers already. Please, let us make the threshold question. Either we want a system and we will fund it and we want the workers in place and not seek somebody outside there and take advantage of those who would desperately work at the expense of those who are already working on the property so you can do it cheaper.

That is not what the unions are going to support. I do not think that is what America wants to support. I do not think that is what Ms. Briggs wants to support, who I echo. It was a pleasure to hear her, because she speaks for the American person, old and young. So, based on that, the light ended and so have I.

The CHAIRMAN. Thank you very much, Mr. Hall, for your comments.

[The prepared statement of Mr. Hall appears in the appendix.]

The CHAIRMAN. Just so the record is clear, I would like to ask each one of you, do you agree that our legislation, which would set aside approximately $4 billion over the next 5 years by transferring a half cent into a new intercity passenger rail trust fund, is a desirable measure?

Mr. Blackwelder.

Mr. BLACKWELDER. We at Friends of the Earth think that it is very desirable. In fact, it is a very modest proposal. We would support even much more of a devotion of money to Amtrak.

The CHAIRMAN. Because of the importance you attach to environmental matters, among others?

Mr. BLACKWELDER. For the sake of the environment as we try to achieve clean air goals, for the sake just of reviving communities and making them livable. So much of people's lives today is tied up in these log jams and traffic congestion that has cost the Nation plenty, and as a way of getting a much safer transportation system.

Continued reliance on highways, I think, means continued tragedies for our families. All of these factors combine to suggest that your proposal of a half cent is very modest. One cent would be terrific, and we would support that as well.

The CHAIRMAN. This morning I found an interesting article in the *News Journal* our local paper in Wilmington, Delaware. The big headline was how I–95, our big interstate highway, was backed up every day. The problem is that, we do not have much land in

Delaware, so if we build many more highways, we will not have room for people.

Mr. BLACKWELDER. I will give you an example. This past weekend, I took my daughter to Durham, North Carolina where she is going to go to Duke next year. We would have much preferred to go on the train if there had been good train service the way we can get when we head to New York City, but there is not.

It is lengthy and you go through an incredible bottleneck of maniacal drivers on that Richmond to Washington route. They are going 75 to 80 miles an hour, and I really fear for the senior citizens. My parents will not drive under those conditions anymore; they are terrified. People will take those rail choices if they are there and if the funding is there.

Right now, all of the money tends to favor highways and drives the cost of using your car down, and the cost differential is so great and the service is not there; your proposal starts to change that dynamic and gives us balance, brings balance back into the transportation system. It is essential for a healthy United States.

The CHAIRMAN. Thank you.

Ms. Briggs, as the star of our show this morning——

Ms. BRIGGS. Bless your heart. Thank you.

The CHAIRMAN [continuing]. I hope you and Mr. Capon can rally the public to support our proposed legislation. I think it is critically important that it be seen that this proposal has broad public support. You certainly made that very obvious in your opening statement.

I assume you agree with the legislation we have under consideration?

Ms. BRIGGS. Absolutely, no question. Although, like Mr. Blackwelder, I would like to see it one cent, but I realize that is asking for the moon at this point. But I do not think I am speaking out of turn if I say that I talked yesterday with the people at the AARP and they are sympathetic.

The CHAIRMAN. Good.

Ms. BRIGGS. So that is helpful, I know. Thank you very much.

The CHAIRMAN. The more groups, that support this proposed the better off we are.

Ms. BRIGGS. I beg your pardon?

The CHAIRMAN. The more groups we have in active support, the better off we are.

Ms. BRIGGS. We will keep trying.

The CHAIRMAN. Thank you.

Ms. BRIGGS. Thank you very much for what you are doing, you and Mr. Moynihan.

The CHAIRMAN. Mr. Capon.

Mr. CAPON. Obviously, we would like the full cent, too. I never forget to mention that there is the 1 percent set-aside for the States that do not have Amtrak service, so it is a fully encompassing bill and the Alaska Railroad is part of it. I would also emphasize that Amtrak is not like United or Greyhound because Amtrak is the rail equivalent of the air traffic control system, the stations, the airport tarmac, all put together.

If you shut down Amtrak, you lose all that capacity, that infrastructure. It is not like the airlines or the bus companies where an individual company goes out of service and other companies can continue to use it, so it is tremendously important and we certainly wholeheartedly endorse the half cent.

The CHAIRMAN. Thank you.

Mr. Lochte.

Mr. LOCHTE. Well, Senator, at the risk of maintaining the love-in, we obviously on the rail supplier side also agree. But our motivation is, pure and simply, very fundamentally, jobs. We have proven over time that a job in the manufacturing sector for rail equipment acquisition provides one job in the supply industry and another job in the domestic service industry. That is a 3 for 1. That is a good ratio.

Companies like Bombardier, for example, have entered the private/public partnership with Mr. Downs and his organization. We have arranged for financing of $611 million for the high-speed train sets. We want Congress to join us in that partnership.

The CHAIRMAN. Thank you.

Again, we appreciate you being here, Mr. Hall. As I said earlier, we are going to all have to put our shoulder to the wheel to get the job done, but we appreciate your help. Do you have any further comments?

Mr. HALL. Just on the half cent. I echo, of course, what everybody else has said, but I also want to echo what most have said here, maybe lightly, but believing it strongly, that in the future there will be needed more than a half cent.

Also, I think the problem is going to be in operating. We do not embrace the concept. We think the inability of a concept that says all funding would end for operating dollars in the year 2002, I thought I ought to add that we do not believe that that is realistic, and we should not be misleading anybody.

Not that you are, but speaking from us and understanding the system, I do not know how you would survive without some subsidies for operating, or you market it right out of the price of the elderly and the middle class. That is the only way I know you can do it, and I have been in the transit business for 30 years.

The CHAIRMAN. I appreciate very much your candid analysis of what is going on.

Senator Moynihan.

Senator MOYNIHAN. Just for a moment of perspective, Mr. Chairman. Thirty-seven years and one week ago, I published a long article in the *Reporter Magazine* called "New Roads and Urban Chaos." It was about the new interstate system, saying, among other things, we are going to empty our cities of industrial jobs. That was, indeed, part of the plan.

But I began as follows. The *Wall Street Journal* does not commonly describe any undertaking of the Eisenhower Administration as "a vast program thrown together, imperfectly conceived and grossly mismanaged, and in due course becoming a veritable playground for extravagance, waste, and corruption." That was your interstate and defense highway program.

The subsidies involved were extraordinary. President Eisenhower had been very much interested in this. The idea had been broached in 1939. President Roosevelt established the system in 1944. But, on the recommendation of a committee appointed by President Eisenhower headed by General Lucius Clay, we imposed a gasoline tax and a trust fund, and that is when the system really began to go.

But the Clay committee appointed by President Eisenhower found that, of a 40,000 mile system, only 8,500 miles of the system could expect enough traffic to pay for themselves as toll roads, and of these, 3,500 were already built.

So about three-quarters of the interstate system is a Federally subsidized highway system. It has had the consequences in urban organizations and location of work, and so forth, that you could foresee 37 years ago, but you could not do anything to stop it.

I would say, though, at this point it is well for us to remember that we have a subsidized highway system, vastly more than a rail system. As Sonny Hall says, we are at the brink of abandoning a national rail passenger system in this country. But we do not have to, Mr. Chairman. We can do it. If we can, we should.

I thank you and I thank this wonderful panel for what they are saying. Just because 37 years and one week seems like a long time, could I ask this be placed in the record?

The CHAIRMAN. Without objection, so ordered.

[The information appears in the appendix.]

The CHAIRMAN. Senator D'Amato.

Senator D'AMATO. Well, Mr. Chairman, I want to take this opportunity to congratulate you, Senator Moynihan, and the staff that has come up with S. 436. I think you are to be commended. I think you have taken an approach which will be hard to deny, although there will be those who will even attempt to deny this is modest, because there have been some like Mr. Blackwelder, Ms. Briggs, and Mr. Capon who have said we need more.

The authors recognize that, but they also recognize the fierce wall of opposition that comes by two-fold those who say everything should go to deficit reduction and those who say that everything should go to more brick, more concrete, and more highways.

So that is not an inconsequential matter to deal with, yet I think they have crafted a manner by which it will be very difficult and very hard for those who would otherwise be in solid opposition to this monumental achievement. And I say it is a monumental legislative achievement because I do believe it will result in passage and in dedicating some $4 billion over the next 5 years.

The alternative would be total collapse, as those of you know and understand. You cannot get away from some of the problems that will still be existing, as my good friend, Sonny, has mentioned, but we will deal with those. So I am very much heartened by this.

I would hope that we would look at all, if not at least some, of the remaining dollars left over from the 4.3 cents as a manner by which to continue other important programs, both in highway and in mass transit, recognizing we have tremendous pressure now that comes from those States who feel they want a better split on the gasoline money that comes in.

Well, how do you deal with that? Are we going to take it away then from the older urban areas who have tremendous mass transit needs and take it away from the mass transit sector, or should we not look at that remaining 3.8 cents as an opportunity to meet the high growth States and their legitimate concerns, as opposed to taking from one, detracting from it, to help another.

So, that is something that we are going to have to look at. That is why I mentioned to my good friend, Senator Chafee, if he would take a look at that, because that is important. I do not think it should suffer on the altar of whose proposal or legislative authorships it is. So many times we have got this pride of authorship business. Of course, I would not be involved in that, no. [Laughter.]

Senator D'AMATO. Seriously, I think regardless of whose it is, that we have got to try to address that and work together. I want to commend the leadership of this committee for demonstrating how a committee can and should operate in the interest of really meeting national goals and needs in a truly open, and I do not even want to use that word, but in a way that does not get involved into the partisanship that so often divides.

It is a great example and I want to commend the Chairman and the senior Senator from New York, the Ranking Member, Senator Moynihan, for their outstanding leadership. Certainly I will do everything I can in support of this effort. It is important for all of us. Congratulations.

The CHAIRMAN. Thank you, Senator D'Amato.

Senator Jeffords.

Senator JEFFORDS. Thank you, Mr. Chairman. I want to add to the accolades for both of you for presenting this crucial legislation.

I spoke in opposition to taking the 4.3 percent into the general fund and felt at the time that we ought to dedicate it to infrastructure repairs without limitation, necessarily, to railroads, so I am very happy to take back a half a cent for the railroads.

I would point out that Vermont, throughout all of its existence, has been a very railroad-minded place and right now we have got, I guess, the only expansion of Amtrak and it is running 40 percent higher than expectations.

In fact, the only complaint I had from one of our constituents that came down, was that it was standing room only when it left Albany to go to New York City. We have found it is a great love of the New Yorkers now to be able to ride through the beautiful scenery on up through, and they rent a car when they get there and it has been a big, big help to our industry. So I just give you that piece of information.

Mr. Lochte, I have one question for you. I know we are all interested in high-speed trains, and to me it is critically important that we go ahead and develop those high-speed trains because there is no way you can answer the demands of the consumers and to make the railroads really productive unless we can, in those areas where it is conceivable and possible, provide high-speed trains.

What would be the future of high-speed trains if we do not pass this legislation, would there be a serious impediment to its ability to be brought forward?

Mr. LOCHTE. I believe so, Senator. Amtrak had the vision to finally introduce the concept of high-speed rail. We have been talking about it for decades. That vision has evolved into an enthusiasm around the country that I have not seen in my 8 years with Bombardier.

There are jurisdictions around the country now, California, Chicago, North Carolina, Washington State, that are in the early stages of developing their own corridors with the same concept that Mr. Downs has in mind.

If the Federal Government turns their back on this initiative, I am sure it will have depressing results on those initiatives. There is a rail renaissance that is about ready to explode and we need to go with it and we need to imagine the possibilities.

Senator JEFFORDS. I think that is a good place to leave it, Mr. Chairman, and I will stop right there.

The CHAIRMAN. Thank you, Senator Jeffords.

Thank you very much. You are an excellent panel and we appreciate your testimony today.

[The prepared statements of Senators Kerry and Hutchinson appear in the appendix.]

The CHAIRMAN. The committee is in recess.

[Whereupon, at 12:04 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

FRIENDS OF THE earth

1025 Vermont Ave., NW, Third Floor Washington, DC 20005-6303

Northwest Office

4512 University Way, NE Seattle, WA 98105-4511

Statement of
Brent Blackwelder, President
Friends of the Earth

before the

Committee on Finance
U.S. Senate

April 23, 1997

Good morning, Mr. Chairman, and Members of the Committee. My name is Brent Blackwelder, and I am President of Friends of the Earth, a national environmental organization. Thank you for the opportunity to appear before the Committee to discuss Amtrak and passenger rail funding. I am here today on behalf of our thousands of members nationwide to express our strong support for passenger rail. Specifically, we are here today to support S. 436 to creating a dedicated funding source for passenger rail from gas tax revenues.

To demonstrate the support of the environmental community for this idea, I would like to submit for the record a letter signed by more than 15 national and regional environmental and transportation policy organizations in support of S. 436.

In 1923, Thomas MacDonald, who would later oversee the nation's highway building in the 1930s and 40s, said "the highway will never be a competitor of the railway . . . Far from being a danger to the railroads, the highways we are building will be their faithful allies." Unfortunately, we have seen the opposite happen — the federal government has poured billions of dollars into highway construction while neglecting passenger rail. Highways and automobiles did not become the predominant mode of travel in the United States by luck, they have been enormously subsidized through concerted national and state spending. By contrast, passenger rail has faced a long decline in government support which has become extremely severe in in recent years. In the last several years Amtrak has faced employee layoffs and elimination of routes. As Congress debates the reauthorization the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), we have the opportunity to repair some of the damage from years of neglect. Amtrak needs to be recognized as an integral part of the nation's transportation system.

Losing passenger rail service in the United States would be a tragedy for our nation. Amtrak helps the nation meet the ISTEA mandate of a national intermodal transportation system that is economically efficient and environmentally sound. Passenger rail provides a valuable and environmentally sound option for intercity travel. Without Amtrak, Americans will have fewer options to choose from and will be forced to use less energy efficient, more polluting, and higher cost options such as airlines and automobiles. Passenger rail provides a transportation option for those who do not drive, including people with disabilities and senior citizens. It is unfair to these people to continue to neglect Amtrak and force even more severe service cuts.

While the President's budget provides funding for Amtrak out of the Highway Trust Fund, it cuts the funding $75 million further. More troubling is the fact that Amtrak faces a future without a stable source of funding. Under the President's budget, Amtrak will compete directly with highways and transit for funding. Friends of the Earth believes the deck is stacked against Amtrak if Congress has to make a choice between highways and rail.

On March 13, Chairman Roth and Senator Moynihan introduced S. 436, the Intercity Passenger Rail Trust Fund Act of 1997. We urge the Committee to support this legislation. It is good environmental policy, good transportation policy, and good fiscal policy.

First, passenger rail is vital to reducing congestion on our nation's clogged highways. For example, without Amtrak, there would be an additional 27,000 cars on the highway between Boston and New York every day. Amtrak trains eliminate the need for twenty additional highway lanes in New York City, and ten new tunnels under the Hudson River. In the Pacific Northwest, Amtrak ridership rose 312 percent from 1982 to 1996 (from 74,000 to 304,000). A 1996 study of commuter rail in Southern California showed that the automobile commute contributes 2.5 times more carbon monoxide and 2.3 times more hydrocarbon than the rail commute. By keeping cars off the road, passenger rail helps improve air quality, and reduces the demand for new and bigger highways.

Second, Amtrak provides an environmentally preferable alternative to air travel. If Amtrak service vanished today from the Northeast, it would take 7,500 fully booked 757's to cover the loss of service. If the air/rail market between D.C. and New York are combined, Amtrak accounts for about 44 percent of the passengers. Amtrak is 42 percent more energy efficient than domestic commercial airlines, and 70 percent more efficient than general aviation.

Third, for many Americans, Amtrak is an important alternative to driving, and provides another option for intercity travel for those who do not drive, including people with disabilities and senior citizens. On long-distance trains, over 20 percent of Amtrak's passengers are aged 65 or older and 38 percent are over 55. Amtrak carries 55 million passengers a year and connects 68 of the 75 largest cities in the country. Each year, 22 million passengers depend on Amtrak for trips between urban centers and rural locations. Amtrak is vital to reducing both air pollution and highway congestion in key corridors and to providing rural America with reliable, affordable links to the rest of the nation.

Fourth, rail is the only major form of transportation without a dedicated source of funding. Highways have a trust fund, transit has a trust fund, and airports have a trust fund. Transportation trust fund dollars can be spent on buses, light rail, bike paths, trails and numerous other uses. Yet rail has historically been excluded. In the annual budget process, rail competes not with other transportation modes, but with all other national priorities such as defense spending and health care. Since 1982, highway funding has increased from $13.8 billion to $20.3 billion in constant 1996 dollars. Over this same time period, Amtrak funding has shrunk from $1.4 billion to $867 million. As a percentage of total road-air-rail spending, Amtrak has fallen from 7.3 percent down to 2.9 percent. This translates into a 41 percent reduction in purchasing power.

A Passenger Rail Trust Fund will provide Amtrak resources to upgrade facilities, purchase new equipment, and engage in more reliable long-term planning. This can help Amtrak attract new riders, sell more tickets, and enable Amtrak to meet its goal of ending federal operating assistance by 2002.

In conclusion, I would like to make a clear point about Friends of the Earth's support of S. 436. We supp·:t the bill because we support passenger rail and we believe that other this mode should be treated in equitably compared to other transportation modes. We believe the existence of the Highway Trust Fund and other transportation trust funds unfairly hinders passenger rail from receiving comparable support from the government. We do not categorically support the creation of new trust funds and we actively oppose proposals to take these trust funds "off-budget."

Thank you for this opportunity to speak to you today. I welcome any questions you may have.

April 23, 1997

Dear Senator:

The undersigned groups urge you to cosponsor S. 436, the "Intercity Passenger Rail Trust Fund Act of 1997." The bill was introduced March 13, 1997 by Senators William Roth (R-DE) and Daniel Moynihan (D-NY).

S. 436 would transfer one-half cent of the 4.3 cents-per-gallon motor fuels tax into a new trust fund for Amtrak. This would allow Amtrak to spend $3.9 billion over the next five years for urgently needed capital improvements. States that are not currently served by Amtrak could use the money for capital improvements in intercity passenger rail or bus service. The half-cent would revert to the General Fund after five years.

Passenger rail is vital to reducing congestion on our clogged highways. Without Amtrak, there would be an additional 27,000 cars on the highway between Boston and New York every day. Amtrak trains eliminate the need for twenty additional highway lanes in New York City, and ten new tunnels under the Hudson River. In the Pacific Northwest, Amtrak ridership rose 312 percent from 1982 to 1996 (from 74,000 to 304,000). By keeping cars off the road, passenger rail helps improve air quality, and reduces the demand for new and bigger highways.

For many Americans, Amtrak is an important alternative to driving, and provides another option for intercity travel for those who do not drive, including people with disabilities and senior citizens. On long-distance trains, over 20 percent of Amtrak's passengers are aged 65 or older and 38 percent are over 55. Amtrak carries 55 million passengers a year and connects 68 of the 75 largest cities in the country. Each year, 22 million passengers depend on Amtrak for trips between urban centers and rural locations. Amtrak is vital to reducing both air pollution and highway congestion in key corridors and to providing rural America with reliable, affordable links to the rest of the nation.

This new trust fund would not interfere or compete with any highway or transit projects and would have no impact on highway or transit spending. Funding for Amtrak should not come at the expense of the limited funding available for public transportation and we note and support the continuation of the historical policy to dedicate a portion Highway Trust Fund dollars for public transportation. Currently, Amtrak is the only major mode of transportation which does not have a dedicated source of funding. A passenger rail trust fund would allow Amtrak to upgrade facilities, purchase new equipment, and engage in more reliable long-term planning. This will help attract new riders and sell more tickets, and enable Amtrak to meet its goal of ending federal operating assistance by 2002.

Most importantly, an Amtrak trust fund will help the nation meet the ISTEA mandate of a national intermodal transportation system that is economically efficient and environmentally sound. We urge you to consider cosponsoring this important legislation.

Sincerely,

David Hirsch
Transportation Policy Coordinator
Friends of the Earth
Washington, D.C.

Keith Bartholomew
LUTRAQ Project Director
1000 Friends of Oregon
Portland, OR

Preston Schiller
Research Director
Alt-Trans, the Washington Coalition for Transportation Alternatives
Seattle, WA

Robert L. Jones, Jr.
Staff Counsel
Business and Professional People for the Public Interest
Chicago, IL

Bennet Heart
Staff Attorney
Conservation Law Foundation
Boston, MA

Carol Werner
Energy and Climate Change Director
Environmental and Energy Study Institute
Washington, D.C.

Michael Replogle
Federal Transportation Director
Environmental Defense Fund
Washington, D.C.

Kevin Brubaker
Manager, Midwest High Speed Rail Project
Environmental Law and Policy Center
Chicago, IL

Ross Capon
Executive Director
National Association of Railroad Passengers
Washington, D.C.

F. Kaid Benfield
Senior Attorney
Natural Resources Defense Council
Washington, D.C.

Chris Hagerbaumer
Transportation Program Director
Oregon Environmental Organization
Portland, OR

Jessica Vallette
Researcher
Public Citizen's Critical Mass Energy Project
Washington, D.C.

Bob Palmer
Chairman
Retain the Train!
Huntington, WV

Meeky Blizzard
Executive Director
Sensible Transportation Options for People
Tigard, OR

Jim Clarke
Environmental Policy Analyst
Sierra Club
San Francisco, California

Hank Dittmar
Executive Director
Surface Transportation Policy Project
Washington, D.C.

Bethanie Walder
Director
Wildlands Center for Preventing Roads
Missoula, MT

PREPARED STATEMENT OF DORAS BRIGGS

Thank you for this opportunity and, Senator Roth, thank you again for your remarks last year in support of Amtrak when you accepted the award from our National Association of Railroad Passengers.

I am Doras Briggs from Kensington, California, just north of Berkeley, across the bay from San Francisco. Iowa born, transplanted to California as a result of the Great Depression, I was fortunate to be part of a hard working, loving family. One of the great events of my life occurred on my fifth birthday, the fourth of July 1923, when my father gave me my first train ride, and I never ceased believing in the value of trains. (For those of you short of calculators, I'll be 79 this coming July 4).

I am here today to speak for myself, and hopefully, for millions like me who have lived through wars and depressions, happy times and the sad losses of spouses and other loved ones. Through these experiences, we have discovered that maintaining ties with family and friends is more priceless than acquiring a vast array of material possessions. That's where Amtrak comes in.

Amtrak is an essential mode of travel for seniors, especially those of us 65 and over. For many flying is no longer an option, whether because of health concerns, out of fear, or simply from preference. (If Amtrak would bridge the Atlantic I would be in seventh heaven—I would never have to fly again). The exploding traffic on our highways has caused driving to lose its luster for us. Many of us still drive out of necessity, but not out of love. Add to that the several states now seeking to tighten requirements for driver licenses and its likely more seniors will face denial of driving privileges. It's a traumatic event most people don't even want to think about let alone experience, yet the shock can be eased if we know there are other ways to travel. That's being recognized in my own area where senior centers and AARP Chapters are teaching seniors how to use public transportation. But the biggest problem for many is not local transportation, it's long-distance. Without a means of keeping personal contacts with distant family, we face a quiet sense of loss and isolation that can be devastating. In my own case, as a widow with family in Oregon, Iowa, Virginia, and other places, Amtrak is my lifeline, and I'm not alone in this. I still drive, but it would be the height of folly for me to drive 1400 miles roundtrip to Oregon to visit the ones I love, and going by oneself can be a lonely experience.

Imagine dreading a journey alone and suddenly discovering the companionship, the camaraderie, the sense of safety Amtrak offers. Picture yourself in the diner sitting across the breakfast table from the President of Oregon's technical university discussing the pros and cons of magnetic levitation over bacon and eggs while climbing through Oregon's magnificent forests. (He was a challenging teacher). Imagine sharing three leisurely hours of conversation with the man who wrote the original scripts for TV's MASH series; or listening dumbfounded to a British visitor describing how terrified she was to come to our country because she thought we all carried guns. I wish you could have been with me last October on the Texas Eagle from St. Louis to Chicago when I learned that the charming young lady who was my seatmate was Jimmy Hoffa's granddaughter. Her vivid memories of a generous, kind, and caring grandfather and her quiet statements of the sadness her family still feels over his disappearance taught me again how complex people are.

Encounters like these await every Amtrak traveler because there is time and the atmosphere in which to listen and learn while viewing our nation's mountains and valleys. Its beauties and—yes--its ugliness. Train travel is joyous and educational as well as practical. And because I feel so certain it's right, I'm optimistic for its future. I mentioned this to a friend recently, and she said, "You remind me of my husband. At age 80, Paul has signed a contract for a new roof for his greenhouse with a 50-year guarantee." That's my kind of optimism.

But we're told it costs millions to support Amtrak. True. But it costs billions of tax dollars to support the other modes. We seniors who pay our share of taxes don't begrudge helping others, even though we use highways and airways less and less, but we do ask fairer allocation of transportation money, through recognition of Amtrak's value to us and to our entire country. We sometimes hear people won't ride trains so it's a waste of money. I'm here to testify the only problem is that you can't ride a train that is not there. Give us trains and we'll help take the load off our highways by getting out of our cars. Give us trains and we seniors will lead the way on board.

I'm grateful to all of you for considering how Amtrak can best be preserved, strengthened, and eventually enhanced, and I have confidence that you will do what is right. Thank you very much.

Statement of

Ross B. Capon, Executive Director

National Association of Railroad Passengers

before the

Committee on Finance

U. S. Senate

Amtrak's Long-Term Viability and the
Creation of a Dedicated Funding Source for Amtrak

April 23, 1997

Mr. Chairman, thank you for this opportunity to appear before your committee. Our non-partisan association--whose members are individuals--has worked since 1967 towards development of a modern rail passenger network in the U.S.

We strongly support creation of a dedicated funding source for Amtrak, such as would be accomplished by enactment of S. 436 (including the earmarking of 1% of the funds for states with no Amtrak service). We believe the public wants the enhanced travel choices and balanced transportation system that such legislation would provide. Section IV of this statement lists the host of benefits to the nation we think intercity passenger rail provides--benefits which the half cent would enhance.

I. Poll by Bruskin Goldring Research

On May 19-21, 1995, in a national probability sample of 1,006 adults (524 women, 482 men), age 18 and over--by telephone--Bruskin Goldring Research, Inc., of Edison, New Jersey, found:

- 63% support for earmarking a *full penny* of existing federal gasoline tax "to create a trust fund to pay for long-term Amtrak improvements"; and

- 63% support for letting states "use, for intercity rail passenger service, a portion of their federal transportation funds now restricted to highways, mass transit and recreational trails."

(See Appendix I for the full text of the poll questions.)

It is noteworthy that:

- "Yes" responses were the majority in all geographical sections of the nation, even where Amtrak service is sparse. The "yes" showing ranged from 58%/59% (penny/flexibility) in the South to 70%/67% in the Northeast.
- For both questions, only 10% of women and 16% of men were "strongly" opposed.

The poll suggests to us that the public does not view gasoline purchases strictly as votes for more roads. America is in love with travel, not with the automobile. In spite of a woefully inadequate advertising budget, and competition from airlines whose huge ad budgets are mutually reinforcing, modern passenger trains of all types are well used in most places where they exist.

I frequently hear Americans wonder why "we can't have a train network as good as they have in Europe." One answer: you get what your leaders buy. The U. S. spends far more of its gas taxes on roads than do many other countries. Netherlands and Great Britain spend about 25%--most other European countries about 33%--of road taxes on roads (*National Transportation Strategic Planning Study*, U. S. Department of Transportation, March, 1990).

II. The Public Votes with Its Feet

The traveling public generally responds positively whenever modern intercity passenger rail is provided (see table on next page). The most up-to-date statistics also are encouraging. Compared with the year-earlier months, during the first six months of Fiscal 1997 (October-March), travel is up 3% systemwide and 5% at the Intercity unit (which operates most long-distance trains and all Chicago-based corridors). [The percentage changes are of passenger-miles. A passenger-mile is one passenger traveling one mile.]

Much has been made of Amtrak's small share of *total* intercity travel, but this should not obscure the critical role that Amtrak plays where it does operate and the fact that this role will become even more critical in the future (see #1 in section IV). Amtrak handles about 44% of air-plus-rail traffic in the New York-Washington city-pair market; this figure rises to about 70% if we include intermediate points--such as Philadelphia, Baltimore and Wilmington. However, Amtrak's share is impressive *even when considered as a per cent of total travel:* Amtrak has 23% of all Philadelphia-Washington travel, 16% of New York-Washington and 13% of New York-Albany, the latter despite an average speed of just 58 mph (vs. 76 and 66 mph, respectively, on most New York-Washington Metroliners and conventional trains). The auto market share is 70% in the two shorter

AMTRAK USAGE

RIDERSHIP ON SELECTED CORRIDOR SERVICES

Route	1982	1996	Change
Pacific Northwest	73,670	303,700	+ 312.2%
San Joaquin Valley	181,074	567,400	+ 213.4%
Chicago-Milwaukee	142,350	320,200	+ 124.9%
Metroliners (New York-Washington)	1,060,098	2,011,200	+ 89.7%
San Diego-Los Angeles (-Santa Barbara)	1,190,287	1,565,700	+ 31.5%
New York-Albany-Buffalo	768,071	978,900	+ 27.4%

PASSENGER-MILES (Billions)

Segment	1982	1996	
Nationwide	4.2	5.1	+ 21%
Long-Distance Trains Only	2.5	2.8	+ 13%

(Prepared by National Association of Railroad Passengers, 2/97) markets, 50% New York-Washington. Investments under way will bring similar benefits to the Boston-New York corridor. Currently, Amtrak has only 7% of all travel in the New York-Boston city-pair market; today's average speeds range from 45 to 54 mph.

III. The Half Cent: Higher Ridership, Lower Federal Operating Grant

The half cent and the ability to spend it would enable Amtrak to improve service quality and to provide more service. New rolling stock, improved maintenance facilities and stations, and more track capacity (a new siding on the single-track Los Angeles-San Diego line, for example) would directly benefit passengers and increase ridership. New mail-and-express facilities also would enhance Amtrak's efforts to meet its zero-operating-grant-by-2002 goal. Indeed, it is difficult to imagine Amtrak reaching that goal without the half cent or its equivalent.

IV. Benefits of Amtrak

1. In crowded corridors, passenger trains represent vital people-moving capacity and help relieve air and road congestion. This benefit will grow over time as travel demand continues to grow while airport and highway construction faces more intense local opposition and ever-tighter limits on funding and sheer availability of land.

2. Amtrak is far safer than auto travel.

3. During inclement weather, Amtrak is safer and usually more reliable than airplanes and buses.

4. Amtrak is 42% more energy-efficient than domestic commercial airline service (2,610 BTUs per passenger-mile v. 4,482) and 70% more energy-efficient than general aviation (8,582 BTUs per passenger-mile). Source: Oak Ridge National Laboratory's *Transportation Energy Data Book, Edition 15*, May 1995. This 1992 data understates Amtrak's efficiency because it:

- *includes* Northeast Corridor electricity consumed by Maryland, SEPTA and New Jersey Transit commuter trains using Amtrak-owned tracks but *excludes* the passenger-miles those trains generate. (Oak Ridge will not include this electric consumption in the future.)
- reflects operation of a large fleet of old, relatively energy-intensive cars, almost all of which Amtrak has since retired.
- does not reflect Amtrak's positive impact on energy-efficient downtown development and mass transit (see #6, below).

5. Amtrak is much less polluting than airplanes. (Energy efficiency is a good proxy for air pollution--see #4, above.)

6. In most cities, Amtrak helps mass transit, downtown areas and transit-dependent people by serving--and increasing the visibility and economic viability of--transit-accessible downtown locations. Amtrak feeds connecting passengers to transit. Amtrak shares costs with transit at joint-use terminals and on joint-use tracks. Positive impacts have been observed even in small cities with minimal Amtrak service. Mayor John Robert Smith of Meridian, Mississippi--on Amtrak's New York-Atlanta-New Orleans run, with but one train per day in each direction--says property values have tripled in recent years around the railroad station, where a new intermodal terminal is under construction.

By contrast, new airports intensify energy-inefficient suburban sprawl and stimulate auto-dependent development. This leads to the social costs of getting transit-dependent people to work, or the need to address the consequences of their not working.

7. Amtrak serves many communities where alternative transportation either does not exist, is not affordable or only serves different destinations. Trains can make intermediate stops at smaller cities at minimum cost in energy and time. This is apparent in corridors--where benefits go to such cities as New Haven, Kalamazoo, Wilmington, Bloomington/Normal and Tacoma. But it also means, for example, that the *Empire Builder* can make 12 small-city station stops in Montana and seven in North Dakota without compromising the train's appeal to those riding between Chicago or Minneapolis and Seattle or Portland. Similarly, the *California Zephyr* serves five points each in Iowa and Nebraska and six in Colorado.

Here is one example of long-distance travel which I encountered on the *Southwest Chief* in March, 1995: a mother and her 14-month-old child rode from Garden City, Kansas, to Barstow, California. The family was moving to California; the husband was driving the U-Haul; the wife and child were on the train "so the move would not be so traumatic." They did not consider the plane because they felt it would be too cramped for the child. Also, the Garden City-Ontario, California air fare was $450 round-trip with a change of planes in Denver; the train was $188 round-trip (in coach) and went direct.

8. Amtrak is important to those who cannot fly due to temporary or permanent medical problems, and to those for whom physical and financial considerations rule out driving long distances, for example, seniors and students. (The editor of *Frequent Flier,* forced by doctor's orders to take the train to Florida, wrote a favorable column about the trip.) Nonetheless, a large proportion of Amtrak riders do own cars or could fly but instead chose the train.

9. Thanks to a growing array of connecting buses available with train travel in a single ticket transaction, *Amtrak puts people on intercity buses who would not otherwise have considered using them.* This trend first developed in a big way in California, where the state underwrites an impressive network of dedicated, feeder buses. (The Winter 1996-97 *Bus World* cover article, "Amtrak California's Buses," reports: "Currently, there are

contracts with six independent bus operators operating 16 routes....About half of the *San Joaquin* train riders use a bus for part of their journey.")

However, for a growing number of bus connections across the nation, the bus companies bear any financial risks themselves. Another article in the same issue, "Training Greyhound," states: "Former antagonists--Greyhound and Amtrak--are cooperating to combat the real competitor, the private automobile." The article says "six significant bus enhancements to the Amtrak timetable" took effect November 10, linking Amtrak to such places as Cocoa and Melbourne, Florida; Macon, Georgia; Louisville, Kentucky; Columbus, Ohio; and Laredo, Texas. A link to Key West was added earlier last year.

10. Amtrak is part carrier (like United and Greyhound) *and part infrastructure.* Thus Amtrak provides important passenger-moving *capacity,* unlike airlines and bus companies. In much of the Northeast Corridor and a few other places, Amtrak is the rail equivalent of the air traffic control system, airport authorities *and* airlines. (Among the "other places": the Chicago terminal, part of the Chicago-Detroit line and the track between Albany, New York, and the Massachusetts state line.) Elsewhere, Amtrak is the only carrier with legal access to freight railroads' tracks--a *quid pro quo* for relieving the railroads of their passenger-train obligations in 1971.

11. Amtrak over much of its network enables one to enjoy gorgeous scenery in total comfort. Some examples: the Connecticut and California coastlines, the Hudson River in New York, the Colorado Rockies, the mountains of Vermont and northern New Mexico, Glacier Park in Montana and West Virginia's New River Gorge.

12. Amtrak's long-distance trains are transportation "melting pots." The majority of passengers on these trains ride coach. Surveys have indicated that, for 30% of coach passengers traveling over 12 hours, average income is less than $20,000 (for 11%, it is less than $10,000). Obviously, most standard- and deluxe-room sleeping car passengers have considerably higher incomes and pay much higher fares. Nonetheless, anyone who characterizes these trains as land versions of cruise ships should try walking the coaches, especially at night.

13. Trains, especially on longer trips, offer a form of social contact almost lost in this country today--the opportunity to meet and relax with total strangers that one may or may not ever see again.

V. Of Trust Funds and Subsidies

Today's transportation system is largely a function of the policies of years past. Some salient parts of that history follow:

1. Railroad passengers paid $2.0 billion (not inflation-adjusted) in federal ticket taxes from 1942 to 1962, money which simply went to the U. S. Treasury (general revenues). The Doyle Report to the Senate Commerce Committee (*National Transportation Policy,*

June 26, 1961) cited this tax as "one of the factors under Federal control which favors the growth of private transportation and makes the preservation of public service more difficult." Had this rail passenger tax been earmarked for rail passenger improvements, it is unlikely that the business would have fallen to the depths it reached by the time Amtrak began operating in 1971

2. Federal aviation subsidies through mid-1988 totaled $32.8 billion, as follows:

- "Airport and airway development costs incurred prior to the assessment of user charges in 1971 have been treated as sunk costs, none of which have been or will be paid for by air carriers and other system users....these sunk costs total $15.8 billion." Source: *Study of Federal Aid to Rail Transportation*, U.S. Department of Transportation, under President Ford's Secretary Coleman, January, 1977.
- From the time aviation user charges were imposed (1971) through mid-1988, private-sector air system users "received a general fund subsidy of $17 billion, which is equal to the difference between the private-sector share of FAA spending and aviation-related excise taxes since the start of the trust fund." Source: *The Status of the Airport and Airway Trust Fund*, Congressional Budget Office special study, December, 1988.

3. Federal transportation taxes are mode-specific, except that--in recent years--certain highway taxes have gone to mass transit and, since 1991, to recreational trails. Intercity passenger rail has been completed excluded, although the original, Senate-passed ISTEA in 1991 would have corrected this. The selective imposition of mode-specific taxes biases policy makers *at all levels of government* in favor of a "more-of-the-same" investment philosophy. Highway and aviation investment goes forward without serious analysis of the merits of intercity passenger rail improvements and the impact they might have on road and air needs.

4. Federal matches are at 80% plus for most highway and aviation projects. State and local officials are anxious to maximize federal aid. There is no serious accounting of the huge external costs of air and especially highway transportation. The result is an overwhelming incentive for states and cities to invest in aviation and highways, *regardless of the merits of intercity passenger rail.* That so many states nevertheless make *some* rail investments is encouraging, but such investments generally will be aimed only at projects or routes where the benefits are largely or exclusively within one state.

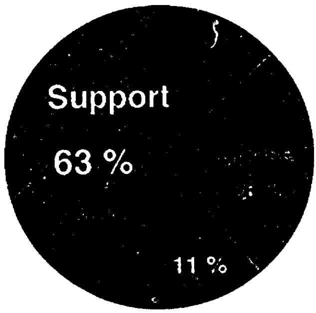
In short, today's transportation system is hardly the product of free market forces. Those forces have been manipulated almost to the point of strangling the passenger train. The half cent would help compensate for some of the anti-rail policies described above.

Thank you for this opportunity to appear. I would be happy to answer any questions you may have.

APPENDIX I

POLL BY BRUSKIN GOLDRING RESEARCH, QUESTION ONE:

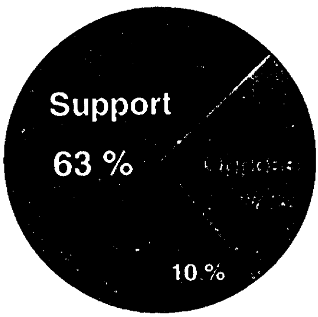
Amtrak was created by Congress to provide intercity rail passenger service. Amtrak currently receives passenger fares and federal grants. You currently pay a federal fuel tax, most of which goes to the Highway Trust Fund to be spent on roads and mass transit. The need for a more stable funding source for Amtrak—comparable to the highway and aviation trust funds—has prompted a proposal that one penny of the fuel tax be used to create a trust fund to pay for long-term Amtrak improvements. This would not result in your paying any additional taxes, but would reallocate a small percentage of the total funds to Amtrak. Please tell me which of the following best describes your feelings about this proposal.



No Opinion

QUESTION TWO:

It also has been suggested that states be allowed to use, for intercity rail passenger service, a portion of their federal transportation funds now restricted to highways, mass transit and recreational trails.



No Opinion

APPENDIX II

Appropriations and Obligation Limitations in Federal Appropriations Acts

NOTE: For each year shown, first line is for current year dollar amounts. Second (*italicized*) line is the same amount in 1996 dollars.

($ billions)

	Highways	Aviation	Amtrak/H.S.R.	Rail as percent of road-air-rail total
1997	$20.365	$8.489	$0.867	2.9 %
1996	19.970	8.216	0.774	2.7
	19.970	*8.216*	*0.774*	
1995	19.879	8.392	1.017	3.4
	20.440	*8.629*	*1.046*	
1994	19.938	8.645	0.912	3.1
	21.082	*9.141*	*0.964*	
1993	18.254	8.862	0.896	3.2
	19.795	*9.610*	*0.972*	
1992	18.585	8.887	0.860	3.0
	20.757	*9.926*	*0.961*	
1991	15.088	8.137	0.815	3.4
	17.359	*9.362*	*0.938*	
1990	13.560	7.141	0.629	2.9
	16.257	*8.552*	*0.754*	
1989	12.242	6.390	0.604	3.1
	15.470	*8.075*	*0.763*	
1988	11.967	5.714	0.609	3.3
	15.851	*7.569*	*0.807*	
1987	13.035	5.170	0.619	3.3
	17.980	*7.132*	*0.854*	
1986	13.562	4.640	0.603	3.2
	19.390	*6.634*	*0.862*	
1985	14.189	5.184	0.712	3.5
	20.663	*7.550*	*1.037*	
1984	13.259	4.065	0.816	4.5
	19.997	*6.131*	*1.231*	
1983	13.465	4.031	0.815	4.5
	21.184	*6.342*	*1.282*	
1982	8.533	2.930	0.905	7.3
	13.856	*4.758*	*1.470*	

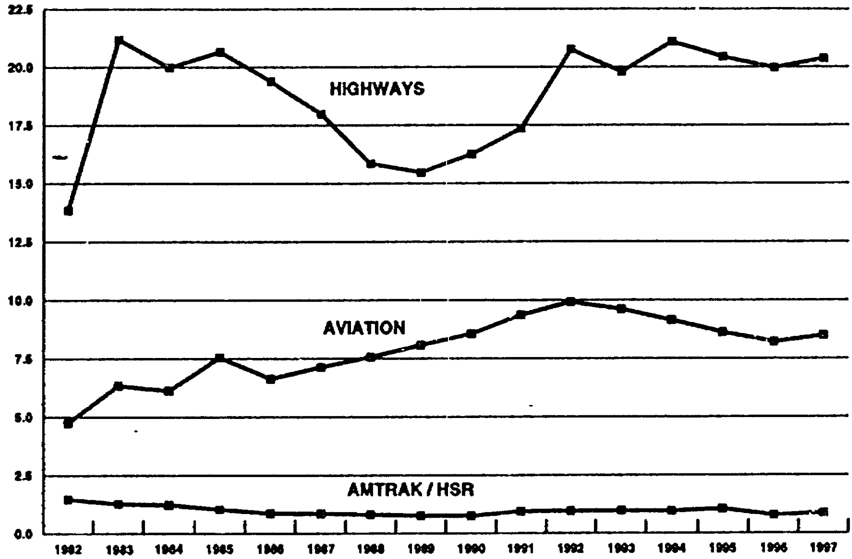
	Highways	Aviation	Amtrak/H.S.R.
Change 1982-97, current dollars	+138.7%	+189.7%	-4.2%
Change 1982-97, in 1996 dollars—a reflection of purchasing power	*+47.0%*	*+78.4%*	*-41.0%*

—Sources: U.S. Department of Transportation *Budgets in Brief*, 1982-96. Prepared by the National Association of Railroad Passengers.

APPENDIX III

FEDERAL FUNDING FOR HIGHWAYS AND AVIATION HAS INCREASED, BUT IS STAGNANT FOR PASSENGER RAIL

(billions of dollars in inflation-adjusted 1996 dollars, except actual dollars for 1997)



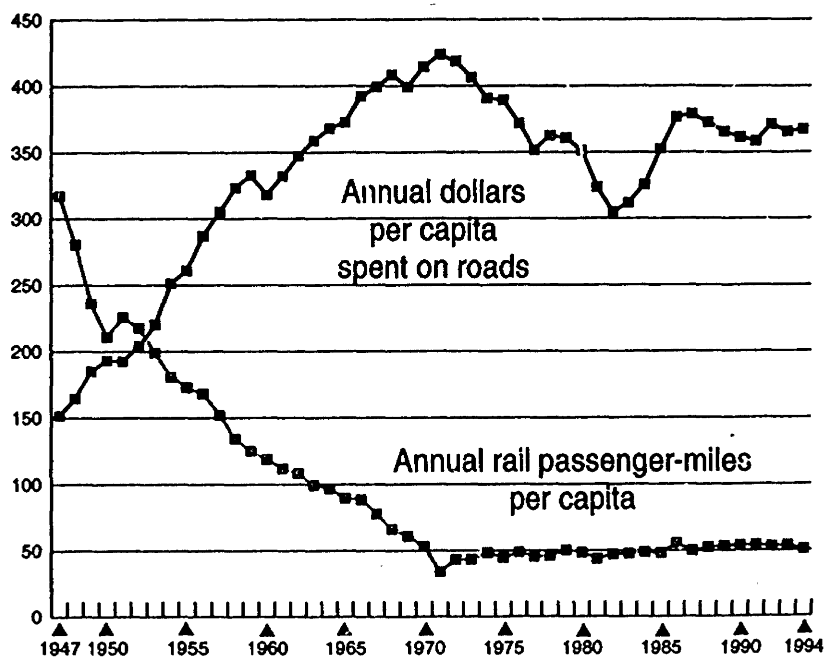
— Highways
— Aviation
— Amtrak/HSR

Purchasing power for federal highway programs increased 47% from 1982 to 1997. It increased 78% for aviation, but decreased 41% for passenger rail.

Sources: National Association of Railroad Passengers, U.S. Department of Transportation, U.S. Bureau of Labor Statistics

APPENDIX IV

PASSENGER RAIL USAGE DID NOT DECLINE MID-CENTURY just because people suddenly "decided" trains were passé, and other modes were better. Government policy played a tremendous role in travelers' decisions. This chart shows that as road spending (annual dollars per capita, all levels of government, adjusted for inflation) grew, so did -- not coincidentally -- passenger rail (intercity and commuter) passenger-miles per capita decline.



Sources—Federal Highway Administration annual statistics, Bureau of Labor Statistics, Information Please Almanac. Prepared by National Association of Railroad Passengers, April 1997.

APPENDIX V

World Mainline Rail Capital Spending Per Capita

Selected Countries, US Dollars, 1994
Spending by Central Governments and/or Public Sector Railways

Switzerland	$ 228.29	Indonesia	$ 4.00
Sweden	146.55	Iran	4.00
Austria	132.03	Namibia	3.71
Germany	110.84	South Africa	3.58
Netherlands	84.97	Colombia	3.38
Denmark	79.97	Mexico	3.24
Norway	58.27	Myanmar	2.53
Finland	51.85	India	2.27
France	51.48	Thailand	2.07
Portugal	40.34	Guinea	1.80
South Korea	31.36	Bolivia	1.75
Belarus	25.96	**United States**	**1.64**
Greece	24.23	Turkey	1.43
Hungary	24.19	Canada	1.16
Botswana	22.65	Malawi	1.02
Ireland	18.38	Romania	0.88
Britain	13.74	Zimbabwe	0.88
Slovakia	13.61	Albania	0.45
New Zealand	6.23	Bangladesh	0.45
Latvia	5.93	Pakistan	0.30
Belgium	4.89	Phillipines	0.29
Bulgaria	4.62		
Venezuela	4.20		

Does not include private sector spending, which is more important in the United States and Canada than elsewhere.

—*Sources: National Association of Railroad Passengers,* International Railway Journal

Testimony of

THOMAS M. DOWNS
Chairman, President and CEO

Mr. Chair and Members of the Committee:

Thank you for the opportunity to appear before this Committee to discuss Amtrak's top priority for 1997: Inclusion of a dedicated source of capital funding for Amtrak in the upcoming reauthorization of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). Although we have been pursuing creation of a trust fund for Amtrak for more than a decade, this is the first time Amtrak has ever had the opportunity to appear before this Committee - the Committee that can make our goal a reality.

I want to thank Senator Roth and Senator Moynihan for taking the lead in introducing S. 436, the **Intercity Passenger Rail Trust Fund Act of 1997** on March 13th, as well as Senator Jeffords, who is cosponsoring this legislation. I also want to thank Senator Baucus and Senator Graham, who are introducing their own bills, which have a broader scope, but which will also contain the "1/2 cent" proposal. And I am very grateful to Senator Chafee, who, as Chair of the Environment and Public Works Committee, has given me the opportunity to testify before his Committee to make the case for inclusion of the Amtrak trust fund as part of the ISTEA reauthorization process, so we can finally be given the same status as other transportation modes and receive a secure and reliable dedicated source of funding.

For some reason Amtrak, the only major mode of transportation which does not have a dedicated source of funding, is held to a higher standard than any other mode, all of which are dependent on the federal government for support and none of whom are called upon to defend themselves in terms of "profitability." We are also held to a higher standard than any other passenger rail system in the world, all of which rely on some level of federal support. Amtrak covers more of its operating costs - an estimated 84 percent - than any other passenger railroad in the world and serves more than 93 percent of the continental states, while receiving less than 3 percent of all federal transportation spending.

I am not aware of any transportation system that supports itself solely through user fees. According to the US DOT, in FY 1994 nearly $6 billion more was spent on highways than was collected in user fees. In FY 1995 nearly $8 billion more was spent on highways than was collected in user fees. That amount represents significantly more than Amtrak is requesting in funding over the entire six-year life of NEXTEA. It's not just highways - transit is exempt from the gas tax and received approximately $3 billion in gasoline revenues last year. No mode is self-financed.

Amtrak is an absolutely critical part of our national transportation system in both rural and urban areas. To provide some context, if we were an airline carrier, we would be the third largest in the United States. We carry almost half of the combined air-rail market between Washington, DC, and New York, and when intermediate cities (such as Baltimore and Philadelphia) are included, Amtrak's share of the air-rail market rises to seventy percent. Loss of Amtrak service in this corridor would not only put a huge financial burden on the affected states, it would require another 7,500 fully-booked 757s to carry our passengers every year or hundreds of thousands of cars added to already congested highways. If Amtrak disappeared tomorrow, there would be an additional 27,000 cars on the highway between Boston and New York every day. Between New York and Philadelphia Amtrak service removes 18,000 cars from the highways every weekday.

That number - 18,000 cars a day - does not include the thousands of commuter rail passengers, and their parked cars, that are carried on Amtrak's Northeast Corridor by commuter agencies such as New Jersey Transit (NJT) and the Southeastern Pennsylvania Transit Authority (SEPTA) every day. These commuter agencies could not operate if Amtrak did not maintain the track, bridges, signals and electric traction system on the Corridor. Above and beyond Amtrak's enumerated ridership, another 220 million commuter passengers ride on Amtrak's Corridor between Boston and Washington, DC, every year. You can measure Amtrak's impact not only in the number of cars removed from the road, but also in terms of avoided costs - as reported in the Journal of Commerce last May, Amtrak's presence eliminates the need for twenty additional highway lanes in New York City and ten new tunnels under the Hudson.

It's not just the urban corridors that depend on our service. Some 22 million of our 55 million passengers depend on Amtrak for travel between urban centers and rural locations, some of which have no alternative modes of transportation. Some of the most persuasive appeals for flexibility for Amtrak and some of the strongest advocates for a dedicated trust fund have been elected officials from those states who are facing the elimination of Essential Air Service (EAS) or the disappearance of local bus service and truly face the elimination of all other modes.

Finally, it also must be noted that Amtrak carries all these passengers even as the terms of relative investment by mode become more and more disparate. In real terms, spending for highways approached $20 billion last year while capital investment for Amtrak was less than $450 million. In relative terms, between FY 1980 and FY 1994, transportation outlays for highways increased 73 percent, aviation increased 170 percent, and transportation outlays for rail went down by 62 percent. In terms of growth, between 1982 and 1992 highway spending grew by five percent, aviation by ten percent, while rail decreased by nine percent. The overall funding amounts, as well as the relative levels of investment, should make one wonder how Amtrak has managed to maintain a fairly constant level of ridership, not why it hasn't increased its share. Amtrak has been accused of not serving enough of the travelling population, but that must be weighed against the price of not serving those travelers. It isn't just a matter of slightly more clogged roads or additional pollution. For some people, it is the only way "to get there from here."

I both hope and expect that Amtrak will play an even larger role in America's transportation system in the future, as Congress, the states, and local planners work toward developing a more balanced transportation system which addresses the increased congestion, land use and clean air challenges.

At this point in time, however, playing a bigger role in our transportation system is a dream. I have had to call too many governors, mayors and Members of Congress over the past three years to tell them that I will be eliminating or reducing Amtrak service in their district, town or state. I relish making these calls even less than the recipients enjoy receiving them. I believe in a national passenger rail system, but years of disinvestment in the system are finally taking their toll. As

GAO will confirm for you today, Amtrak is in difficult financial shape. We cannot preserve a national passenger rail system through yet another year of inadequate funding. I can also assure you that Amtrak will have to break its commitment to achieve independence from federal operating support if we are not given an adequate, reliable dedicated source of capital funding. As we have always said, operational self-sufficiency is absolutely dependent on adequate capital investment in the system.

How did we get into the financial condition GAO has described for you? Nearly a decade of inadequate appropriations, especially for capital investment, has caused us to borrow heavily from private banks. Amtrak also owns, operates, and maintains the majority of the Northeast Corridor, a critical transportation asset that carries more than 1,000 trains a day, including Amtrak, 7 different commuter railroads, and freight. The Northeast Corridor is in the midst of a tremendous make over of transportation. Work is underway to introduce high-speed rail service to America. In preparation, investments have been made to upgrade and modernize the infrastructure—track, bridges, and structures—in the north end. This past spring, construction also started on the completion of a 75-year transportation plan—electrification north of New Haven. The high-speed rail program has been met enthusiastically by rail riders as well as investors. Significant capital investments are needed on the south end and a continued source of capital will be needed for the entire program if we are to have the highest return on this investment.

To provide some context, in the fall of 1994 we, as brand new managers of Amtrak, evaluated and came to grips with the corporation's financial fragility and began taking the steps to avoid bankruptcy. We ended 1994 with a directive from the Administration that if Amtrak was to survive, it would have to eliminate its dependence on federal operating support. Congress followed suit, making the same assumption in the FY 1996 Budget Resolution: Amtrak would need to be independent of federal operating support by 2002. We were faced with a daunting task.

Two years ago I came up here and laid out for our authorizing committees a three-pronged approach which would reduce Amtrak's deficit, improve our operating ratio by making capital investments in our infrastructure, and reduce costs through legislative reform. At the time of that hearing, we were implementing a business plan which internally generated nearly $400 million in savings on an annualized basis and re-engineered virtually every aspect of our operations.

To help us, we asked Congress to enact legislative reforms which would allow Amtrak to operate more like a business and provide us with a dedicated source of capital funding. These three items --- Amtrak-controlled cost savings, legislative reforms, and establishment of a dedicated capital funding source --- were the key to surviving and doing so without operating support. Two years later, we have successfully advanced only one of the three prongs. Ours.

During the past two years, Amtrak has reduced costs, eliminated some of our poorest performing routes, retired old 1950s era equipment, eliminated a large number of positions, consolidated operations, rationalized our fare structure, and made countless productivity improvements. As important, we have restructured our service so that decisions are made closer to the passenger.

We also improved our on-board services. The trains we are operating today are light years ahead of where they were in 1994. In addition, we have progressively managed to modernize our fleet of rolling stock, purchase new and more efficient locomotives, and have ordered the first generation of North American high-speed train sets, all with private capital.

Unfortunately, neither the legislative reform nor the dedicated funding source was enacted. This Committee came closest when it reported S. 1395 in the 104th Congress to create a dedicated trust fund for Amtrak. Unfortunately, it was never taken up by the full Senate.

Congress must soon make a decision on whether or not it wants this country to have a national rail passenger system. If we go on without the necessary capital investment assumed in our FY 1997-2002 strategic plan, it will be a decision by default, resulting in bankruptcy—which is a painful and messy way to implement policy. Our six-year strategic plan provides us with an innovative way out of our current financial predicament but has very little cash cushion. The plan, adopted by our Board of Directors last September, will require short-term borrowing simply to finance operations over the next three years of close to $350 million ($66 million this year). These borrowed funds will be paid back through profits generated from capital investments in high-speed rail implementation, locomotive replacement, refleeting and other critical capital projects which will generate new revenues, reduce expenses, and leverage new state and local support for trains. Without the capital investment, the revenue and savings will not be generated and the already difficult cash management task will be impossible to manage. If the decision is simply to end Amtrak, we ought to face it head on and deal with the reality that comes with it. There is no question that is has some significant costs.

Dissolution of Amtrak by neglect would be irresponsible. Two years ago, the Budget Committee and others in Congress asked us what we thought the dissolution of Amtrak would cost the American taxpayer. At that time, we estimated that the costs would top out at, or above, $5 billion. This number, which included the mandatory labor protection costs, was later certified by the Congressional Budget Office.

In addition, the elimination of Amtrak would mean the loss of over 20,000 jobs, well over 1,500 pieces of equipment would have to be parked, mandatory labor protection be triggered, Railroad Retirement would be further burdened and the list goes on and on. All of those problems would be for the Congress, more specifically this Subcommittee, to sort out and fix. Ironically, the dissolution of Amtrak would likely cost the American taxpayers nearly 20% more money than the entire five years of funding for a trust fund proposal. The latter solution has the bonus of creating a viable and less costly national rail passenger service.

At the same, although there is a critical and immediate need, the picture is not all bleak. Between the 1st and 2nd quarter this year, Amtrak's year-end cash deficit projection, after five months of actual financial data, has improved from $96 million to $76 million. I also believe that the support exists in this Congress to finally put Amtrak on more equal footing with other modes. There are ten cosponsors of S. 436, and three other bills being introduced in the Senate which include the 1/2 cent provision. Companion legislation is being introduced in the House. In addition, last year a non-binding "Sense of the Senate" amendment to the FY 1997 Budget Resolution supporting the creation of an intercity passenger rail account using 1/2 cent of the fuel tax was adopted [57-43], and later included in the conference report. With the reauthorization of ISTEA approaching, I think the appropriate vehicle exists. The time is right.

I can share with you the vision of what Amtrak can be in a few years if a trust fund is provided. High-speed service will be operating in the Northeast, strong state investment and partnerships in the West, and profitable mail and express-laden long-distance trains connecting both coasts. The path to that is the 1/2 cent and legislative reform that will allow Amtrak to maintain a national system, complete our high-speed rail initiatives, and develop the business partnerships with the freight railroads. Adequate operating funds and a dedicated capital funding source will deliver an Amtrak that will be, for the first time, free of federal operating support.

The solution which can make that vision a reality is in front of you. S. 436 redirects .5 of the permanent 4.3 cents gas tax imposed on motor fuels in the Omnibus Budget Reconciliation Act (OBRA) of 1993, from the General Fund into an intercity rail trust fund for a period of five years. Amtrak currently pays into this fund: the 4.3 cents tax applies to diesel fuel used by railroads as well as gasoline used by cars and trucks. The bill leaves the remaining 3.8 cents going toward deficit reduction. CBO has scored the amount derived from the 1/2 cent at $751 million in FY 1998, $766 million in FY 1999, $781 in FY 2000, $797 in FY 2001, and $813 in FY 2002, for a total of $3.908 billion over five years. For any state not served by Amtrak, 1% of the total amount derived, per annum, is provided for other transportation needs.

It is the single best solution for both Amtrak and for the American taxpayer. It does not constitute a new tax - it is an existing one. The transfer is budget neutral. It would increase the spending on transportation overall without taking dollars from any other mode, and, most importantly, it would allow Amtrak to preserve a national system and attain operating self-sufficiency.

Unfortunately, we no longer have the luxury of time. Without adequate resources there is only a limited amount of time that Amtrak can be held together and a national system preserved. The GAO report should be viewed not as another agonizing descent into Amtrak's finances, but as a call to action. Over the next few months, I hope we at Amtrak can work with this Committee and the United States Congress to save and strengthen this railroad for future generations of Americans.

PREPARED STATEMENT OF HON. CHARLES E. GRASSLEY

I want to thank the Chairman and the Ranking Member for calling this hearing regarding the financial future of Amtrak. I appreciate the opportunity to discuss the issues and their legislation even though I am not necessarily a fan of their legislation. However, since this is their hearing, I do not intend to make a big production, however, I do need to make a few points.

I recognize that Amtrak is important in the northeast corridor. It is a simple matter of population density and geographic size. Similarly, the Germans and the Japanese each have a national rail system. It makes sense for their respective populations and geographies.

Like the Chairman and the Ranking Member, I don't want Amtrak to go bankrupt. However, I do want Amtrak to do what private sector companies have to do. I want Amtrak to focus on its most productive lines and most productive practices. Sooner or later, I expect business reality will force this better business judgment. When this happens, it is not fair to have provided Amtrak with a nationally financed trust fund. Amtrak needs to collect its "tax revenues" from the regions where it will continue to exist, and from the taxpayers it will continue to carry.

The legislation that is the subject of this hearing creates something called "contract authority." That means Amtrak would get to make commitments with third parties with the backing, or full faith and credit, of the federal government. Compare this to federal reserve bank notes, or dollar bills. Both are truly money and can be exchanged for value, or spent. Thus, this legislation creates new spending like an appropriation creates new spending. It seems that Congress should not now be creating new spending for Amtrak while at the same time it is reducing the growth of more important entitlements that affect many more Americans.

This nature of a large and long term committed new "contract authority," or new spending, is not consistent with the need to balance the budget for the long term. Amtrak has survived to date only with large federal subsidies. A dedicated trust fund, paid for by persons other than Amtrak passengers, will ensure that it will continue to survive with large federal subsidies.

Congress needs to analyze spending for Amtrak versus spending for people trying to make ends meet. When an elderly widow from northwest Iowa fills the gas tank in her Oldsmobile, she has a reasonable expectation that she is not thereby building a railroad somewhere in the northeast United States. As a matter of fairness, any legislation for Amtrak needs to respect her reasonable expectation.

With the Chairman's permission, I would like to submit to the record some questions for some of the witnesses.

PREPARED STATEMENT OF SONNY HALL

Mr. Chairman and Members of the Committee. I appreciate the opportunity to testify today on S. 436 the Intercity Passenger Rail Trust Fund Act. I am here today as the President of my union, the Transport Workers Union, which represents many Amtrak employees. and also on behalf of all the rail unions Who represent Amtrak and railroad workers.

Everyone involved in rail passenger transportation understands the importance of a dedicated source of capital funding if Amtrak and rail passenger service are to survive. Senators Roth and Moynihan. and the others who support this legislation. have understood for years how essential this funding is, and I thank you for your enduring support.

In years past this legislation has been studied and debated; this year we need it to pass the Congress and be signed into law. It will not be startling for you to hear that Amtrak is in trouble—not because the public is failing to support Amtrak by riding. but because Amtrak is underfunded. Providing transportation services is capital intensive. and without capital. Amtrak will fail. This bill provides a secure source of capital.

Amtrak Performance

Amtrak recovers more of its costs from the farebox than any other passenger railroad in the world. Every other country in the world provides a greater percentage of funding to its passenger rail system than we do in the United States.

During the last two years Amtrak reduced its service by 15% and laid off nearly 3500 employees. Amtrak has said that any further reductions will simply do damage to its financial and operational system. not improve it. Some of us believe that Amtrak has already cut more than it should. Note are at the brink of abandoning a national rail passenger system in this country.

A secure and reliable source of capital funding would give Amtrak the opportunity to make the investment necessary to maintain and upgrade rail passenger service. Anyone who has seen rail systems in other parts of the world knows that there is marvelous technology, speed, convenience and consumer demand that we lack. Our transportation system cannot survive without investment by Amtrak.

The Northeast Corridor is the best example, although the same analysis holds true for the rest of the country. The highways and airports between Boston and Washington are jammed: we cannot survive without high speed rail service. We all know we need high speed rail service. It is the reason we have made sound investments over decades to upgrade the rail service. It is the reason Amtrak has purchased new train sets that will make the service faster and more convenient.

But we need to do much more. in the Northeast Corridor and on the rest of the Amtrak system. We need to make the capital investment. and that can only be done if there is an understanding that the funding will be available.

S. 436, Intercity Passenger Rail Trust Fund Act

S. 436 would provide Amtrak certainty about capital funding, certainty that any business needs to make sound investment decisions. Instead of living at the mercy of the foreign banks who are the lenders currently keeping Amtrak alive, Amtrak would have a multi-year capital program that would be certain.

The $750 million the one-half cent would generate. according to the CBO, would cover Amtrak's capital needs. It is budget neutral because it comes from the 4.3 cents currently being collected. It is obviously not a new tax.

Significantly, the half-cent also does not take money from any other transportation mode. We have all witnessed the various struggles that take place annually over transportation funding, and moving funds from one mode to another is extremely difficult. This approach avoids that dilemma. and does not reduce the dollars available to any other mode of transportation.

I have nothing but praise for you and others fighting for a dedicated funding stream, but I do want to raise a word of caution. A dedicated source of capital funding is essential for Amtrak and rail passenger service. but it is not enough. As I said earlier Amtrak recovers more out of the farebox than any other passenger railroad in the world. But it will continue to require operating support.

The notion that Amtrak or any other rail passenger system can continue without operating support from the government is simply wrong, and there is no evidence to suggest it is possible. Unfortunately. Amtrak, I assume because of pressure from OMB. various Congressional Committees, and others. is now sayings they can survive without an operating subsidy after 2002.

This so-called glide path to eliminate operating assistance is a death spiral. As Amtrak's recent financial performance demonstrates. it will not happen. Instead, we need to make decisions based on realistic estimates, and there should be two critical components—a dedicated source of capital funding, and continued operating assistance.

Amtrak can grow and produce additional revenue, and their business plan lays out their objectives. Increased ridership and additional business operations should generate additional income for Amtrak and they need support in their efforts to offer express service and reduce their electric costs. But these initiatives are uncertain and take time. Amtrak will still need an operating subsidy.

Employee Support for Amtrak

Let me also take this opportunity to talk about the contribution made by the employees to Amtrak's survival. Amtrak workers are currently the lowest paid in the industry—lower than their colleagues in freight service and in the commuter service. My union members on Amtrak make 77% of what their colleagues in commuter rail make; in 1980 it was 94%.

For example. the veteran Amtrak employees in the Wilmington and Bear maintenance facilities have seen their standard of living decline by more than one-third since 1981 because of a procession of give-backs. Wage freezes, and other contract concessions. Many Amtrak employees believe, with some justification, that they are the only ones making sacrifices to keep Amtrak alive. The employees have made their contribution; Amtrak can survive now only if others step up to the table. Amtrak needs financial support like that in S. 436, and they need growth in rail passenger service to survive.

Conclusion

Mr. Chairman, you deserve our thanks for continuing to push this important legislation. Without your support and this legislation. the future of rail passenger service is bleak. The public. Amtrak employees, our transportation system. and our economy will be the loser.

With this legislation, we have the opportunity to grow and expand. Amtrak can make the capital investment that is essential to any enterprise. We can see passenger rail service in the entire country expand and grow. with new equipment. better performance. and increased demand. I hope that is a goal We all share.

PREPARED STATEMENT OF HON. JAMES M. JEFFORDS

Mr. Chairman: Thank you for holding this important hearing on the future of Amtrak and the creation of a dedicated trust fund to support national passenger rail.

We are about to hear from the U.S. General Accounting Office that Amtrak is facing a financial crisis that threatens its continued viability. In fact, many in Congress believe that this report solidifies their argument that federal support for Amtrak represents a waste of tax dollars and should be cut off today, eliminating our nation's passenger rail. I strongly disagree. In my mind, the GAO report is a clarion call for immediate and guaranteed support for Amtrak. This is why I am a strong proponent of the one half cent dedicated trust fund proposal.

Mr. Chairman, for those skeptics who believe that Amtrak's days are numbered and that road transport has won the battle, I recommend they travel to Vermont. Only two years ago, we learned that Vermont's only passenger train would be eliminated. Today, Vermont has two of the nation's most successful passenger trains and we want more. Since their inception, the ridership levels on the Ethan Allen Express and the Vermonter have gradually increased. Clearly, we in Vermont recognize that the success of our trains is directly linked to the health of our nation's passenger rail service. A secure and reliable source of dedicated capital funding is vital to Amtrak's future.

Let's lay out the facts. No other passenger railroad in the world operates independent of federal support. Amtrak currently receives less than 2% of all federal transportation spending, and is trying to reduce its dependence even more. During the last two years, the Amtrak Corporation has taken painful steps—such as cutting 15% of its service and laying off nearly 3500 employees, to gain a bottom-line improvement of $2.1 billion in savings over four years. Amtrak provides service for over 50 million riders annually, removing thousands of cars from our nation's overburdened highways. This is clean, safe and energy-efficient transportation. If Congress wants to preserve passenger rail in our country, we must be willing to maintain and invest in this vital component of our national economy.

The Chairman's legislation, which I have cosponsored, redirects .5 cents of the 4.3 cents gas tax imposed on motor fuels in the 1993 budget, into an intercity rail trust fund. Over five years this will raise almost $4 billion. This new capital will allow Amtrak to invest in new equipment and facilities and upgrade a system that is desperately in need of change. A dedicated source of capital will enable Amtrak to continue to partner with states to establish and maintain successful rail lines like those in Vermont.

The new funding will also preserve development of our nation's first high speed rail service. High speed rail will reduce air traffic and automobile congestion while creating thousands of jobs as we build this high tech system. In fact, the domestic railroad supply industry employs 150,000 people and generates billion's in annual sales. Many dedicated Vermonters will be constructing portions of the new high speed trainsets in Barre, Vermont. This is not the time to end this important investment.

As a member of the Senate Finance Committee, I will work closely with you, Mr. Chairman and all the members of the committee to ensure that our legislation providing a dedicated source of capital for Amtrak is signed into law this year. With this fund, we can protect the long term viability of Amtrak, preserving a critical part of our national transportation system.

PREPARED STATEMENT OF HON. JOHN KERRY

Chairman Roth, Senator Moynihan and members of the committee, thank you for affording me the opportunity to come before you today. I am here to offer my strong support for S. 436, the Roth-Moynihan bill to dedicate one-half cent from the Highway Trust Fund to a capital funding account for Amtrak, and to offer my thoughts on why your bill is so important not only to Massachusetts and the Northeast, but to our Nation as well.

As we approach the reauthorization of ISTEA, our Nation's transportation infrastructure is at a critical juncture. We are beginning to witness the extraordinary costs of maintaining a national transportation infrastructure that features highways and airways as our only primary and well-funded modes of transportation. The net effect of our failure to unite behind a comprehensive national transportation policy that includes rail lower productivity, increasing traffic fatalities, decreased air quality, and reduced energy efficiency.

Unnfortunately, despite rail's proven safety, efficiency and reliability in Europe, Japan and the northeast corridor here in to United States, passenger rail transport remains severely underfunded. In fiscal year 1997 over half of the transportation Department's spending authority is devoted to highways and another quarter to aviation; passenger rail still ranks last among the major transportation modes with less than 3% of total spending authority. I believe that the time is long overdue to change our approach. It is now high time to afford Amtrak the requisite capital resources to deploy and maintain a comprehensive, financially stable, inter-city passenger rail network. Establishing a secure, dedicated capital funding source for Amtrak is the most critical step we can take towards achieving this goal.

Clearly, one of the major reasons we need a stable reliable Amtrak is the increasing congestion of our roads and airports. Between 1983 and 1990, vehicle miles traveled increased nationwide by 41 percent. If current trends continue, delays due to congestion will increase by more than 400 percent on the Nation's freeways and by more than 1000 percent on urban roads. Highway congestion costs the U.S. $100 billion annually, and this figure does not include the economic and societal costs of increased pollution and wasted energy resources.

Air travel is equally congested. Commercial airlines in the U.S. presently transport over 450 million passengers each year. At Chicago's O'Hare Airport alone, the airport's 12 million annual passenger hours of delay is the equivalent of 1,400 people sitting idle around the clock for one year. And this, too, is expected to worsen over the next decade as air travel increases. A recent Transportation Safety Board study revealed that 21 of the 26 major airports experienced delays of over 20,000 flight hours each year, and the study predicts that soon all major airports will exceed this level of delay. Again, the costs are enormous. A 1990 DOT study estimated the financial cost of air congestion at $5 billion each year, and it expects this number to reach $8 billion by 2000.

This congestion, and the economic, environmental, energy and safety costs associated with it must be addressed. One approach that is being advocated in the Congress is to continuously build more roads and more airports. Though this tactic might make sense if we had infinite financial and land resources, it should be clear to all of us here that we do not—that we cannot simply pave our way out of our transportation problems.

We in the Northeast know that an adequately funded Amtrak can successfully address highway gridlock and ease airport congestion. Passenger rail ridership between New York and Washington is equal to 7,500 fully booked 757's or 10,000 DC-9s. Between New York and Washington, where passengers have the option of fast, reliable rail service, Amtrak has over 46 percent of the combined air-rail market, and its share rises to 70 percent when the other major Northeast cities are included in the equation.

Future completion of the Northeast corridor is expected to attract three million additional passengers annually between New York and Boston. Because of improved rail service, the Federal Railroad Administration expects air passenger service between Boston and New York to decrease by 40 percent, and to result in the elimination of over 50 daily New York-Boston flights—freeing up gates in these congested airports for more efficient longer-distance flights. Without an improved and stable rail network, the four airports between New York and Boston would be projected to produce annual passenger delays of over 20 million hours per year.

Improved Northeast rail service will have the same positive impact on road congestion. 5.9 billion passenger miles were taken on Amtrak in 1994. These are trips that were not taken on crowded highways and airways. Improved rail service in the Northeast is projected to eliminate over 300,000 auto trips each year from highways as well as reduce auto congestion around the airports.

Only by establishing rail as a co-primary mode of transportation can the U.S. hope to remain competitive and maintain a workable, efficient transportation system into the next century. But successful deployment and maintenance of passenger rail will not occur without Federal leadership and funding.

A first step is for congress to overcome its inexplicable phobia of sensible national planning and pass S. 436. Opponents of rail criticize Amtrak and Federal subsidy of rail in general as a form of "central planning" that is inherently dangerous, and that the U.S. has always successfully avoided. In fact, the truth is just the opposite. Throughout our Nation's history, we in Congress have been proactive and aggressive about transportation planning. You can drive in one straight path on a well-paved road from Boston to Florida because the Federal Government planned and funded the Interstate Highway System. Indeed, the planning and construction of our Nation's ports and canal networks, transcontinental railroads, the air traffic control system and the Interstate Highway System are all examples of Federal leadership in transportation policy which led to overall economic growth, improved transportation efficiency, and the development of entire new industries.

Internationally, it is no secret that a well-funded rail network is an essential component of a strong economy in the 21st century. In fact, every major economic power except the United States invests several billion dollars annually in passenger rail transportation. The E.U. plans to invest more than $100 billion to better utilize and integrate its multi-billion dollar rail network, and the booming Asian economies of China, Taiwan, Malaysia and South Korea are also investing heavily in rail.

Indeed, the unfortunate truth is that, on a per capita basis, at least 34 countries including Guinea, Myanmar, South Africa, Iran, and Botswana spend more than the United States on passenger rail. Shamefully, we continue to ignore the overwhelming evidence in favor of rail and continue to shun sensible prudent investment in developing a financially-stable, national rail system.

Along with Chairman Roth and Senator Moynihan, I, too wish to see Amtrak successfully eliminate its dependence on federal operating support by 2002, as prescribed by the administration and the 1993 Budget Act. However, this goal remains a pipe dream unless we provide Amtrak with a secure and reliable source of dedicated capital funding. Amtrak has enormous capital needs including modernizing its fleet of aging rail cars and constructing the rail bed required to support the high-speed trains of the next century. Creating an intercity passenger rail account and affording Amtrak the tools to successfully carry out this mission makes sense. It would allow Amtrak to proceed into the next century on stable financial footing, while receiving less support from the Federal Government. And we must remember that no other passenger rail system in the world survives without substantial Federal capital resources.

In conclusion, I call on the Finance Committee and the Congress to enact S. 436. only then will our transportation policy truly resemble the vision of Senator Moynihan and others that were so instrumental in passing the first ISTEA. Only then will we develop a transportation policy that, as noted in the first ISTEA, is economically and energy efficient, environmentally sound, and that helps us to compete in the global economy of the 21st century.

United States General Accounting Office

GAO

Testimony

Before the Committee on Finance, U.S. Senate

For Release
on Delivery
Expected at
10:00 a.m., EDT
Wednesday
April 23, 1997

INTERCITY PASSENGER RAIL

Amtrak's Financial Crisis Threatens Continued Viability

Statement of Phyllis F. Scheinberg,
Associate Director, Transportation Issues,
Resources, Community, and Economic
Development Division

GAO/T-RCED-97-147

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to testify today on Amtrak and the future of intercity passenger rail in the United States. As you know, over the last several years, we have testified before the Congress and issued a number of reports on Amtrak's financial condition, its Strategic Business Plan, and the status of the Northeast Corridor.[1] We are continuing to monitor Amtrak's progress as it attempts to address its financial problems and free itself from federal operating subsidies by 2002.

Our statement today presents preliminary information from our ongoing work looking at Amtrak's progress in achieving this operating self-sufficiency. In particular, we are updating information from our July 1996 and February 1995 reports on Amtrak's financial condition and progress toward self-sufficiency; commenting on Amtrak's need for, and use of, capital funds; and discussing some of the factors that will play a role in Amtrak's future viability. In summary, our ongoing work shows the following:

- Amtrak's financial condition is still very precarious and heavily dependent on federal operating and capital funds. We previously reported that Amtrak's financial condition had deteriorated steadily since 1990 and that Amtrak was unlikely to overcome its financial problems without significant increases in passenger revenues and/or subsidies from federal, state, and local governments. In response to its deteriorating financial condition, Amtrak in 1995 and 1996 developed strategic business plans designed to increase revenues and reduce cost

[1] Intercity Passenger Rail: The Financial Viability of Amtrak Continues to Be Threatened (GAO/T-RCED-97-94, Mar. 13, 1997); Amtrak's Strategic Business Plan: Progress to Date (GAO/RCED-96-187, July 24, 1996); Northeast Rail Corridor: Information on Users, Funding Sources, and Expenditures (GAO/RCED-96-144, June 27, 1996); Amtrak: Early Progress Made in Implementing Strategic and Business Plan, but Obstacles Remain (GAO/T-RCED-95-227, June 16, 1995); Intercity Passenger Rail: Financial and Operating Conditions Threaten Amtrak's Long-Term Viability (GAO/RCED-95-71, Feb. 6, 1995). The Northeast Corridor is the area between Washington, D.C., and Boston, Massachusetts.

growth. However, we have found that in the past 2 years, passenger revenues, adjusted for inflation, have generally declined, and in fiscal year 1996, the gap between operating deficits and federal operating subsidies began to grow again to levels exceeding those of fiscal year 1994, when the continuation of Amtrak's nationwide passenger rail service was severely threatened. At the end of fiscal year 1996, the gap between the operating deficit and federal operating subsidies was $82 million.

- Capital investment continues to play a critical role in supporting Amtrak's business plans and ultimately in maintaining Amtrak's viability. Such investment will not only help Amtrak retain revenues by improving the quality of its service but will be important in facilitating the revenue growth predicted in the business plans. In both 1995 and 1996, we reported that Amtrak faced significant capital investment needs to, among other things, bring its equipment and facilities systemwide and its tracks in the Northeast Corridor into a state of good repair and to introduce high-speed rail service (at speeds of up to 150 miles per hour) between Washington and Boston. Amtrak will need billions of dollars in capital investment for these and other projects.

- It will be difficult for Amtrak to achieve operating self-sufficiency by 2002 given the environment within which it operates. First, Amtrak is relying heavily on capital investment to support its business plans, which envision a significant increase in capital funding support--possibly from a dedicated funding source, such as the Intercity Passenger Rail Trust Fund that would be established by S. 436. Second, Amtrak is also relying greatly on revenue growth and cost containment to achieve its goal of eliminating federal operating support. The economic and competitive environment within which Amtrak operates may limit revenue growth, and Amtrak will continue to find it difficult to take those actions (such as route and service adjustments) necessary to reduce costs.

BACKGROUND

Amtrak was created by the Rail Passenger Service Act of 1970 to operate and revitalize intercity passenger rail service. Prior to its creation, intercity passenger rail service was provided by private railroads, which had continually lost money, especially after World War II. The Congress gave Amtrak specific goals, including providing modern, efficient intercity passenger service; helping to alleviate the overcrowding of airports, airways, and highways; and giving Americans an alternative to automobiles and airplanes to meet their transportation needs. Through fiscal year 1997, the federal government has invested over $19 billion in Amtrak. (App. I shows the federal appropriations for Amtrak since fiscal year 1988.)

In response to continually growing losses and a widening gap between operating deficits and federal operating subsidies, Amtrak developed its Strategic Business Plan. This plan (which has been revised several times) was designed to increase revenues and control cost growth and, at the same time, eliminate Amtrak's need for federal operating subsidies by 2002. Amtrak also restructured its organization into strategic business units: the Northeast Corridor Unit, which is responsible for operations on the East Coast between Virginia and Vermont; Amtrak West, for operations on the West Coast; and the Intercity Unit, for all other service, including most long-distance, cross-country trains.

AMTRAK IS STILL IN FINANCIAL CRISIS

Amtrak is still in a financial crisis despite the fact that its financial performance (as measured by net losses)[2] has improved over the last 2 years. At the end of fiscal year 1994, Amtrak's net loss was about $1.1 billion (in 1996 dollars). This loss was $873 million if the one-time charge of $255 million–taken in fiscal year 1994 for accounting

[2]As used here, net loss is calculated as total revenues minus total expenses. Unless otherwise noted, information on financial performance and condition was provided by Amtrak and was not independently verified.

changes, restructuring costs, and other items–is excluded.[3] By the end of fiscal year 1996, this loss had declined to about $764 million. However, the relative gap between total revenues and expenses has not significantly closed, and passenger revenues (adjusted for inflation)–which Amtrak has been relying on to help close the gap–have generally declined over the past several years (see apps. II and III).

More importantly, the gap between operating deficits[4] and federal operating subsidies has again begun to grow. Amtrak continues to be heavily dependent on federal operating subsidies to make ends meet. Although operating deficits have declined, they have not gone down at the same rate as federal operating subsidies (see app. IV). At the end of fiscal year 1994, the gap between Amtrak's operating deficit and federal operating subsidies was $75 million. At the end of fiscal year 1996, the gap had increased to $82 million. Over this same time, federal operating subsidies went from $502.2 million to $405 million.[5]

Amtrak's continuing financial crisis can be seen in other measures as well. In February 1995, we reported that Amtrak's working capital–the difference between current assets and current liabilities–declined between fiscal year 1987 and fiscal year 1994. Although Amtrak's working capital position improved in fiscal year 1995, it declined again in fiscal year 1996 to a $195 million deficit (see app. V). This decline reflects an increase in accounts payable, short-term debt, and capital lease obligations, among other items. A continued decline in working capital jeopardizes Amtrak's ability to pay immediate

[3]Amounts stated in 1996 dollars.

[4]As used here, operating deficit is the same as net loss except that noncash items (such as depreciation) and the one-time charge taken in fiscal year 1994 are excluded from total expenses.

[5]Amounts include excess railroad retirement payments. Amtrak is required to participate in the railroad retirement and unemployment systems. Each participating railroad pays a portion of the costs for all retirement and unemployment benefits in the industry. Amtrak's payments exceed its specific retirement and unemployment costs.

expenses. Amtrak's debt levels have also increased significantly (see app. VI). Between fiscal years 1993 and 1996, Amtrak's debt and capital lease obligations increased about \$460 million–from about \$527 million to about \$987 million (in 1996 dollars). According to Amtrak, this increase was to finance the delivery of new locomotives and Superliner and Viewliner cars–a total of 28 locomotives and 245 cars delivered between fiscal years 1994 and 1996. These debt levels do not include an additional \$1 billion expected to be incurred to finance 18 high-speed trainsets due to begin arriving in fiscal year 1999 and related maintenance facilities for the Northeast Corridor (at about \$800 million) and the acquisition of 98 new locomotives (at about \$250 million).

It is important to note that Amtrak's increased debt levels could limit the use of federal operating support to cover future operating deficits. As Amtrak's debt levels have increased, the interest expenses that Amtrak has incurred on this debt have also increased significantly (see app. VII). In fact, over the last 4 years, interest expenses have about tripled–from about \$20.6 million in fiscal year 1993 to about \$60.2 million in fiscal year 1996. This increase has absorbed more of the federal operating subsidies each year because Amtrak pays interest from federal operating assistance and principal from federal capital grants. Between fiscal year 1993 and fiscal year 1996, the percentage of federal operating subsidies used to pay interest expenses has increased from about 6 to about 21 percent. As Amtrak assumes more debt to acquire equipment, the interest payments are likely to continue to consume an increasing portion of the federal operating subsidies.

IMPLEMENTATION OF STRATEGIC BUSINESS PLANS HAS IMPROVED FINANCIAL PERFORMANCE, BUT NET LOSS TARGETS HAVE BEEN MISSED

Implementing the strategic business plans appears to have helped Amtrak's financial performance–as evidenced by the reduction in net losses between fiscal year 1994 and fiscal year 1996 (from about $873 million to about $764 million).[6] As we reported in July 1996, about $170 million in cost reductions came in fiscal year 1995 by reducing some routes and services, cutting management positions, and raising fares. Amtrak projected that these actions would reduce future net losses by about $315 million annually once they were in place. The net loss was reduced in fiscal year 1996 as total revenues increased more than total expenses did. In contrast, Amtrak estimates that its net loss in fiscal year 1996 would have been about $1.1 billion if no actions had been taken to address its financial crisis in 1994.

Although the strategic business plans have helped reduce the net losses, targets for these losses have often been missed. For example, Amtrak's plans for fiscal years 1995 and 1996 included actions to reduce the net losses by $195 million–from about $834 million in 1994 (in current year dollars) to $639 million in fiscal year 1996. This reduction was to be accomplished, in part, by increasing revenues by $191 million while holding expenses at about the 1994 level. However, the actual net losses for this period totaled about $1.572 billion, or about $127 million more than the $1.445 billion Amtrak had planned. This difference was primarily due to the severe winter weather in fiscal year 1996–a contingency that Amtrak had not planned for and one that added about $29 million to expenses–and the unsuccessful implementation of various elements of the fiscal year 1996 business plan. For example, many of the productivity improvements (such as reducing the size of train crews) that Amtrak had planned in fiscal year 1996 were not achieved. As a result, cost savings fell short of Amtrak's $108 million target by about $60 million.

For fiscal year 1997, as a result of higher than anticipated losses and an expected accounting adjustment, Amtrak planned for a net loss of $726 million. However, after the first quarter of operations, revenues were below target, and although expenses were

---

[6]As mentioned, the net loss for fiscal year 1994 excludes the one-time charge of $255 million (in 1996 dollars). Amounts are stated in 1996 dollars.

lower than expected, the operating deficit was almost $4 million more than planned for that quarter. Through February 1997, the operating deficit had increased to $8.5 million more than planned. Furthermore, the fiscal year 1997 financial results will be affected by the postponement of route and service adjustments planned for November 1996. Amtrak estimates that postponing these adjustments will bring a net revenue reduction of $6.9 million and a net cost increase of $29.2 million. Part of this increased cost will be offset by an additional federal operating grant of $22.5 million made to keep these routes operating. In part, as a result of these increased costs, Amtrak revised its planned fiscal year 1997 net loss upward to $762 million from the originally projected $726 million. However, the loss could be even greater. As a result of additional unanticipated expenses and revenue shortfalls, at the end of the first quarter Amtrak projected that its actual fiscal year 1997 year-end net loss could be about $786 million. Second quarter financial results are expected to be available in May 1997.

Amtrak's projected fiscal year 1997 financial results may also affect its cash flow and the need to borrow money to make ends meet. For example, in March 1997, Amtrak projected a cash flow deficit of about $76 million at the end of fiscal year 1997–about $10 million more than planned. This deficit required Amtrak to begin borrowing in March 1997 to pay its bills. Moreover, the cash flow deficit may be even larger than projected if Amtrak does not receive the revenues it anticipates from the sale of property ($11 million) and the sale of rights to use its rights-of-way to telecommunications companies ($45 million). According to Amtrak, cost savings from lower electric power prices in the Northeast Corridor–expected to yield $20.5 million in improved cash flow–has been delayed. Amtrak's fiscal year 1998 projected year-end cash balance is also bleak. On the basis of financial results through February 1997, Amtrak estimates that it may have to borrow up to $128 million next year. However, Amtrak has recently testified before the Congress that it could run out of cash during fiscal year 1998. Amtrak currently has short-term lines of credit of $150 million.

AMTRAK CONTINUES TO HAVE SIGNIFICANT CAPITAL INVESTMENT NEEDS

Amtrak's need for capital funds remains high. We reported in June 1996 that Amtrak will need billions of dollars to address its capital needs, such as bringing the Northeast Corridor up to a state of good repair.[7] This situation largely continues today. In May 1996, the Federal Railroad Administration (FRA) and Amtrak estimated that about $2 billion would be needed over the next 3 to 5 years to recapitalize the south end of the corridor and preserve its ability to operate in the near term at existing service levels. This renovation would include making improvements in the North and East river tunnels serving New York City and restoring the system that provides electric power to the corridor. This system, with equipment designed to last 40 to 50 years, is now between 60 and 80 years old, and, according to FRA and Amtrak, has gotten to the point that it no longer allows Amtrak and others to provide reliable high-speed and commuter service. FRA and Amtrak believe that this capital investment of about $2 billion would help reverse the trend of adding time to published schedules because of poor on-time performance. Over the next 20 years, FRA and Amtrak estimate, up to $6.7 billion may be needed to recapitalize the corridor and make improvements targeted to respond to high-priority growth opportunities.

A significant capital investment will be required for other projects as well. For example, additional capital assistance will be required to introduce high-speed rail service between New York and Boston. In 1992, the Amtrak Authorization and Development Act directed that a plan be developed for regularly scheduled passenger rail service between New York and Boston in 3 hours or less. Currently, such trips take, on average, about 4-1/2 hours. Significant rehabilitation of the existing infrastructure as well as electrification of the line north of New Haven, Connecticut, will be required to accomplish this goal. According to Amtrak, since fiscal year 1991 the federal government has invested about

[7] See Northeast Rail Corridor: Information on Users, Funding Sources, and Expenditures, previously cited.

$900 million in the high-speed rail program, and an additional $1.4 billion will be required to complete the project. A significant capital investment will also be required to acquire new equipment and overhaul existing equipment. Amtrak plans to spend about $1.7 billion over the next 6 years for these purposes.

PROGRESS HAS BEEN SLOW IN ADDRESSING PREVIOUSLY REPORTED CAPITAL NEEDS

We reported in July 1996 and February 1995 on Amtrak's need for capital investments and some of the problems being experienced as a result. We noted the additional costs of maintaining an aging fleet, the backlogs and funding shortages that were plaguing Amtrak's equipment overhaul program, and the need for substantial capital improvements and modernization at maintenance and overhaul facilities. We also commented on the shrinking availability of federal funds to meet new capital investment needs. Our ongoing work, the results of which we expect to report later this year, is looking at these issues.

The preliminary results of our work indicate that Amtrak has made some progress in addressing capital needs, but the going has been slow, and in some cases Amtrak may be facing significant future costs. For example, we reported in February 1995 that about 31 percent of Amtrak's passenger car fleet was beyond its useful life–estimated at between 25 and 30 years–and that 23 percent of the fleet was made up of Heritage cars (cars that Amtrak obtained in 1971 from other railroads) that averaged over 40 years old. Since we issued our report, the average age of the passenger car fleet has declined from 22.4 years old (in fiscal year 1994) to 20.7 years old (at the end of fiscal year 1996), and the number of Heritage cars has declined from 437 to 246. This drop is significant because Heritage cars, as a result of their age, were subject to frequent failures, and their downtime for repair was about 3 times longer than for other types of cars. However, these trends may be masking substantial future costs to maintain the fleet. In October 1996, about 53 percent of the cars in Amtrak's active fleet of 1,600 passenger cars averaged 20 years old or more and were at or approaching the end of their useful life (see app. VIII). It is safe to assume that as this equipment continues to age, it will be subject to more frequent failures and require more expensive repairs.

Our ongoing work also shows that the portion of Amtrak's federal capital grant available to replace assets has continued to shrink.[8] In February 1995, we reported that an increasing portion of the capital grant was being devoted to debt service, overhauls of existing equipment, and legally mandated uses, such as equipment modifications and environmental cleanup. In fiscal year 1994, only about $54 million of Amtrak's federal capital grant of $195 million was available to purchase new equipment and meet other capital investment needs. Since we issued our report, although the portion of the capital grant available to meet general capital investment needs increased in fiscal years 1995 and 1996, it shrank in fiscal year 1997 (see app. IX). In fiscal year 1997, only $12 million of the capital grant of $223 million is expected to be available for general capital needs. The rest will be devoted to debt service ($75 million), overhauls of existing equipment ($110 million), or legally mandated work ($26 million). It is likely that as Amtrak assumes increased debt (including capital lease obligations) to acquire equipment and as the number of cars in Amtrak's fleet that exceed their useful life increases, even less of Amtrak's future capital grants will be available to meet capital investment needs.

ACHIEVING OPERATING SELF-SUFFICIENCY BY 2002 WILL BE DIFFICULT

Amtrak's ability to reach operating self-sufficiency by 2002 will be difficult, given the environment within which it operates. Amtrak is relying heavily on capital investment to support its goal of eliminating federal operating subsidies. For example, Amtrak's draft

[8]The federal capital grants referred to in this discussion exclude ones for the Northeast Corridor Improvement Program (NECIP) and the high-speed rail program. In fiscal years 1994 and 1997, Amtrak received $225 million and $255 million, respectively, for these programs.

fiscal year 1997-2002 Strategic Capital Plan indicates that about 830 million dollars' worth of actions needed to close gaps in the operating budget through 2002 is directly linked to capital investments. To support these actions, Amtrak anticipates significantly increased federal capital assistance–about $750 million to $800 million per year. In comparison, in fiscal year 1997, Amtrak received federal capital funding of $478 million.[9] Amtrak would like increased federal capital assistance to be provided from a dedicated funding source, such as would be provided by the bill you introduced Mr. Chairman, S. 436 (the "Intercity Passenger Rail Trust Fund Act of 1997"). That legislation would establish a trust fund for intercity passenger rail and make available to Amtrak, and states not receiving Amtrak service, revenue from a half cent per gallon of the federal motor fuels tax through 2002. This trust fund would provide funding over the next 5 years to help Amtrak address its capital needs.

Amtrak is also subject to the competitive and economic environment within which it operates. We reported in February 1995 that competitive pressures had limited Amtrak's ability to increase revenues by raising fares. Fares were constrained, in part, by lower fares on airlines and intercity buses. From fiscal year 1994 to fiscal year 1996, Amtrak's yield (revenue per passenger mile) increased about 24 percent, from 15.4 cents per passenger mile to about 19.1 cents. In comparison, between 1994 and 1995, airline yields declined slightly, intercity bus yields increased 18 percent, and the real price of unleaded regular gasoline increased a little less than 1 percent.[10] However, it appears that Amtrak's ability to increase revenues through fare increases has come at the expense of ridership, the number of passenger miles, and the passenger miles per seat-mile (load factor).

---

[9]This amount includes the $255 million for NECIP and the high-speed rail program.

[10]Data for 1996 were not available for this analysis.

Between fiscal years 1994 and 1996, all three declined.[11] Such trade-offs in the future could limit further increases in Amtrak's yield and, ultimately, revenue growth.

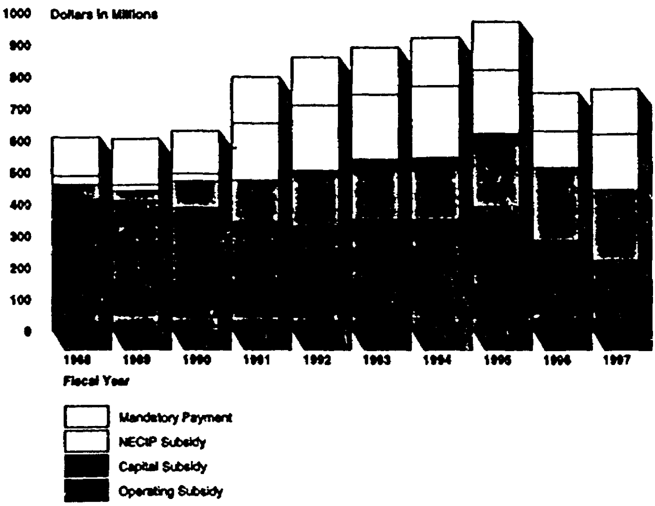
Finally, Amtrak will continue to find it difficult to take those actions necessary to further reduce costs. These include making the route and service adjustments necessary to save money and to collectively bargain cost-saving productivity improvements with its employees. During fiscal year 1995, Amtrak was successful in reducing and eliminating some routes and services. For example, on seven routes Amtrak reduced the frequency of service from daily to 3 or 4 times per week, and on nine other routes various segments were eliminated. Amtrak estimates that such actions saved about $54 million. Amtrak was less successful in making route and service adjustments planned for fiscal year 1997 and estimates that its failure to take these actions will increase its projected fiscal year 1997 loss by $13.5 million. Amtrak has also been unsuccessful in negotiating productivity improvements with labor unions. Such improvements were expected to save about $26 million in fiscal year 1995 and $19.0 million in fiscal year 1996.

CONCLUSIONS

Amtrak's financial future has been staked on the ability to eliminate federal operating support by 2002 by increasing revenues, controlling costs, and providing customers with high-quality service. Although the business plans have helped reduce net losses, Amtrak continues to face significant challenges in accomplishing this goal, and it is likely Amtrak will continue to require federal financial support--both operating and capital--well into the future.

[11]Between fiscal years 1994 and 1996, Amtrak's annual ridership declined from 21.2 million to 19.7 million passengers, passenger miles declined from 5.9 billion to 5.1 billion, and the load factor declined from 49 to 46 percent. Ridership excludes commuter passengers.

FEDERAL APPROPRIATIONS FOR AMTRAK, FISCAL YEARS 1988-97



Notes: Mandatory payments to the Railroad Retirement Fund for fiscal years 1988 through 1990 are estimated.

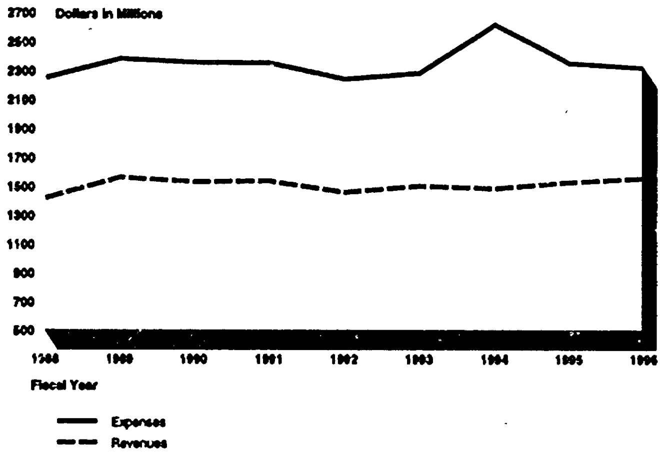
The appropriations for fiscal year 1993 include \$20 million in supplemental operating funds and \$25 million for capital requirements. The appropriations for fiscal year 1997 include \$22.5 million in supplemental operating funds and \$60 million for the Northeast Corridor Improvement Program.

For fiscal year 1997, an additional \$80 million was appropriated to Amtrak for high-speed rail.

Source: Amtrak.

 APPENDIX II

REVENUES AND EXPENSES, FISCAL YEARS 1988-96

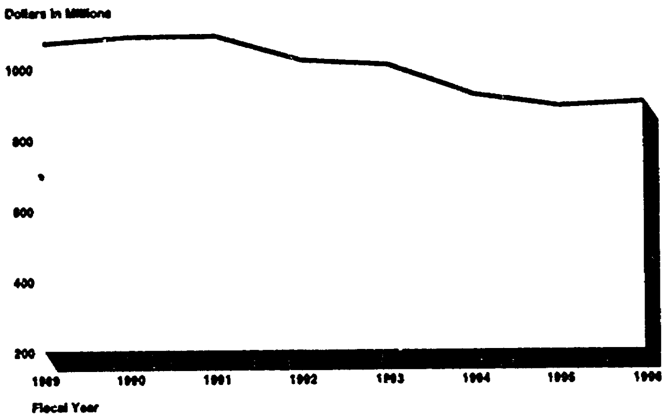


Note: Amounts are in 1996 dollars.

Source: Amtrak.

APPENDIX III

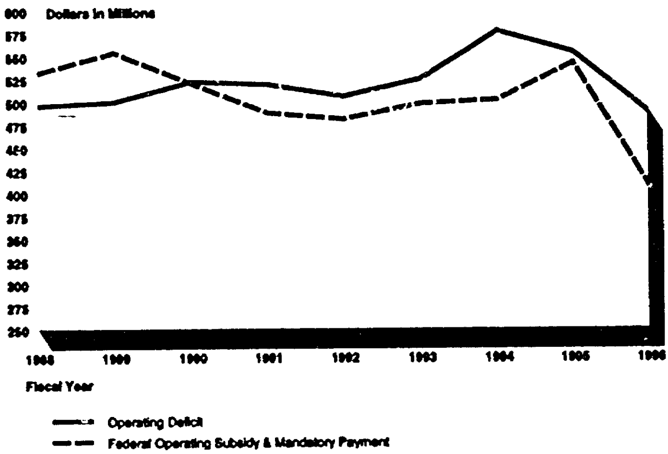
AMTRAK'S PASSENGER REVENUES, FISCAL YEARS 1989-96



Note: Amounts are in 1996 dollars.

Source: GAO's analysis of Amtrak's data.

AMTRAK'S FEDERAL OPERATING SUBSIDY AND MANDATORY PAYMENT COMPARED TO THE OPERATING DEFICIT, FISCAL YEARS 1988-96



Notes: Amtrak's operating deficit was calculated as total revenues minus total expenses, excluding noncash expenses such as depreciation.

Amounts are in current year dollars.

Source: GAO's analysis of Amtrak's data.

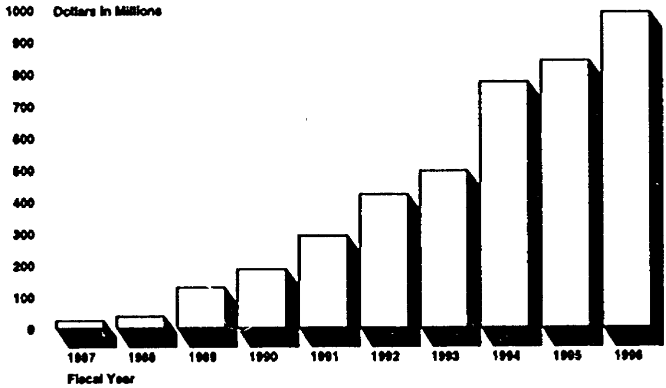
AMTRAK'S WORKING CAPITAL SURPLUS/DEFICIT, FISCAL YEARS 1987-96

Notes: Working capital is the difference between current assets and current liabilities.

Amounts are in current year dollars. In 1996 dollars, working capital declined from $149 million in fiscal year 1987 to a deficit of $195 million in fiscal year 1996.

Source: GAO's analysis of Amtrak's data.

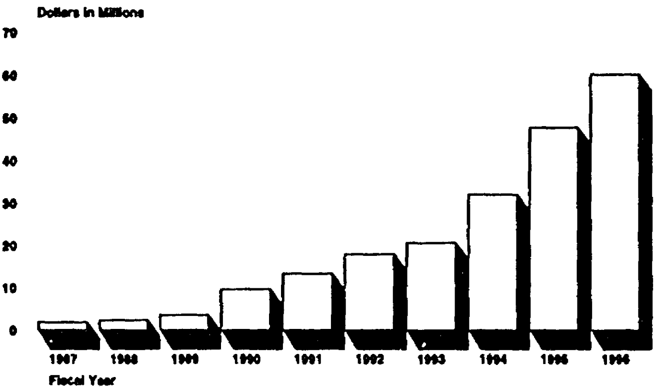
AMTRAK'S OUTSTANDING DEBT/CAPITAL LEASE OBLIGATIONS,FISCAL YEARS 1987-96



Note: Amounts are in current year dollars.

Source: Amtrak.

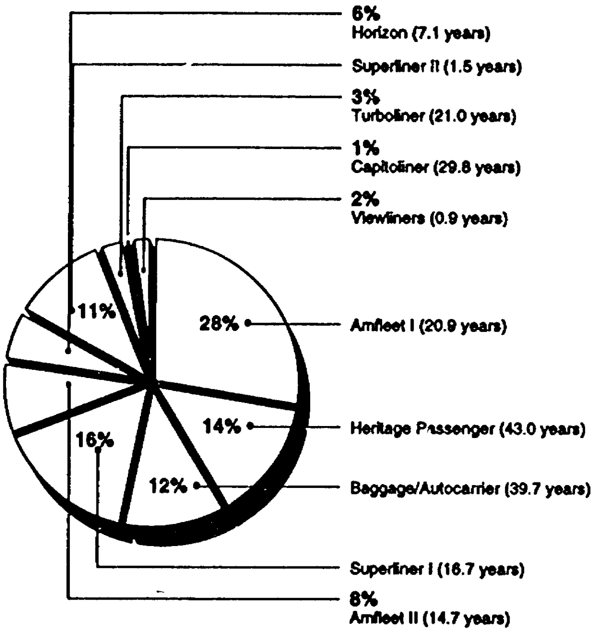
AMTRAK'S INTEREST EXPENSE, FISCAL YEARS 1987-96



Note: Amounts are in current year dollars.

Source: Amtrak.

AVERAGE AGE OF AMTRAK'S CAR FLEET, OCTOBER 1996

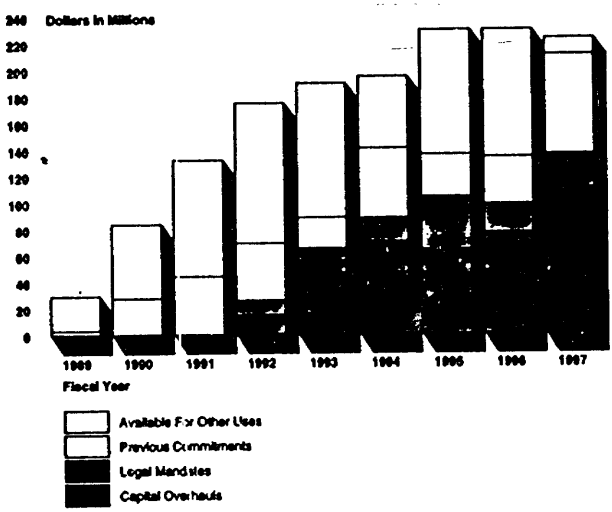


Notes: The data exclude mail-handling cars and road railers.

The age of the baggage and autocarrier cars is a weighted average.

Source: GAO's analysis of Amtrak's data.

COMMITMENTS OF AMTRAK'S FEDERAL CAPITAL FUNDS, FISCAL YEARS 1989-97



Notes: The amount "available for other uses" is that portion of the capital grant not already committed for specific requirements at the beginning of the fiscal year. This figure does not include capital grants for the Northeast Corridor Improvement Program.

Amounts for fiscal year 1997 are estimated.

Source: GAO's analysis of Amtrak's data.

(343886)

48-276 - 98 - 4

PREPARED STATEMENT OF WILLIAM LOCHTE

Mr. Chairman, Members of the Finance Committee, my name is William Lochte and I am Vice President of Marketing and Business Development for Bombardier Transit Corporation, a worldwide manufacturer of intercity and urban mass transit railcar equipment, with U.S. manufacturing facilities in Barre, Vermont and Plattsburgh, New York. I appear here today as Chairman of the American Passenger Rail Coalition (APRC), a national association of rail equipment suppliers. APRC is committed to working for an efficient and world class intercity passenger rail system that will bring multiple benefits to the economy, mobility and environment. Thank you for the opportunity to appear before the Committee this morning.

The domestic railroad supply industry is an important part of the U.S. economy. The industry is estimated to generate $12-14 billion in annual sales and employ 150,000 people. Products manufactured by APRC member companies include new passenger rail cars, locomotives, brakes, signal systems, railroad maintenance-of-way and other equipment and the extensive subcomponents and assemblies that go into these products, produced in states such as Vermont, New York, Illinois, Virginia, California, New Jersey, Pennsylvania, Maryland, Texas and Arkansas with subcontractors and component suppliers located in states and communities around the country.

APRC member companies engaged in domestic rail manufacturing make important contributions to the U.S. economy. Bombardier Transit Corporation's U.S. facilities in Vermont and New York employ up to 1200 people in the assembly of passenger railcars for Amtrak and transit authorities around the country. Amtrak's new fleet of Superliner II coaches were produced in Barre, VT; production of the new high speed trainsets for the Northeast Corridor will take place in Barre and the company's new 100,000 sq. ft. facility in Plattsburgh, NY. General Electric Transportation System's manufacturing facilities in Erie and Grove City, Pennsylvania employ some 5,500 people in the design and production of new locomotives for Amtrak and for the nation's freight and commuter railroads. In addition, GE has subcontracts with over 1200 companies, some 300 of which are located in Pennsylvania, that contribute to the design and production of GE's locomotives. Siemens Transportation Systems, Inc., a worldwide manufacturer of passenger railcar equipment, has U.S. facilities in Sacramento and Carson, CA ,which assemble light and heavy rail vehicles and manufacture new railcar shells,respectively. Siemens' other facilities in Norwood, OH, Alpharetta, GA and Raleigh, NC, produce AC motors, traction drives and switch gear. Siemens employs over 500 U.S. workers. General Motors major facility in LaGrange, IL, employs 2,300 workers in the production locomotives for Amtrak, freight and commuter railroads. ADtranz, a global supplier of railcars, locomotives and rail signal systems, has U.S. headquarters in Pittsburgh, PA and rail manufacturing and assembly facilities in Elmira, NY and Pittsburgh, CA, employing 1,600 workers. Other member companies have facilities and subcontractors in states and communities around the country.

The U.S. rail supply industry is undergoing a resurgence and making important contributions to the economic health of communities from coast to coast. A strong Amtrak is an important part of this rail manufacturing resurgence. A dedicated source of capital funding for Amtrak is not only an essential element to assuring a sound future for Amtrak, but the economic benefit of a 1/2 cent of gas tax for Amtrak capital will ripple through the U.S. economy as Amtrak purchases essential equipment and services to modernize its fleet, services and equipment from rail manufacturers and suppliers located in hundreds of communities in states across the country.

APRC member companies appreciate the outstanding leadership and efforts by members of the Finance Committee to help assure a healthy future for intercity passenger rail service in this country. Chairman Roth, Senator Moynihan and Senator Jeffords and other Senators from around the country have introduced S. 436, legislation to dedicate 1/2 cent of federal gas tax revenues for Amtrak capital investments and create an Intercity Passenger Rail Trust Fund. Senator Baucus, Senator Graham and other Senators also support dedicating 1/2 cent of federal gas tax revenues to Amtrak capital investments in other legislation that has been introduced. Last May, with leadership and support from members of this committee, a "Sense of the Senate Resolution" to dedicate 1/2 cent of federal gas tax revenues to Amtrak capital investments was approved by the Senate by 57:43. Senators on this committee have also supported legislation to allow states to use their flexible surface transportation funds for intercity passenger rail improvements and are working to ensure that this sensible policy is included in the legislation to reauthorize ISTEA. APRC thanks you for your leadership. We will be working with Congress this year to see these important legislative policies enacted.

NATIONAL AMTRAK SYSTEM: FUNDAMENTAL PART OF THE U.S. TRANSPORTATION NETWORK

A national Amtrak system is a fundamental part of the U.S. transportation network. Amtrak provides transportation for over 50 million riders annually: 21 million who ride Amtrak trains for intercity travel and another 30+ million who commute to and from work on Amtrak-operated commuter trains in major metropolitan areas around the country. As the demand for intercity travel grows in the years ahead, straining already congested highway and airport infrastructure, the value of the federal investment in Amtrak will increase. Amtrak provides clean, safe and energy-efficient mobility for people of all income levels and ages. Moreover, Amtrak delivers passengers directly into city centers, where riders can use local transit systems to reach their final destination points, thus supporting and working in partnership with energy-efficient urban transit systems. Redevelopment of Amtrak stations around the country has served as a catalyst for economic development in the downtown areas around the stations, bringing new revenues and vitality to these downtown areas.

States are increasingly looking to intercity passenger rail as a vital component of their transportation infrastructure. Over the past two years, sixteen states have entered into partnerships with Amtrak to initiate new rail service and preserve service that Amtrak would otherwise have been forced to eliminate or reduce for lack of adequate funding. Ridership on Vermont's *Vermonter* and, the more recently initiated, Ethan Allen, trains made possible by a commitment of state funds working in partnership with Amtrak, has exceeded ridership projections. Other states such as North Carolina, Virginia, Florida, California, Washington, Oregon, New York, Pennsylvania and others are using state funds to purchase new rail rolling stock, make strategic investments to increase rail speeds on key corridors and improve the quality of rail service provided.

In metropolitan corridors of the country, Amtrak provides a vital service that helps to relieve congested highways and airports. In America's smaller cities and rural areas, Amtrak is an essential, all-weather link to other parts of the country. It is sometimes the only convenient intercity public transportation available, serving travelers of all ages and income levels. In the Northeast, fast, reliable and frequent train service has made Amtrak the #1 carrier between Washington D.C. and New York City. Annual Amtrak ridership between these two endpoints is the equivalent of 7,500 fully-booked 757 commercial airplanes.

Electrification of the Northeast Corridor between New Haven and Boston and the introduction of new high speed trains in 1999, which are being produced by a consortium of Bombardier and GEC Alsthom, will attract an additional 2.6 million riders per year to Amtrak. The high speed rail project represents an unprecedented public-private partnership. The private sector will provide financing in excess of $600 million for the rail rolling stock and associated facilities, while the public sector will provide the necessary infrastructure and right-of-way improvements. This strategic investment has the potential to generate a profit of $150 million annually for Amtrak. The implementation of these train sets in the Northeast Corridor will improve not only corridor operations but provide a real boost to the economic health of Amtrak's national passenger system. Moreover, the Northeast Corridor will serve as a model to develop high speed rail in other key corridors throughout the country.

U.S. INTERCITY PASSENGER RAIL STANDS AT A CRUCIAL CROSSROADS

The U.S. stands at a crucial crossroads in defining the future for intercity passenger rail in this country. With a federal commitment to provide Amtrak with a more secure base for capital investments and the tools to operate in a more businesslike manner—combined with Amtrak actions to cut operating costs and improve its efficiency—Amtrak can become a world class national railroad that will yield the country a strong return on its investment.

Amtrak has taken seriously the directive from Congress that it operate more like a business and become free of federal operating subsidies by the year 2002. Amtrak's Board of Directors adopted a bold plan in 1994 whose implementation reduced core business operating expenses by over $300 million on an annualized basis. Amtrak has become leaner—operating with nearly 2,000 fewer employees—from both management and labor. Amtrak has restructured its routes, cutting service on some while strengthening others. Amtrak retired its oldest railcars and locomotives and has been replacing them with new, more efficient Superliners, Viewliners and new locomotives, equipment that has improved the railroad's reliability and been greeted enthusiastically by Amtrak riders. To provide better service and bring decision-making closer to the customer, Amtrak split into three special business units (SBU's) and established product line managers for each of Amtrak's services. Amtrak has been building new important partnerships to deliver better service: with the states and, in November 1996, Amtrak announced a new partnership with Greyhound to improve connections between trains and buses.

A new, more efficient and customer-focused Amtrak is emerging. Last year, Amtrak was named the "Most Improved in Customer Service" among American transportation companies in a survey of American business executives by Knowledge Exchange, a financial analysis and publishing firm.

Amtrak's continued success, however, depends on a commitment from Congress to provide Amtrak with a dedicated source of capital investment, adequate operating support to keep Amtrak on its downward glide path to zero in 2002 and enactment of reform legislation that will allow Amtrak to cut costs and operate in a more businesslike manner. Amtrak cannot get there without Congressional action on these essential elements of the strategy that will put the nation's only passenger railroad on track to a promising future.

A DEDICATED SOURCE OF CAPITAL INVESTMENT IS ESSENTIAL

A dedicated source of capital is an essential and key element in Amtrak's future success and its ability to reduce its reliance on federal operating subsidies. The General Accounting Office (GAO) recognized the critical importance of adequate capital investment in its March 12, 1997 report to Congress. "Capital investment continues to play a critical role in supporting Amtrak's business plans and ultimately in maintaining Amtrak's viability."

Amtrak suffers from years of under-capitalization. Lack of capital has required Amtrak to postpone important investments or borrow from commercial banks, with the interest on these loans constituting a growing share of Amtrak's operating costs. A dedicated source of capital will allow Amtrak to engage in the long-term planning from which highways, airports and other modes have long benefited, based on the knowledge of a secure stream of funding from their dedicated trust funds. A secure source of capital investment will allow Amtrak to make cost-saving productivity improvements such as investment in new technologies to improve the national reservation system and investments in new equipment and facilities that will attract a growing ridership to Amtrak and allow Amtrak to be an active partner with states in key rail investments. In the Northeast Corridor, the capital investment will help sustain the funding needed to complete the improvements to support the high speed rail service, whose implementation will generate profits that benefit the entire Amtrak system.

APRC strongly supports S. 436, the Intercity Passenger Rail Trust Fund Act of 1997, that will dedicate the revenues from 1/2 cent per gallon of the federal fuel tax (a portion of the 4.3 cents in gas tax revenues now going to deficit reduction) to Amtrak capital investments for a 5 year period and deposit the 112 cent revenues in a newly established Rail Trust Fund. The funds in the Rail Trust Fund will be made available to Amtrak for capital improvements and to non-Amtrak states for capital improvements in intercity passenger rail or bus service. APRC thanks the co-sponsors of S. 436 and the Senators who support the 1/2 cent for Amtrak through other bills that have been introduced, for their leadership.

OTHER KEYS TO AMTRAK'S FUTURE

In addition to a dedicated source of capital, APRC urges Congress to provide Amtrak with adequate operating funds to keep it on the downward glide path in its business plan. Congress has provided Amtrak with less operating funds than Amtrak requested each year since 1995, resulting in a gap of $150 million between budget assumptions made by Amtrak and actual appropriations. Finally, APRC also urges Congress to enact Amtrak reform legislation that will allow Amtrak to operate more efficiently and cut costs. Amtrak reform legislation was enacted in November 1995 by the House of Representatives but similar legislation failed to be enacted by the Senate. Amtrak is developing a strategy that will improve the economics of its long-distance trains by generating increased revenues from mail and express service, working in partnership with the freight railroads. APRC believes this holds promise for further improving Amtrak's financial profile.

CONCLUDING REMARKS

The future of intercity passenger rail service in the United States stands at a crucial crossroads. Amtrak is a critical link in the efficient and intermodal transportation system the United States is working to establish. Intercity passenger travel demand continues to rise, straining the capacity of our nation's highways and airports. Rail is a cost-effective investment that provides clean, energy-efficient mobility, a needed alternative to highway and airport travel in congested corridors and a vital connection to the rest of the nation for America's smaller cities and communities. The U.S. invests less per capita in rail than countries such as Botswana and Bolivia and far less than countries such as Germany, France and Great Britain with whom we compete in the global market. And yet, the cost recovery of Amtrak is higher than that of any other passenger railroad in the world. The U.S. can and should do better.

APRC urges Congress to provide Amtrak with a dedicated source of capital investment and the other tools it needs to transform to a world class railroad that will yield multiple benefits for current and future generations of Americans. Thank you for the opportunity to appear before the committee today.

PREPARED STATEMENT OF HON. DANIEL PATRICK MOYNIHAN

I thank Chairman Roth for scheduling this hearing, and in recognizing the seriousness of Amtrak's financial predicament.

We are here today to find a way to help Amtrak survive. Chairman Roth, joined by myself and 10 other Senators, has introduced the Intercity Passenger Rail Trust Fund Act of 1997 (S. 436). This legislation would provide a critical source of dedicated capital funding for Amtrak, and is necessary to ensure that Amtrak can survive the next few years.

However, this legislation alone will not guarantee Amtrak's success. Amtrak has prepared an ambitious business plan, and faces significant challenges in the years ahead to meet the goals set forth in that plan.

Amtrak's future will not be painless. Amtrak may well find the challenges its faces to be insurmountable. However, national rail service is important to the U.S., and we should do what we can to help Amtrak meet its challenges.

The New York Times noted in 1995 that:

> The benefits of passenger rail service cannot be measured solely in terms of commercial profit and loss. It provides a form of transportation valued by millions of Americans and produces reduced highway and airport congestion and cleaner air, amply justifying some public expense.

However, despite the important public benefits of passenger rail, we as a nation have undercapitalized our national rail infrastructure for years. The results are now becoming more evident. People complain about Amtrak service, and speak about the train systems of Europe and East Asia, but you don't hear them make a comparison of the levels of federal investment. America does not invest in passenger rail at even close to the levels of our European or Asian counterparts, or for that matter, most of the world. Amtrak reports that we spend more than 50% less per capita in terms of rail capital than Botswana, Slovakia, Latvia, New Zealand, Indonesia, Venezuela, Iran, Namibia, South Africa, and many other nations. Yet even with this disinvestment Amtrak covers more of its operating costs -comes closer to breaking even—than any other passenger rail service in the world.

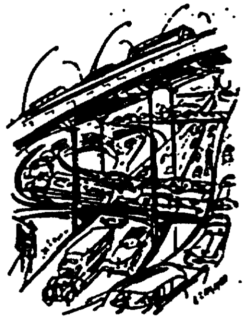
I hope that we can find a way to ensure that Amtrak will have a dedicated funding source during its difficult transition. Amtrak needs capital to upgrade its maintenance and overhaul facilities to permit important cost-saving and productivity improvements. The result would be improved equipment, increased reliability, better maintained cars and locomotives, reduced maintenance costs, and better working conditions for Amtrak employees.

If Amtrak is able to survive its transition, the result would be a better national rail passenger system, and that will benefit us all.

The Reporter - April 14, 1960

New Roads And Urban Chaos

DANIEL P. MOYNIHAN



The *Wall Street Journal* does not commonly describe any undertaking of the Eisenhower administration as "A vast program thrown together, imperfectly conceived and grossly mismanaged, and in due course becoming a veritable playground for extravagance, waste and corruption." It must, to the White House, seem notably unkind for the *Journal* to speak thus of an enterprise the administration has declared "the biggest public works program ever undertaken anywhere or at any time throughout the world." But even the President has conceded that all is not well with the $45-billion Interstate and Defense Highway program.

The program provides for the construction of 41,000 miles of superhighway, connecting ninety per cent of the nearly three hundred cities of the continental United States with populations of 50,000 or more. When completed, the system will carry twenty per cent of the nation's traffic. Up to ninety-five per cent of the cost will be paid by the Federal government. Half of it will be spent in the cities the system connects.

Washington abounds with administration task forces, Congressional committees, and special-interest groups—all investigating this program. Those in Congress who are looking for scandal will likely find no end of it. Those in the President's office looking for ways to cut back the program will have an even easier task, although they may encounter more difficulty getting their findings published during this election year. But very few seem to be asking whether, quite apart from corruption or extravagance, the program is bringing about changes for the worse in the efficiency of our transportation system and the character of our cities.

One of the best-publicized resolves of the administration that took office in 1953 was to redress the balance of Federal-state relations by divesting the national government of such usurpations of state sovereignty as vocational education and aid to the dependent blind. While almost nothing has come of this endeavor, an important change in Federal-state relations has in fact taken place during the Eisenhower years. The Federal government, through the Federal Aid Highway Act of 1956, has assumed the direction of highway construction—one of the few areas of significant government activity in which the states still had the initiative after the New Deal.

Although the Federal government has been providing some highway aid to the states since 1916, road building was almost entirely a state and local affair until 1956. The Federal Bureau of Public Roads was, as late as 1939, a small agency in the Department of Agriculture helping to "get the farmer out of the mud" by supplementing state highway budgets. The states spent the money pretty much as they pleased.

The system was permissive but not disorganized. Standards for highway construction, for example, and national routes (the familiar U.S. sign) were successfully established on a voluntary basis. For the most part, however, these roads followed trails that had originated far back in frontier history. With the coming of the automobile they were just surfaced, and widened and straightened somewhat. Our counterparts of the "rolling English drunkard" who laid out Chesterton's "rolling English road" were the Iroquois war party and the Conestoga wagon; more purposeful but not less circuitous as they sought out the passes and water-level routes north and south, and across the continent. The Roman roads Hilaire Belloc has written of, struck like a lash across the conquered provinces, were not reproduced in America until we too established a dominant central government.

The idea of a Federal system of superhighways arose during the First World War. It was revived by the Roosevelt administration as a public-works project for building 14,000 miles of transcontinental routes. A study made by the Bureau of Public Roads, which the President commended to Congress in 1939, revealed that there was surprisingly little cross-country traffic and suggested that the concept be changed to a 26,700-mile intercity system. The idea was popularized by General Motors' Futurama exhibit at the New York World's Fair.

In 1944, after some further study, Congress authorized construction of a National Interstate Highway system on this basis. The size was increased to 40,000 miles. Thus, from the outset there has been more mileage authorized for the system than anyone knew exactly what to do with.

More Roads for More Cars

Authorization is the first step in a Federal public-works program. It more or less commits Congress to appropriate money at a future date and provides time for plans and other necessary arrangements to be made. Plans for the interstate system went ahead. In 1947 the Federal government and the states agreed on the location of 37,700 miles of the system, leaving the rest for additional urban connections. The roads were to be limited-access, multilane high-speed routes designed to the highest standards. But no special funds were appropriated to build them; only regular Federal highway-aid funds were made available, on the standard fifty-fifty matching basis. This required the states to take sizable amounts of money from regular projects to spend on interstate mileage

THE RESULT was that the interstate mileage didn't get built. Highway-construction expenditure multiplied by nearly eight times from 1945 to 1952, but the states just wouldn't use their money on interstate highways. It had never, after all, been their idea. Special funds were thereupon appropriated and the Federal share increased to sixty per cent, but still with little effect. By 1952, less than one per cent of the system had been completed. Three years later President Eisenhower declared: "At the current rate of development, the interstate network would not reach even a reasonable level of extent and efficiency in half a century."

For the highway transportation industry this raised a serious question. Automobile registrations had almost doubled in the first decade after the war. By 1955 there was a motor vehicle for every seven hundred feet of lane in both directions on all the streets and roads of the nation. It was expected that registrations would rise another forty per cent in the following decade, to a total of eighty-one million. Yet already the cities were chockablock with cars. Unless more room was made for automobiles, the automobile industry itself might feel the pinch. "Either the roads must be made adequate for the traffic," stated the *Engineering News-Record*, "or the end of national expansion as we know it must be accepted."

Few pains were spared to popularize this notion. General Motors even went into the essay-sponsoring business, offering $25,000 for the best theme on "How to Build the Roads We Need." (The prize was won, naturally, by Robert Moses.)

But the Eisenhower administration needed little persuading. Highway transport had become, in the words of the Brookings Institution, "the greatest single combination of economic activities in men's history."

In July, 1954, the President proposed a "grand plan" for a national highway system. His plan was to build the interstate system Roosevelt had proposed and Congress had authorized. He next appointed a committee composed of General Lucius D. Clay and assorted men of substance, including Dave Beck, as was *de rigueur* in those days, to devise means for doing so. The committee quickly reported that the system would cost only $27.5 billion, and could be built, with borrowed money, in ten years. It proposed that the Federal government pay ninety per cent of the cost generally and up to ninety-five per cent in states with extensive untaxed Federal landholdings. The President submitted this proposal to Congress in February, 1955.

Something for Everybody

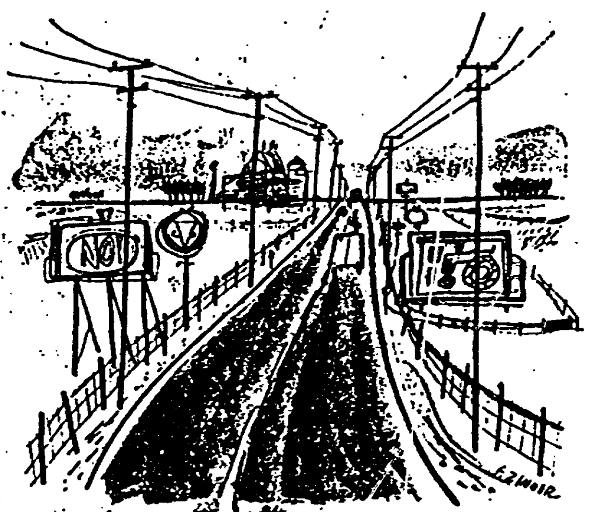
Introducing a highway program in today's Congress is like letting a tariff bill loose in the old days: the figures go up and up and up. The economic interest in highways affects not only General Motors but also countless numbers of garage owners, automobile dealers, road contractors, real-estate developers, and similar large and small businesses throughout the land. Conservatives think of roads as good for business. Liberals think of them as part of the litany of public investment they so love to chant: "Better Schools, Better Hospitals, Better Roads . . ." Plain politicians think of roads as the indispensable means by which the owners of seventy million motor vehicles derive the benefits from what is for most of them the largest or second largest investment they ever make.

Highway construction is especially important to the professional politicians, since it provides the largest single supply of money available these days to support their activities. The alliance of the county leader and the contractor is ancient and by no means dishonorable. Public works represents the most beneficent outlet yet devised for the politician's need to make a living and at the same time please the public. If it occasionally takes the form of paving stream beds in Kansas City, it may also produce a New York State Thruway.

IN MOST STATES a symbiotic relationship has been established between the contracting firms and the local political organizations which obviates the usual forms of corruption. The contractors pay an honest tithe to the parties' exchequers out of fair profits, which are large mostly because the sums involved are vast. It is a point of pride with many contractors to make all contributions by check and often, as it were, in public through advertisements in party yearbooks. To the extent that this system works, it provides an excellent if informal means of financing our parties out of tax funds: contractors are normally apolitical, asking only that there be just a little more than enough work to go around. The politicians usually do their best.

One special attraction of the interstate program was that these roads, for the most part, would be brand-new. Seventy-two per cent of the mileage, both in urban and rural areas, would be on entirely new locations. Along most of these thirty-thousand-odd miles, property values are destined to soar. This is sure to please the owners, whether the property has been in the family for years or, by good fortune, recently acquired. The redoubtable George Washington Plunkett of Tammany Hall was not the last American politician who could suggest as his epitaph "He Seen His Opportunities, and He Took 'Em."

In a Democratic Congress dominated by Southern and Western representatives, the program had the further advantage of providing a considerable subsidy to those parts of the country. Far the heaviest concentration of traffic and automobiles in the nation is located in a parallelogram running from Boston to Milwaukee down to St. Louis over to Washington and back up to Boston. The area's fourteen states and the District of Columbia had just under half the nation's motor vehicles in 1955. However, only a quarter of the interstate mileage is located in these states. Mississippi, with one-third to a half as many automobiles as Massachusetts, is to get almost one and a half times the mileage. Texas, with five-sixths as many automobiles as New York, is to get almost three times as much mileage.



IT WAS FORTUNATE for the President that there were so many sound political reasons to support his program. There weren't many others. With the railroads running at fifty per cent of capacity, a sudden, sharp increase in intercity transportation facilities represented, if anything, a threat to the economic stability of the entire transportation industry. Almost certainly the 40,000-mile figure was too large: it had no basis other than the enthusiasm of the wartime Congress for a peacetime program that might be years away. In 1944 Congress had little idea where this mileage was to be located, much less whether it would be needed. Ten years later the Clay Committee appointed by President Eisenhower found that only 8,600 miles of the system could expect enough traffic to pay for themselves as toll roads—and of these, all but 3,500 were already built or being built.

There was no question that city streets were jammed, and it was always understood that half the cost of the program would go to urban arterials. But this aspect of the program should have evoked the Malthusian specter raised by New York City's Deputy Administrator Lyle C. Fitch: the number of automobiles increases to fill all the space provided.

A few months after the program was adopted, Geoffrey Crowther of the London *Economist*, returned from a trans-American tour, told a New York meeting of the Committee for Economic Development: "I have driven myself with my own hands over 12,000 miles. . . . I could tell you a great deal about the . . . fabulous development of the highways in the United States. I find myself puzzled by the statements—that are taken for granted in this country now—that your highways are obsolete. I think I can claim to know as much about them now as anybody in this room and I say it is not so. Your highway system is magnificent. It is overburdened in the immediate vicinity of the large cities; but get away from the large cities and your highways are empty."

"I wonder," said Crowther, speaking of the new interstate program, "if the matter has been investigated as thoroughly as it should be." It had been. Any number of congressmen had wondered if it could not be made bigger. It was. The President's proposal was adopted with only one other important change. Ever alert to the call of patriotism, Congress lengthened the title to make it the Interstate *and Defense* Highway program.

Who Pays the Bill?

The urge to have the highways was not matched by an urge to pay for them. From the outset the financing of the program has been the object of much controversy and muddle.

The Clay Committee had proposed that the program be financed through an independent Federal Highway Corporation which would sell some $20 billion worth of bonds to raise money to build the highways in a ten-year period. The bonds would be retired over thirty years by the returns on the two-cent Federal gasoline tax. This would have permitted an increase in government borrowing and spending of billions of dollars each year, without any increase in the debt limit, the budget, or taxes.

The fiscal conservatives in Congress were upset by this proposal for deficit financing. The partisan Democrats were loath to let the President carry off such a political coup. The two groups combined to insist on what is substantially a pay-as-you-go program, matching increased expenditures with increased taxes. After some difficulty over which taxes would be increased, a bipartisan program passed the House in April, 1956, by a vote of 388-19. The Senate approved its measure and the President promptly signed the conference bill.

The Highway Act of 1956 gave the President the $25 billion he had asked to construct the interstate system (to be matched by $2.5 billion from the states) and provided a third more than he had asked for regular highway aid. The authorized mileage of the interstate system was increased to 41,000. It was to be built over a thirteen-year period, at a rate of Federal expenditure rising to $2.2 billion per year.

To provide the money, the fuel tax was increased from two cents to three cents per gallon and the tax on new tires from five cents to eight cents per pound. These increases, together with some smaller ones on other taxes, brought an increase of almost two-thirds in taxes on highway use. A Highway Trust Fund was set up to receive these and some related taxes. The receipts of the Trust Fund would be used to pay for the highway program.

The device of the Trust Fund satisfied the administration's wish to keep the increased level of government spending from showing up in the budget. The bulk of highway expenditure is now carried as a separate item, similar to Social Security payments. Thus in the budget for fiscal 1961, highway expenditures are shown as $3 million, although they will actually be something like $3 billion.

THE PROGRAM got under way on July 1, 1956, but it was in trouble even before it began. The financial plan provided for the Highway Trust Fund to incur some deficits during the peak construction years. These would be balanced by surpluses obtained during the early period when the program was still on the drawing boards and during the latter years as it was tapering off. At the last minute, Senator Harry Byrd of Virginia, supported by Secretary of the Treasury George M. Humphrey, added an amendment that forbade the Trust Fund ever to incur a deficit. This meant the scheduled program would have to be cut back as soon as the small initial surplus was used up.

A deficit seemed imminent in March, 1958, when the President asked Congress to permit the expenditure of an additional $600 million on the interstate system as an anti-recession measure. Congress eagerly responded with $800 million. The 1958 recession thus caused an increase in expenditures and at the same time a decrease in receipts because of lowered economic activity. In January, 1959, the Secretary of Commerce reported to Congress that unless receipts were increased the fund would soon be exhausted. There would be no interstate funds apportioned for fiscal 1961 and only $500 million for 1962.

To prevent this the President asked that fuel taxes be increased from three cents to four and a half cents a gallon. This aroused opposition from the oil companies, and for a time it seemed that the program might be seriously interrupted, but at the last moment Congress enacted a one-cent gas-tax increase. The President asked for the other half cent in his recent budget message, but nothing will be done until after the election.

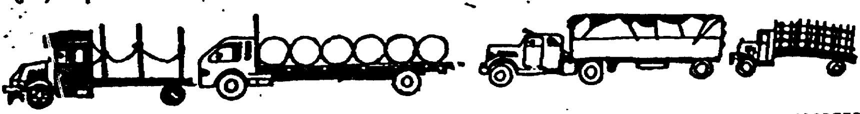
SOMETHING will have to be done soon, however, for the financial problems of the interstate system have become more difficult than simply maintaining the level of expenditures envisioned in 1956. Since then the estimated cost of the system has almost doubled.

In January, 1958, the Secretary of Commerce announced that revised estimates indicated that instead of $25 billion, the Federal share of the interstate cost would be nearly $34 billion. This was for only 38,548 miles, however, which, it turned out, was all the routes laid out in 1947 required. To build the remaining 1,452 of the 40,000 miles originally planned (never any question of just dispensing with them as a tribute to efficient management) and the extra thousand miles authorized in 1956 will require another $2.2 billion. Technically the revised estimate did not even cover all of the 38,548 miles, since it did not include the cost of reimbursing the states that had already built parts of the system with their own funds or as toll roads. This would add perhaps $4.3 billion. There is also the matter of some $1.5 billion for relocating railroad tracks, telephone lines, and other utilities disturbed by the new highways, as authorized by Congress. Also, another half billion dollars might be needed to provide the extra 1.5 per cent of the cost to states that forbid billboards along the new routes, as authorized by Congress. This could bring the total Federal-state cost to something like $45 billion. The sole prospect of economy is that the states aren't taking up the no-billboard option.

Who Runs It?

This is not the end of it: rising costs are built into the interstate system. From the outset the program has been undermined by the administration's desire for Big Government achievements without Big Government. The Clay Committee envisioned the largest public-works program in history being carried on with no increase in public personnel. ". . . The Federal Highway Corporation should consist only of a board of directors with secretarial assistants"—a kind of bureaucratic fantasy in which almost everyone is a member of the board and there is no overhead. The Clay Committee proposed that the interstate program be operated through the Bureau of Public Roads as an ordinary Federal highway-aid program, with all the work of picking sites, drawing plans, letting contracts, and so forth, done by the states. For extra help the states, many of which were altogether incapable of doing such work anyway, would turn to the "private engineering organizations capable of providing sound engineering in this field." All of this, in some way, would further "the President's stated desire for 'a cooperative alliance between Federal Government and the States so that government . . . will be the manager of its own area.'"

The President has had his desire. The Bureau of Public Roads, with only a handful of extra help, depends on the states, which depend on consulting engineers. The consulting



engineers, normally paid by a percentage of cost of the projects they design, depend on the Rotary Club for forecasts of the traffic potential of whatever town they happen to be tearing up.

Where Is It Built?

Many instances of almost incredible mismanagement have appeared in scathing reports by the Comptroller General, but there is nothing to be done about it. The Interstate program is not a Federal enterprise; it is only a Federal expense. Washington is simply committed to keep supplying money until it is finished. But the states have no real freedom of action either. The basic decision to build the system has been made for them: the enormous "bargain" of the 90-10 money makes it politically impossible to do anything but take the money as fast as possible and try to match it. Since all contracts are closely scrutinized by the U.S. Bureau of Public Roads, the states hardly see it as their responsibility to control the costs of the program, as indeed it is not. But the bureau, under equally heavy pressure to keep the program rolling and Congress happy, exercises little real control. It functions rather as a company comptroller who fusses over items on an expense account without ever daring to ask if the trip was necessary. In fairness, the bureau could hardly do otherwise: in 1958 it had two investigators to cover the entire United States.

The Comptroller General's men recently came upon a three-mile segment in "a very sparsely settled area" of Nevada on which three interchanges have been built at a cost of $584,000. They will handle a daily traffic load of eighty-nine vehicles, serving, in the words of the General Accounting Office, "some old mines, a power line, four or five small ranches, and a house of ill repute."

From Arkansas the state auditors reported: "On every hand among both employees and commissioners we encountered a strange and distressing apathy at any extravagant use of highway funds." In Indiana apathy was replaced by enthusiasm: the boys had organized a syndicate with highway-department employees to take *all* the risks out of speculating on capital gains from right-of-way condemnations. The Pennsylvania highway department, one hundred per cent patronage, was performing less than ten per cent of the preliminary engineering on interstate routes, while passing out contracts to consulting engineers at the rate of a $1 million a month. In West Virginia, ". . . only about ten per cent of the state's project engineers . . . were registered or graduate engineers."

With no strong direction of the program, there has been no way to resist the political pressures to build a little bit of interstate highway in every county along the 41,000-mile route. Limited-access highways over

new locations are more like bridges than ordinary roads. Until they make the complete crossing from one city to another they are relatively useless, starting, likely as not, at one of the cities and ending in a cornfield. A minimum of businesslike management would have arranged for the system to be built in complete segments, concentrating on the more important ones. Instead it is being built in fragments strewn across the continent. It will be years before these are connected into anything like a national system.

THE REPEATED financial crises of the program have created a mistaken impression that it is slowing down. Apportionments of funds for the next two fiscal years will be down as much as $600 million, but this will no more than offset the increases provided in 1958. According to Federal Highway Administrator Bertram D. Tallamy, who built the New York State Thruway and is in charge of the interstate program, expenditures are running some four per cent ahead of the schedule envisioned by the 1956 legislation. Fifteen thousand miles of the system are either in the contract stage or have actually been completed. Routes have been located and plans are in process for ninety-five per cent of the remaining mileage.

True, unless more funds are made available, the program will stretch out. But there is much support for providing more funds. The President's recent budget message, which calls for cuts in housing, hospital, water pollution, and similar programs and makes clear that a serious education bill will be vetoed, nonetheless proposes more funds to "permit the construction program for the Interstate System to proceed at a higher and more desirable level." Congress continues to share the President's unflagging interest in highways. Senator Albert Gore, who sponsored the 1956 legislation, was talking awhile back about adding another seven thousand miles.

A few legislators such as Senator Paul Douglas of Illinois have questioned whether this is the very best way to spend our money. Senator Eugene McCarthy of Minnesota has asked whether the program wasn't merely hastening the day when "You'll be able to drive eighty miles an hour along superhighways from one polluted stream to another, from one urban slum to another, from one rundown college campus to another."

The only certain consequence of the rising costs of the program is that there is no longer much serious possibility of reimbursing the states that built sections of the system as toll roads. In the postwar years, after the outlines of the interstate system had been established, a number of states did this. From the outset of the present program it has been recognized that justice entitled these states to be reimbursed so that they might either remove the tolls or build additional roads. Five years ago it seemed unthinkable that this would not be done. An administration spokesman told the House Committee on Public Works that not to reimburse these states would be like saying, "Boys, we are sorry, you took care of yourselves, so you do not get anything."

The 1956 legislation declared the intent of Congress to settle this matter, but as one financial crisis has followed another, the intention has grown weaker. It is now practically settled that those states which did not wait around for Uncle Sam to look after them will in fact get nothing. So much for the fate of the bird dogs in the Eisenhower years.

Not surprisingly, seventy per cent of these toll roads are located in the states of the northeastern parallelogram, which as a result will get even less than a quarter of the interstate mileage.

This development only compounds the inequity of paying for the interstate system with gasoline taxes. Drivers on the Massachusetts Turnpike, the Indiana Toll Road, the New York State Thruway, and similar highways will not only have to pay tolls to use their portion of the interstate system, but they will be paying extra gasoline taxes to build the other portions.

Who Benefits Most?

Apart from any regional imbalance, the gasoline tax is still a highly questionable way of distributing the burden of paying for the interstate system in terms of the benefits that will be derived from it. The fuel levy really amounts to a household tax—more than fifteen dollars a year on the average—on the seven out of ten American families that own an automobile. Most of these families will use the interstate from time to time, but hardly enough to get their money back.

By contrast, the system will provide a great subsidy to industry in the form of cheap road transport. The nature of this subsidy has been obscured by the endless arguments concerning the precise share of highway costs that should be paid by trucks as against private automobiles. (The Federal government and the states are currently spending $22 million running tractor-trailers over a road near Ottawa, Illinois, to determine just how much they damage the pavement.) Although it appears that truckers do not pay a fair portion of highway costs, this in itself is not the secret of their economic success. The truckers' main advantage is that railroads must pay *all* the cost of building and maintaining their transportation system, while trucks pay only when they actually use the roads. Of each railroad revenue dollar, twenty cents goes to right-of-way costs. For trucks the figure is four and a half cents.

As a result of this advantage, in the words of the industry's trade association, "Within one generation, trucking has become the dominant form of transportation in the United States." This dominance will be confirmed by the completion of the interstate system, at a presently estimated cost of some $45 billion. The net investment in our entire 220,000-mile railroad system is only $28 billion. Were it not for the trucking subsidy, the railroads would almost certainly be running at better than their current fifty per cent of capacity.

Some of this imbalance could be righted if the Interstate Commerce Commission were authorized to take the road subsidy into account in fixing trucking rates. But actually only a third of the road transport is conducted by firms operating as common carriers in direct competition with railroads and under regulation by the ICC. Railroad analyst A. Joseph Debe of Standard & Poor's estimates that two-thirds of it is conducted by or for private industries hauling their own products. It is these companies, spread across the entire range of American industry, that benefit most from the highway subsidy.

Because two-thirds of truck traffic is subject to no rate regulation, the only practical way to restore any economic balance in intercity transportation would be to impose a toll on the commercial users of the interstate system. A permit system would not send trucks to parallel routes: they gladly pay as much as ten cents a mile to use a road like the New York State Thruway. (This may give some indication of the size of subsidy on free roads.)

The question of tolls must also be asked in connection with the problem of how the system is to be maintained by the states once it is built. Running a limited-access highway is a complex, exacting job requiring intensive, continuous supervision, much as does running a railroad. The great turnpikes are, in fact, very much like railroads; they are not public facilities nearly so much as they are public enterprises. Their headquarters are elaborate communications centers receiving information and dispatching orders, often of much urgency. The forces required to keep the routes open in winter, repair damage, keep up with maintenance, and generally look after things are far greater than those required on ordinary roads. The costs run as high as $10,000 per mile per year. Few states have this kind of money; fewer have the organization to spend it effectively. Only tolls can really be expected to provide either.

The problem will be vastly enlarged by the absence of any food or fuel facilities on the interstate system. Limited-access highways are isolated travel corridors; it is essential that they be as self-contained as possible. Restaurants and service stations are automatically included in plans for any large toll road. Anyone who has used a turnpike knows how busy these facilities are. They produce income from concessionaire fees and provide indispensable services to motorists. But the Highway Act of 1956 specifically provided that there should be *no* service facilities on the system.

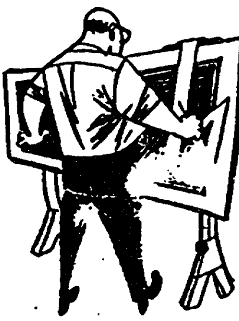
A motorist on the interstate system who has car trouble or needs gas will have to leave the main road at an interchange to find a service station. At four in the afternoon he will almost certainly find one open. At four in the morning he will almost certainly find them all closed. The oil companies are thus free of any obligation to set up stations on interstate routes where their prices might be regulated, where they might have to share their profits with the state governments, and most particularly where they might have to stay open in the unprofitable hours of the early morning. And, of course, nothing will help real-estate values at those interchanges like a gas station and a honky-tonk or two. As far as the public is concerned, it means the interstate routes will almost certainly be poorly maintained and will be dangerous to drive on at night or at any time during the winter.

Chaos in Concrete

It is not true, as is sometimes alleged, that the sponsors of the interstate program ignored the consequences it would have in the cities. Nor did they simply acquiesce in them. They exulted in them. Thanks to highways, declared the Clay Report, "We have been able to disperse our factories, our stores, our people; in short, to create a revolution in living habits. Our cities have spread into suburbs, dependent on the automobile for their existence. The automobile has restored a way of life in which the individual may live in a friendly neighborhood, it has brought city and country closer together, it has made us one country and a united people."

This rhapsody startled many of those who have been concerned with the future of the American city. To undertake a vast program of urban highway construction with no thought for other forms of transportation seemed lunatic.

The 1939 report that Roosevelt sent to Congress—prepared in the Department of Agriculture—took it as axiomatic that the new highways would be part of, and provide the occasion for, a "radical revision of the city plan," which would coordinate other urban programs such as slum clearance and provide for a "reintegration of facilities for the various forms of transportation." The 1944 legislation had much the same intent. But so far as the Highway Act of 1956 goes, there is no form of transportation but the automobile, and the act has no objective save providing more room for it.



It had always been understood that a large portion of the interstate funds would be spent in the metropolitan areas, but the 1956 legislation went further to declare that "local needs . . . shall be given equal consideration with the needs of interstate commerce," thus authorizing construction of arterial highways only by courtesy connected with the interstate system.

It was clear at the time that locating the metropolitan portions of the interstate system would constitute an unprecedented venture into national planning. It was estimated that the size of our metropolitan areas would double by 1975. For good or ill, the location of the interstate arterials would, more than any other factor, determine how this growth would take place. Yet no planning provisions of any kind were included.

In the absence of any other provisions, the "planning" would be done by highway engineers. Theirs, admittedly, is an unjustly maligned profession. Nothing in the training or education of most civil engineers prepares them to do anything more than build sound highways cheaply. In the course of doing this job they frequently produce works of startling beauty—compare the design of public highways with that of public housing. Yet, in the words of John T. Howard of the Massachusetts Institute of Technology, "It does not belittle them to say that, just as war is too important to leave to the generals, so highways are too important to leave to the highway engineers."

Highways determine land use, which is another way of saying they settle the future of the areas in which they are built. It stands to reason that engineers should be required to conform their highway plans to metropolitan land-use plans designed in the context of more general economic and social objectives.

Yet in 1956 we had no metropolitan area plans, as we had no metropolitan area governments. The only one we have now is in Dade County (Miami), Florida, which is just getting started.

In this predicament, there was considerable sentiment for a moratorium on the urban interstate program until planning requirements could be imposed. Most of those concerned, however, as the distinguished transportation economist Wilfred Owen is frank to say, felt if the program went ahead it would precipitate such a crisis that something would have to be done at last about our metropolitan areas.

Across the nation there seemed to be an increasing awareness among those who actually run the cities and suburbs that to do nothing more than build bigger highways only produced bigger traffic jams. There seemed a growing belief that a complex system of mass transit had to be preserved, or revived, or even indeed created—if only to make automobile transportation feasible.

The sorry results of carrying on a number of Federal urban-development programs completely independent of each other had become increasingly evident. Thus the American Municipal Association formally requested legislation requiring that the urban-renewal and highway program be co-ordinated.

The crisis has come. It has been impossible for the cities to resist the offer of unprecedented amounts of money, however futile they might know it will be to spend it on highways alone. In one metropolis after another the plans have been thrown together and the bulldozers set to work.

Here and there, as in Milwaukee, a vigorous and established city planning authority has been able to get intolerable plans redrawn. But in general the program is doing about what was to be expected: throwing up a Chinese wall across Wilmington, driving educational institutions out of downtown Louisville, plowing through the center of Reno. When the interstate runs into a place like Newburgh, New York, the wreckage is something to see. Down the Hudson, Robert Moses is getting set to build the Canal Street Expressway, the first hundred-million-dollar mile.

The Bureau of Public Roads recently considered an edict requiring that some area plans be developed before interstate funds are allocated, but the idea was abandoned. Some felt it was too late anyway. As for relating the highway program to urban renewal, a recent policy statement of the American Institute of Planners said simply: "Except for the coordination which may be supplied at the local level . . . each one is apparently operating entirely independently of the other." The legislation asked by the Municipal Association was never introduced. It was with compassion that Paul Ylvisaker of the Ford Foundation recently addressed a meeting of city planners as the "Beaten Profession."

Just ahead for all of us, perhaps, is Los Angeles, in the words of Harrison Salisbury, "nestled under its blanket of smog, girdled by bands of freeways, its core eviscerated by concrete strips and asphalt fields, its circulatory arteries pumping away without focus . . . the prototype of Gasopolis, the rubber-wheeled living region of the future."

Money Talks

Yet we may be learning our lesson after all: Owen may be right. All across the country, area planners and highway engineers are discussing what they recognize as their common problems with a new sense of urgency. It is clear that if the areas in which Federal highways are to be built were required to work out adequate plans for the use of land and transportation before the money was handed over, the planning would almost certainly be done. The demand for 90-10 highway funds is so great that there is almost nothing, however sensible, that local governments would not do to get their share.

It is true that metropolitan-area planning will not be an easy matter to bring off. Dennis O'Harrow, director of the American Society of Planning Officials, says candidly: "There is a shortage of planners, a shortage of information, a shortage of money to support studies, and more fundamentally, a shortage of information as to what should be done if you could do what you wished." But this is a normal condition of human affairs. Almost any effort to think a bit about what we are doing would help.

Simply by providing some flexibility in the program, we could produce great savings. If the cities were permitted to do what they thought best with, say, fifty per cent of the more than $20 billion of interstate funds allotted to them, much of it would almost certainly go to mass transit and commuter facilities. This kind of money could reshape urban transportation in America: our total national investment in public transit is less than $4 billion, and a combined highway-mass transit-commuter program could almost certainly produce the same results at lower cost than a program dependent on highways alone.

It is becoming increasingly apparent that American government, both national and local, can no longer ignore what is happening as the suburbs eat endlessly into the countryside. Since the spreading pollution of land follows the roads, those who build the roads must also recognize their responsibility for the consequences. There are a number of obvious steps that could be taken. Public authorities could, for example, buy up the development rights of open land in the suburbs—not the property itself, but only an easement to prevent it from being turned into a factory site or a housing development. This could be done, as it is in England, in accordance with an area land use plan that fixes the perimeter of the metropolitan area, or alternates built-up sections with open spaces. What this really amounts to is effective zoning regulations.

How could the money be found to pay for the development rights? A practical solution would be the technique of "excess-taking" as proposed by President Roosevelt in his 1939 message to Congress. As he put it: "The government, which puts up the cost of the highway, buys a strip on each side of the highway itself, uses it for the rental of concessions and sells it off over a period of years to home builders and others who wish to live near a main artery of travel. Thus the government gets the unearned increment and reimburses itself in large part for the building of the road."

This "unearned increment" can be staggering; a five thousand per cent increase in land values is not uncommon. At a time when state and local governments are reaching a limit of the money they can get out of taxpayers, here is an opportunity to get money that doesn't belong to anyone: it doesn't exist, as it were, until the government builds the highway. It represents a legitimate source of government revenue of great potential. Used to shape the development that the highways make possible, it could transform the suburbs of the next half century.

All these possibilities are enlivened by the investigation of the interstate program now getting underway in Congress. So much thieving, mischief, and blunder will be uncovered (if not, it will be necessary to investigate the investigators) that the public should be prepared for a serious reappraisal of the program by the next administration, Democratic or Republican.

We may yet impart some sanity and public purpose to this vast enterprise. We may yet establish some equity in paying for the highways and restore some balance between them and other elements of our transportation system. We may even refute Belloc's dictum, "The general rule in history is that a city having reached its highest point of wealth becomes congested, refuses to accept its only remedy, and passes on from congestion to decay." But we shall not escape his rule that "the Road moves and controls all history."

Roads can make or break a nation.

COMMUNICATIONS

STATEMENT OF KAREN BORLAUG PHILLIPS

SENIOR VICE PRESIDENT, POLICY, LEGISLATION AND COMMUNICATIONS, ASSOCIATION OF AMERICAN RAILROADS (AAR)

Mr. Chairman and Members of the Committee, AAR's freight railroad members appreciate this opportunity to state for the record their position concerning the creation of a dedicated funding source for Amtrak.

In brief, the freight railroads oppose the imposition of any taxes on them, or the diversion of existing taxes paid by them—in particular diesel fuel taxes—to provide a source of capital funding for Amtrak or for any rail passenger use.

This position is grounded on two equitable considerations.

First, freight railroads are already contributing large subsidies to Amtrak. Secondly, the railroad mode is already paying more in deficit reduction fuel taxes than its competitors—notably, the trucking industry. That imbalance should be corrected and not exacerbated by a diversion of such levies to a service which in no way benefits the freight railroads.

These considerations do not bespeak an indifference to Amtrak's financial problems. They reflect, rather, the fact that the freight industry has for almost 30 years made substantial concessions to Amtrak's financial viability, and continues to do so.

1. Rail freight contributions to intercity rail passenger service. The Rail Passenger Service Act of 1970 offered railroads the option to exit from hopelessly unprofitable intercity passenger operations. However, substantial concessions were exacted at the time, and have continued since. To be exact, the railroads capitalized Amtrak with an initial infusion of $865 million (in 1997 dollars). Further, Congress mandated that Amtrak pay only the incremental costs to the freight railroads for the use of their rights-of-way and other facilities. As a result, the railroads have not been permitted to charge a rental based on fair market value. Of all the vendors from whom Amtrak buys goods and services, only the freight railroads are subject to this limitation.

With railroads starved for cash and customers in the 1970's, the terms of the trade were not unduly onerous at the outset. Over time, the industry would have been successful in abandoning passenger service in any case as a matter of constitutional due process. However, the 1970 Act offered immediate relief. Further, pervasive economic regulation prevented the industry from competing effectively in the freight area, and the infrastructure was greatly underutilized. Today, though, the situation has vastly changed. On major freight corridors, the rails have serious capacity problems. Amtrak trains occupy prized corridor "slots" and secure access at bargain rates, resulting in a major cross-subsidy from freight to passenger service. At one carrier, the continuing loss has been estimated at over $50 million annually.

The railroads do not bring these facts to your attention in the hopes that Congress will permit them to raise the rent Amtrak pays to market value levels. That would be impracticable at this time. It is important that Congress bear the existing cross-subsidy in mind, however, when considering the sources from which future contributions should be made.

2. Diversions of Fuel Taxes. The rail freight industry already pays more in deficit reduction fuel taxes than its principal competitors, the trucks. Railroads currently pay 5.55 cents/gallon to the general fund for deficit reduction, while other transportation modes pay only 4.3 cents/gallon. There is no justification for railroads to pay deficit fuel taxes at a rate of 1.25 cents/gallon greater than their competitors.

Proposals that would use a portion of deficit reduction taxes for Amtrak would compound further and complicate the deficit reduction fuel tax problem. Diversion of one-half cent/gallon of the deficit reduction diesel fuel taxes to an intercity passenger trust fund would increase the current freight rail cross-subsidization of Amtrak by some $19 million annually. The freight railroads oppose any proposal by which any portion of fuel taxes imposed on them would be diverted to a trust fund created for Amtrak; this concept does violence to the covenant pursuant to which the freight roads exited passenger service over a quarter century ago, namely, that their contributions were known and finite, and not made the subject of future readjustments. Should the Congress redirect the 4.3 cents/gallon that highway users pay for deficit reduction to the Highway Trust Fund, with Amtrak getting up to one-half cent/gallon as part of that redirection, and not address the railroads' 4.3 cents/gallon tax, the result would be compounded inequity. The competitive inequity of the railroads continuing to pay deficit reduction fuel taxes while the truckers' fuel taxes would largely be invested in highway infrastructure improvements should be addressed by repealing the railroad fuel taxes.

Summary. AAR stated its position two years ago relating to the restructuring of Amtrak and that position still holds:

> The costs of Amtrak's reorganization are costs of the general public, for the freight railroad system is no beneficiary of ongoing Amtrak operations. The financial position of America's freight railroads has improved, but the industry still is short of recovering its cost of capital. . . . The bottom line is that Amtrak is the creation and the responsibility of the Federal government, not the freight railroads.

DESCRIPTION OF S. 436
(THE "INTERCITY PASSENGER RAIL TRUST FUND ACT OF 1997")
AND OF PRESENT-LAW PROVISIONS
RELATING TO
FEDERAL EXCISE TAXES IMPOSED ON
TRANSPORTATION MOTOR FUELS

Scheduled for a Public Hearing

Before the

SENATE COMMITTEE ON FINANCE

on April 23, 1997

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

April 21, 1997

JCX-12-97

INTRODUCTION

The Senate Committee on Finance has scheduled a public hearing on April 23, 1997, on S. 436 (the "Intercity Passenger Rail Trust Fund Act of 1997"). S. 436 (introduced by Senators Roth, Moynihan, Jeffords, and others) would establish a new Intercity Passenger Rail Trust Fund (the "Rail Trust Fund") in the Internal Revenue Code. The Rail Trust Fund would receive amounts equivalent to 0.5 cent per gallon of the excise taxes imposed on gasoline, diesel fuel, and special motor fuels (regardless of the transportation sector in which such fuels were used). Amounts in the Rail Trust Fund would be available for financing certain capital expenditures of the National Railroad Passenger Corporation ("Amtrak"), and for certain other specified transportation purposes by States in which Amtrak does not provide service.

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a description of the present-law Federal excise taxes imposed on transportation motor fuels (Part I), background information on historical use of revenues from these taxes to finance Federal transportation Trust Fund and General Fund activities (Part II), and a description of the provisions of S. 436 (Part III).

---

[1] This document may be cited as follows: Joint Committee on Taxation, Description of S. 436 (the "Intercity Passenger Rail Trust Fund Act of 1997") and of Present-Law Provisions Relating to Federal Excise Taxes Imposed on Transportation Motor Fuels (JCX-12-97), April 21, 1997.

I. PRESENT-LAW FEDERAL EXCISE TAXES IMPOSED ON TRANSPORTATION MOTOR FUELS

Separate Federal excise taxes are imposed on specified transportation motor fuels. Taxable fuels include gasoline, diesel fuel, and special motor fuels used for highway transportation, gasoline and diesel fuel used in motorboats, diesel fuel used in trains, fuels used in inland waterway transportation, and aviation fuel (gasoline and jet fuel). Motor fuels used by all of these transportation sectors are subject to a permanent 4.3-cents-per-gallon excise tax, enacted by the Omnibus Budget Reconciliation Act of 1993. Revenues from the 4.3-cents-per-gallon excise tax are retained in the General Fund of the Treasury.

The aggregate tax rate varies for each transportation sector. For example, diesel fuel used in trains is subject to an aggregate General Fund tax rate of 5.55 cents per gallon. Transportation sectors that benefit from Federal public works and environmental programs also are subject to additional tax rates (beyond the 4.3-cents-per-gallon General Fund rate) to finance Federal Trust Funds established as a financing source for those programs. All motor fuels excise taxes other than the 4.3-cents-per-gallon General Fund excise tax are temporary (i.e., have scheduled expiration dates).

In addition to the taxes imposed on actual transportation motor fuels, excise taxes formerly were imposed on crude oil (and imported refined petroleum products) to finance the Hazardous Substance Superfund program (before January 1, 1996) and the Oil Spill Liability Trust Fund program (before January 1, 1995). A further excise tax on motor fuels, the Leaking Underground Storage Tank Trust Fund tax, expired after December 31, 1995.

Between 1956 and 1990, Federal motor fuels excise taxes generally were imposed only to finance Trust Fund programs. The Omnibus Budget Reconciliation Act of 1990 imposed a temporary (through September 30, 1995) General Fund motor fuels excise tax of 2.5 cents per gallon on highway and rail transportation.[2] Table 1, below, summarizes the present-law excise tax rates on transportation motor fuels, by Trust Fund and General Fund components.

---

[2] The 1990 Act also increased the Highway Trust Fund rate by 2.5 cents per gallon during the same period.

Table 1. Present-Law Federal Motor Fuels Excise Tax Rates on Various Transportation Sectors
(rates shown in cents per gallon)

Transportation Sector	Trust Fund	General Fund	Total Tax
Highway Transportation[1]			
In general (trucks, automobiles)			
Gasoline	14.0	4.3	18.3
Diesel fuel	20.0	4.3	24.3
Special motor fuels[2]	14.0	4.3	18.3
Private intercity bus			
Gasoline	no tax	no tax	no tax
Diesel fuel	3.0	4.3	7.3
Rail Transportation	no tax	5.55	5.55
Water Transportation			
Inland waterway	20.0	4.3	24.3
Recreational boats			
Gasoline	14.0	4.3	18.3
Diesel fuel	no tax	no tax[3]	no tax
Air Transportation			
Commercial aviation	no tax[4]	4.3	4.3
Noncommercial aviation			
Gasoline	15.0	4.3	19.3
Jet fuel	17.5	4.3	21.8

[1] Reduced highway motor fuels excise tax rates apply to mixtures of taxable fuels with ethanol and methanol produced from renewable sources (i.e., "gasohol") and to certain "neat" (at least 85 percent pure) methanol fuels produced from natural gas.

[2] Examples of special motor fuels are liquefied petroleum gas ("propane"), liquefied natural gas ("LNG"), other liquids used as a fuel in highway transportation, and compressed natural gas ("CNG"). CNG, a gaseous fuel rather than a liquid fuel, is subject only to a General Fund tax of 48.54 cents per thousand cubic feet.

[3] A General Fund tax rate of 24.3 cents per gallon, enacted in 1993 to be effective through December 31, 1999, was suspended through December 31, 1997, by the Small Business Job Protection Tax Act of 1996.

[4] Commercial aviation Trust Fund taxes consist of a 10-percent domestic passenger tax, a $6 dollar international passenger departure tax, and a 6.25-percent domestic air cargo tax.

II. LEGISLATIVE BACKGROUND OF TRANSPORTATION MOTOR FUELS EXCISE TAXES

Use of motor fuels excise taxes for deficit reduction

Beginning with the establishment of the Highway Trust Fund in 1956 and extending through 1990, Federal excise taxes on transportation motor fuels generally were imposed exclusively for Trust Fund programs, and imposition of the taxes was limited to beneficiaries of the Trust Funds.[5] In 1990, and again in 1993, transportation motor fuels tax rates were increased as a deficit reduction measure, with revenues from all or part of the increases being retained in the General Fund of the Treasury. Unlike the 1990 General Fund tax rate and the various Trust Fund rates, the 1993 4.3-cents-per-gallon rate is permanent and all of the revenues are retained in the General Fund.

1990 transportation motor fuels excise tax

The Omnibus Budget Reconciliation Act of 1990 (the "1990 Act") increased the existing highway motor fuels taxes by 5 cents per gallon. This tax also was imposed on diesel motor fuel used in trains at a reduced rate of 2.5 cents per gallon to reflect the General Fund portion of the increased highway fuels taxes. The excise taxes on noncommercial aviation fuel were increased by 25 percent by the 1990 Act as part of a general extension of and increase in Airport and Airway Trust Fund taxes. As enacted, these increases were temporary: the additional highway and rail taxes were scheduled to expire after September 30, 1995, and the additional noncommercial aviation fuel taxes were scheduled to expire after December 31, 1995 (when all other Airport and Airway Trust Fund taxes were scheduled to expire).

Highway transportation motor fuels tax revenues from this 1990 increase were divided equally between the Highway Trust Fund and the General Fund of the Treasury. Revenues from the noncommercial aviation fuels tax increase were retained in the General Fund for a two-year period, followed by three years in which revenues were deposited in the Airport and Airway Trust Fund. Revenues from the 2.5-cents-per-gallon excise tax on train diesel fuel were retained in the General Fund.

1993 transportation motor fuels excise tax and extension of 1990 taxes

A 4.3-cents-per-gallon General Fund transportation motor fuels excise tax was imposed as a deficit reduction measure by the Omnibus Budget Reconciliation Act of 1993 (the "1993 Act"). This excise tax was enacted as an alternative to a broad-based energy ("BTU") tax proposed by President Clinton. This transportation motor fuels tax applies to fuel used in all domestic

---

[5] Excise taxes were imposed on motor fuels before 1956. During that period, revenues from the taxes were deposited in the General Fund, and Federal transportation programs were financed from the General Fund.

transportation: highway, aviation, rail, inland waterway shipping, and recreational boating. The tax is imposed on all fuels otherwise subject to excise tax (liquid fuels), plus compressed natural gas. Statutorily, the tax is imposed as an add-on to the other excise taxes. Thus, uses of motor fuels that are wholly exempt from other excise tax (e.g., State and local government and farm use) are exempt from this tax.

In addition to imposing the 4.3-cents-per-gallon transportation motor fuels excise tax, the 1993 Act extended the 5-cents-per-gallon excise tax imposed on highway transportation in 1990 and the 1990 tax on diesel fuel used in trains (at a reduced rate of 1.25 cents per gallon), both through September 30, 1999. The 1993 Act provided that all revenues from extension of this tax on highway motor fuels would be deposited in the Highway Trust Fund during the extension period (October 1, 1995-September 30, 1999). Revenues from the tax on diesel fuel used in trains continue to go to the General Fund as there is no Federal Trust Fund for rail capital programs.

Use of transportation motor fuels excise taxes for Federal Trust Fund financing

Highway Trust Fund

The Highway Trust Fund was established in 1956 to provide a financing source for the then-new Interstate Highway System and for continuation of other Federal-aid highway programs. The other highway-aid programs previously had been financed through the General Fund. Existing General Fund excise taxes on gasoline, diesel fuel, and special motor fuels were increased from 2 cents per gallon to 3 cents per gallon, through 1958, with the revenues being dedicated to the Highway Trust Fund. The Highway Trust Fund fuels tax rate was further increased to 4 cents per gallon in 1959. The fuels tax rates remained at that level until 1983 following enactment of the Surface Transportation Assistance Act of 1982, which increased these Highway Trust Fund tax rates to 9 cents per gallon.

Beginning in 1985, the diesel fuel excise tax rate (but not the gasoline excise tax rate) was increased by an additional 6 cents per gallon, to a total of 15 cents per gallon (all for the Highway Trust Fund). The 1985 increase was enacted as a revenue offset for a reduction in an annual use tax imposed on heavy trucks, the primary users of diesel fuel. No further increases in the highway motor fuels excise tax rates were enacted until 1990.

In 1982, the Highway Trust Fund was divided into two accounts, the Highway Account and the Mass Transit Account. Highway programs continue to be financed from the Highway Account. The Mass Transit Account, which currently is funded by 2 cents per gallon of the highway motor fuels excise tax revenues, finances Federal mass transit capital programs.

Inland Waterways Trust Fund

Federal excise taxes have been imposed on motor fuels used in vessels operating on a designated inland waterway system since 1980. The initial tax rate was 4 cents per gallon.

Following a series of scheduled, phased increases, the tax currently is imposed at a rate of 20 cents per gallon. Revenues from this permanent excise tax are dedicated to the Inland Waterways Trust Fund to finance construction and rehabilitation expenditures for navigation of 26 specified inland and intracoastal waterways.

Aquatic Resources Trust Fund and Land and Water Conservation Fund

Revenues from the gasoline excise tax imposed on motorboat use are dedicated to the Aquatic Resources Trust Fund (the "Aquatic Fund") and the Land and Water Conservation Fund. The Land and Water Conservation Fund receives $1 million per year of these revenues. The balance of the revenues is allocated between a Boat Safety Account and a Sport Fish Account in the Aquatic Fund. The Boat Safety Account finances boat safety programs conducted by the U.S. Coast Guard; the Sport Fish Account funds Federal fish restoration grant programs.

A sub-account in the Sport Fish Account separately receives the portion of highway motor fuel taxes attributable to small engines (e.g., lawnmowers and snowblowers). Amounts in this sub-account are dedicated to coastal wetlands restoration programs.

Airport and Airway Trust Fund

Since establishment of the Airport and Airway Trust Fund in 1970, excise taxes on commercial and noncommercial aviation generally have been dedicated to financing of programs of that Trust Fund. The majority of the revenues for the Airport and Airway Trust Fund are produced by air passenger ticket and air cargo taxes imposed on commercial air travel. The noncommercial aviation sector's contribution to the Trust Fund takes the form of motor fuels excise taxes. From 1970 through 1980, both aviation gasoline and jet fuel were taxed at 7 cents per gallon. Following a period when rates were temporarily reduced (because of failure to extend scheduled expirations), the taxes were set at 14 cents per gallon (jet fuel) and 12 cents per gallon (gasoline) until enactment of the 1990 increase described above.

Leaking Underground Storage Tank Trust Fund

A 0.1-cent-per-gallon excise tax was imposed on all otherwise taxable transportation motor fuels (other than propane) from 1987 through December 31, 1995. Statutorily, this tax was structured as an add-on rate to the existing taxes. Revenues from the tax were dedicated to remediation of ground pollution from underground fuel storage tanks.

National Recreational Trails Trust Fund

Highway motor fuels excise tax revenues attributable to fuel consumed in recreational trail vehicles are dedicated, subject to appropriations, to the National Recreational Trails Trust Fund to finance Federal programs promoting recreational trail construction and maintenance. To date, no appropriations for this Trust Fund have been enacted.

III. DESCRIPTION OF S. 436 (THE "INTERCITY PASSENGER RAIL TRUST FUND ACT OF 1997")

Rail Trust Fund provisions

S. 436 would establish an Intercity Passenger Rail Trust Fund (the "Rail Trust Fund") in the Internal Revenue Code. The Rail Trust Fund would be financed with amounts equivalent to 0.5 cent per gallon of the excise taxes imposed on all gasoline, diesel fuel, and special motor fuels after September 30, 1997, and before October 1, 2002, without regard to the transportation sector in which the fuels ultimately were used (e.g., highway, waterway, aviation, or rail).[3]

Amounts deposited in the Rail Trust Fund would be divided between Amtrak and States not receiving Amtrak passenger rail service to finance obligations incurred after September 30, 1997, and before October 1, 2002. Although transfers to the Rail Trust Fund and authority to enter into new obligations would terminate after September 30, 2002, monies deposited in the Fund and obligated before October 1, 2002, would remain available after that date to satisfy outstanding obligations.

Each State not receiving Amtrak rail service would receive an allocation each fiscal year not exceeding one percent of the lesser of (1) Rail Trust Fund revenues for the year or (2) the aggregate amount appropriated from the Rail Trust Fund for the year. Allocations to these non-Amtrak States would be pro-rated on a monthly basis if Amtrak service was provided in the State during a portion of a fiscal year. Non-Amtrak States could use the amounts they received for capital improvements and maintenance expenditures related to intercity passenger rail and bus service provided within their respective jurisdictions and certified by the Department of Transportation as eligible. The balance of the Rail Trust Fund revenues would be available to Amtrak for financing capital improvements, including equipment, rolling stock, and maintenance facilities, as well as for maintenance of existing equipment. Allocations would be made before October 1 of each fiscal year based on projected revenues for the upcoming fiscal year.[4]

Rail Trust Fund expenditures would be classified as direct spending (i.e., not subject to appropriation) through contract authority under the Budget Enforcement Act of 1990.

---

[3] In the case of taxable fuels used in highway transportation, the bill provides that the 0.5 cent per gallon will not include any amount that might otherwise be dedicated to the Highway Trust Fund. Thus, if the proposals that have been made to transfer revenues attributable to the 4.3-cents-per-gallon excise tax on highway motor fuels to the Highway Trust Fund were adopted, the Rail Trust Fund would receive no revenues from highway motor fuels under the bill, as introduced.

[4] The bill does not include a mechanism to adjust for differences (shortfalls or surpluses) between projected and actual receipts.

Tax treatment of Rail Trust Fund expenditures

Amounts received from the Rail Trust Fund by Amtrak and other taxable entities would not be included in gross income when received. However, the basis of any property financed with the monies would be reduced by the tax-free amounts received, and no deduction would be allowed for any expenditures attributable to those amounts.

Effective date

The provisions of the bill would be effective on October 1, 1997, with respect to taxes imposed after September 30, 1997, and before October 1, 2002.