

★ ★ ★ **AMTRAK REFORM COUNCIL** ★ ★ ★

THE COUNCIL

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S. LEE KLING

HON. NORMAN Y. MINETA

CHARLES MONEYPENNY

HON. JOHN O. NORQUIST

EXECUTIVE DIRECTOR

THOMAS A. TILL

For Release on Delivery

March 20, 2001

**INTERCITY RAIL PASSENGER
SERVICE IN AMERICA:
STATUS, PROBLEMS, AND
OPTIONS FOR REFORM**

EXECUTIVE SUMMARY ONLY

**THE SECOND ANNUAL REPORT
of the
AMTRAK REFORM COUNCIL**

JM-ARC, Room 7105
400 Seventh Street, SW

Washington, DC 20590

Phone: (202) 366-0591
Fax: (202) 493-2061

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The ARC is an independent federal commission established under the Amtrak Reform and Accountability Act of 1997 (P. L. 105-134)

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THE COUNCIL

March 20, 2001

GILBERT E. CARMICHAEL
CHAIRMAN

The Honorable Richard B. Cheney
President of the U.S. Senate
United States Senate
Washington, D.C. 20510

The Honorable J. Dennis Hastert
Speaker of the U.S. House of
Representatives
U.S. House of Representatives
Washington, D.C. 20515

PAUL M. WEYRICH
VICE CHAIRMAN

BRUCE CHAPMAN

NANCY RUTLEDGE CONNERY

Dear Mr. President:

JAMES E. COSTON

Dear Mr. Speaker:

WENDELL COX

CHRISTOPHER K. GLEASON

S. LEE KLING

HON. NORMAN Y. MINETA

CHARLES MONEYPENNY

HON. JOHN O. NORQUIST

EXECUTIVE DIRECTOR

THOMAS A. TILL

This letter transmits to the Congress the Second Annual Report of the Amtrak Reform Council. A year ago, in its first report, the Council provided a preliminary assessment of Amtrak, its nature, its finances, and its operations. At that time, the Council indicated that it had concerns about Amtrak's performance and its structure. In this year's report, the Council concludes that Amtrak's institutional structure has major flaws that make the task facing Amtrak's Board and management exceedingly difficult.

To help Amtrak reach self-sufficiency, basic changes should be made. Amtrak's commercial functions should be extracted from its governmental functions. Amtrak's core business – a national system of rail passenger, mail, and express services – should be disentangled from major infrastructure cost burdens. It is also essential to provide effective government program administration, policy development, and program oversight, coupled with adequate, predictable funding, for the national passenger rail program. Major reforms, based on this new recommended structure, are needed.

At the same time, the Council sees the prospect of a substantial increase in the demand for intercity rail passenger services. Road and air congestion have spurred transportation departments in at least 14 states to begin investing in rail to provide additional passenger transportation capacity in short- to medium-length intercity corridors. Most of these opportunities fall within the high-speed rail corridors that have been designated in 33 states and the District of Columbia by the US Department of Transportation under provisions of ISTEA and TEA-21. The process of building a bigger and better passenger rail system has gotten underway with the implementation of service improvements in California and the Pacific Northwest. More are planned for Illinois, the Midwest, the Southeast, and Florida. Others will follow.

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To capitalize on this opportunity, the Council believes that improvements in the organizational structure for passenger rail activities are urgently needed. This report offers the analysis behind the Council's conclusions. It also offers options for organizing and funding train operations, infrastructure, and the governmental responsibilities that the report describes. The Council believes that the report's conclusions, together with the implementation options that it lays out, provide a basis for a much-needed debate. This debate should be particularly important as this 107th Congress moves in the next 18 months toward reauthorization of Amtrak by the end of FY2002, as called for in the Amtrak Reform and Accountability Act of 1997.

The diligent work of the 11-member Council and its staff has produced a strong consensus surrounding all major features of this report. Eight Council members – Ms. Connery and Messrs. Carmichael, Chapman, Coston, Gleason, Kling, Norquist, and Weyrich – have voted to approve the report without qualification. Two of these eight members, Ms. Connery and Mr. Coston, have submitted letters of concurrence, which are appended. A ninth member, Mr. Cox, approves the report's determinations regarding Amtrak's institutional flaws and the recommended business model, but reserves his approval with regard to the need for stable and adequate funding until determinations have been reached on three important issues set forth in his appended letter. Mr. Charles Money Penny, the representative of Rail Labor on the Council, has voted to disapprove the report for the reasons stated in an appended letter. The eleventh and newest member of the Council, Secretary of Transportation Norman Y. Mineta, has abstained on behalf of the Administration, with reasons provided in an appended letter from the Acting Deputy Administrator of the Federal Railroad Administration. All letters from Council Members are found in Appendix I.

We are pleased to forward this report on behalf of the Council and its staff. Please do not hesitate to contact the Council staff, any member of the Council, or myself, should you need additional information or wish to discuss issues regarding rail passenger service.

FOR THE AMTRAK REFORM COUNCIL

Very truly yours,



Gilbert E. Carmichael
Chairman

Enclosure: Second Annual Report of the Amtrak Reform Council

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EXECUTIVE SUMMARY

The Amtrak Reform Council has concluded that Amtrak's structure should be fundamentally changed. Amtrak is behind in achieving the revenue and expense goals of its own Strategic Business Plan and, according to recent Congressional testimony by the U.S. General Accounting Office (GAO) and the Department of Transportation's Inspector General (DOT IG), will have difficulty achieving operating self-sufficiency. At the same time, there is a resurgence of interest in passenger rail service, particularly higher-speed service to connect inter-urban corridors. Building high-speed corridors, however, will entail a large new federal commitment to rail passenger service and require a predictable long-term source of funding. With re-authorization of Amtrak due in FY2002, now is the time to begin deliberations about these important issues. The Council hopes its report will stimulate debate, culminating in legislation that will establish a sound institutional and financial structure for the long-term improvement of passenger rail service in America.

WHERE AMTRAK STANDS TODAY

Amtrak achieved several important milestones in FY2000: increases in ridership and revenues, the initiation of Acela Express service, and the initiation of a service guarantee program. Nevertheless, Amtrak's performance was \$100 million short of its Strategic Business Plan budget result due to delays in the introduction of Acela service, higher than expected operating expenses and, to a lesser degree, the slow growth of Mail and Express. Amtrak was also extremely short on cash last year. To improve its cash position by \$25 million and to fund \$99 million of equipment capital improvements, Amtrak sold and leased back in four transactions a total of \$915 million of passenger equipment. Such transactions, coupled with new equipment and high-speed rail facilities acquisitions, have tripled Amtrak's debt in the past five years to about \$3 billion.

FY2000 was the final year in which Amtrak had at its disposal a full year's worth of capital funds provided under the Taxpayer Relief Act of 1997. As of September 30, 2000, Amtrak had committed \$1.9 billion of the \$2.2 billion in TRA funds made available to it. As required by the Amtrak Reform and Accountability Act of 1997 (the Reform Act), the Council's report also addresses Amtrak's efforts to improve both productivity and the performance of its national system of routes and services.

For FY2001, Amtrak's Plan calls for a 18.3 percent increase from the FY2000 results in revenues and \$200 million of bottom line improvements that Amtrak has never before achieved.

GROWING GRASSROOTS SUPPORT FOR PASSENGER RAIL SERVICE

The focus of passenger rail service has changed dramatically in the past ten years. This changing focus is due largely to a groundswell of support at the state and local level for substantial increases in high-speed rail service, characterized by operating speeds of 90 mph or more, in heavily-traveled corridors of about 100 to 500 miles in length. Through ISTEA and TEA-21, eleven corridors in 33 states and the District of Columbia have been designated as candidates for

the development of high-speed ground transportation to complement the highway and aviation systems that serve the particular regions. Preliminary studies suggest that the new corridors could quadruple Amtrak's non-Northeast Corridor ridership (from 10 million to 40 million passengers) by the year 2020.

Ridership on the Northeast Corridor is also expected to rise significantly in the coming years as Amtrak fully implements its Acela service regime. Amtrak projects that ridership (for Acela Express and Acela Regional service, combined with Metroliner and Northeast Direct service) will increase by about two million passengers in 2002 compared to 1999, primarily due to increased ridership between Boston and New York City.

CAPITAL FUNDING NEEDS FOR EXISTING AND EXPANDED SERVICE

Developing new high-speed rail corridors and maintaining the NEC will require significant federal capital investment in partnership with the states and the freight railroads. In its long-term capital needs report released in February 2001, Amtrak estimates that \$23.6 billion¹ in combined federal and state funding is needed over the next 20 years to maintain the current passenger rail network. Completing the inventory of all projects that have been advanced for new service, including the emerging high-speed corridors and additional service on long-distance routes, is estimated to cost an additional \$73.6 billion. The total cost to maintain and expand the passenger rail network comes to some \$97 billion.

Amtrak has not suggested that the entire amount should be spent, primarily because many of the growth projects are only at a conceptual stage and may never be built. Nor does Amtrak prejudge the institutional structure and funding sources that should be used to implement such a large program. Amtrak's current request is for \$30 billion in federal capital funding over the next 20 years, or \$1.5 billion annually, of which \$16 billion would be used to support current service with the remaining \$14 billion to be used for "seed money" for high-speed rail development.

AMTRAK'S INSTITUTIONAL FLAWS AND RECOMMENDATIONS FOR CHANGE

The Council has concluded that Amtrak's poor performance is due to fundamental institutional flaws, and not to Amtrak's Board of Directors, managers, or employees. The Council has identified four major institutional flaws inherent in the Rail Passenger Service Act of 1970, which created Amtrak. If passenger service is to improve, these flaws need to be addressed:

- Amtrak operates in many important respects like a government agency dependent on annual appropriations, and, thus, political considerations heavily influence most major management decisions. At the same time, Amtrak is charged with the decidedly non-governmental function of competing profitably as a commercial business. **The Council believes that the remedy to this problem is to separate Amtrak's commercial functions from its government functions.**

¹ All amounts are in current 2000 dollars.

- Ownership and maintenance of the Northeast Corridor divert Amtrak's attention and resources from its primary mission as a service provider. The Northeast Corridor will require \$20 billion in capital funding over the next 20 years for a wide range of capital improvements and to put the southern portion of the Corridor in a state of good repair. The Council believes Amtrak's management should be spending its time on improving passenger operations and customer satisfaction rather than on infrastructure maintenance. Ownership and control of the NEC rail infrastructure is not essential to Amtrak's operations. Of the 1,200 trains operating daily on the corridor, only about 100 are Amtrak trains. **The Council believes that a reasonable remedy to this problem is to appropriately separate Amtrak's train operations from ownership and maintenance of the Northeast Corridor and other infrastructure.**
- Effective government program administration, policy development, and oversight for the national rail passenger system does not exist today. Today, public policy is made in many instances by Amtrak, rather than by an entity whose job it is to protect the public interest. These governmental functions for rail passenger service are fragmented among Amtrak itself, the Federal Railroad Administration (FRA), the DOT IG, OMB, and the GAO. This need for better program administration, policy development, and oversight is even stronger if the states are to compete for billions of dollars to develop high-speed corridors. **The Council's view is that Amtrak's governmental functions, together with those Amtrak program responsibilities of FRA, the DOT IG, and GAO, should be consolidated in a single government entity that would administer and oversee federal funding programs for rail passenger service, be responsible for public policy development, and – in the process – insulate train operations and infrastructure maintenance from direct political pressures.**
- There is presently no secure source of capital funding for passenger rail service. **The Council believes Congress should provide a stable and adequate source of federal funding for the capital needs of the NEC and other rail-passenger infrastructure.**

NEW BUSINESS MODELS FOR AMTRAK

To solve Amtrak's basic problems, a new set of models is needed for train operations, infrastructure management, and government program administration, policy development, and oversight.

Train Operations. The vision for train operations is a customer-focused commercial enterprise shielded from political interference. The organization would have the ability to modify routes, schedules, and prices to improve financial performance, a culture that puts the customer first, the tools to effectively manage the business, and appropriate compensation incentives. The operating company would also be held to new performance standards set by a government oversight entity for measures such as operating income, operating ratio, ridership, and on-time performance. The operating entity would not be expected to operate unprofitable service unless compensated for losses under a service contract with the federal government or the affected states.

Infrastructure Management. The model for infrastructure management is a government-owned corporation responsible for ownership and maintenance of the Northeast Corridor and other Amtrak-owned infrastructure. It would be authorized to buy or sell assets and could, if desirable, transfer all non-NEC Amtrak properties to state and local governments. Funding would come from federal and state capital subsidies, a subsidy for excess mandatory Railroad Retirement taxes, trackage fees on intercity, commuter, and freight carriers for use of the Northeast Corridor, and real estate development revenues from such things as utility and communications easements. The infrastructure corporation would also coordinate operations on the NEC by the various users.

The Role of Government. A primary role of government will continue to be financial support for rail passenger service in the form of capital funding for infrastructure. Beyond this, effective government program administration is needed to develop the emerging high-speed corridors, develop public policy on passenger service issues, and to insulate train operations and the infrastructure company from political interference. The Council is not recommending the creation of a new agency or a new layer of bureaucracy, but rather the consolidation of existing program administration and policy development authority currently exercised variously by Amtrak, the DOT IG, the GAO, and the FRA.

STRUCTURAL OPTIONS

Various approaches are possible for restructuring Amtrak to separate its infrastructure responsibilities, train operations, and government functions. The Council has developed for discussion five such options representing points on a continuum of possible structures, not an exclusive list. These options range from splitting Amtrak into two or three companies, to involving the states more heavily in rail passenger service, to partial or complete privatization of Amtrak. The Council believes that as the debate begins about Amtrak's re-authorization, the entire range of options should be on the table.

In considering various approaches, however, the Council has rejected full privatization along the lines of the British model. The British system is experiencing problems and, in the Council's view, is a "work in progress." The Council also believes that it would first be necessary to implement substantial reforms, including major federally-funded capital improvements and corporate financial reorganizations, if the privatization of either Amtrak's train operations or of Amtrak-owned NEC infrastructure were ever to be realistically considered as a potential option.

In summary form, the five structural options, all of which are predicated on improved funding mechanisms for passenger rail, have these basic characteristics:

1. **Placing Amtrak-owned Northeast Corridor infrastructure into a separate entity, possibly a government corporation.** This option's strength is its simplicity in removing the management and financial burden of infrastructure from the passenger operating company. Its weakness is that it does not consolidate the vital governmental functions (i.e., program administration, policy development, and program oversight).
2. **Separating Amtrak's train operations from its infrastructure and making each a subsidiary corporation of a wholly-government-owned National Railroad Passenger Corporation, which would exercise the government functions.** This option would provide

a coherent structure for passenger rail comprising the governmental functions, which would oversee as subsidiary corporations separate passenger operations and infrastructure companies. It might be regarded as overly complex.

3. **Involving the states much more heavily in the planning, development, operation, and funding of the national rail passenger system, relying for infrastructure improvements on federal matching funding administered by a single federal entity.** Amtrak-owned Northeast Corridor infrastructure would be transferred to the NEC states (under a regional interstate compact). The states would also be responsible for funding passenger operations over the NEC and developing high-speed corridors under service contracts with a selected train operator (including Amtrak). The involvement of the states, which are the primary engines driving the need to increase the capacity of the system, is this option's strongest point. At the same time, while interest among the states is growing, there is substantial disparity between the progress of the states leading passenger rail program expansion and those just beginning to do so.
4. **Partial privatization, in which Amtrak's national train operations would be privatized, with Amtrak-owned NEC infrastructure placed in a separate government entity.** Privatization would help improve the market orientation and efficiency of the passenger rail services. Moving to a private model without major investment up front to restructure the finances of the prospectively private operating company, however, would likely be unworkable.
5. **Full privatization, in which both Amtrak's train operations and its NEC infrastructure would be separately privatized.** A small government entity would be retained to hold the government's franchise for passenger service over the tracks of the freight railroads and administer any residual funding to support services deemed by Congress to be essential and for longer-term infrastructure financing. Adding the challenge of privatizing the NEC infrastructure to the issue of a major financial restructuring of the passenger operating company would likely be financially and programmatically unworkable.

In the coming months, the Council will further evaluate these options and other substantial options that are proposed based on further analysis and on input from federal, state and local officials, the public, the freight railroads, and Amtrak.

FINANCING OPTIONS

In the context of the Council's proposed business models for rail passenger service, it becomes possible to look at a new structure for financing the capital for infrastructure and equipment needed to support passenger services. Since Amtrak's creation, its ability to provide high quality transportation services has been affected by funding that has been unreliable and, some say, inadequate. To create a new network of high-speed corridors and maintain the current Amtrak network will require, over the next 20 to 25 years, an estimated \$80 to \$100 billion in capital, \$30 billion of which Amtrak indicates as the federal share.

The Council feels strongly that funding of this magnitude should not be under the control of Amtrak as it exists today. States developing high-speed rail corridors will be competing for

funds with each other and, if its structure is not changed, with Amtrak. There should be a professional, unbiased, and equitable process for evaluating projects and allocating funds. In addition, in light of the time delays and cost overruns associated with the recent NEC electrification project, there are questions as to Amtrak's ability to manage and transparently account for large capital projects on time and within budget. Effective government oversight is needed to gain the confidence of federal and state governments and the freight railroads.

In addition to identifying a number of possibilities for important types of supplemental funding (for example, highway-rail grade crossing safety), the Council offers for consideration three options as potential principal means for financing capital for infrastructure and equipment:

- Federal appropriations, particularly for demonstration projects and public health and safety problems such as remedial safety work that needs to be done on the tunnels leading into Penn Station, New York.
- A dedicated rail passenger transportation fund, perhaps funded by adding a new penny to the existing federal excise tax on gasoline and requiring a state match of an additional penny per gallon. Since each penny of the federal excise tax on automobile gasoline generates \$1.6 billion, a penny at both the state and federal levels could raise about \$3.2 billion annually.
- High-Speed Rail Investment Act bonds, which would provide a total of \$12 billion in financing over 10 years, principally for the Northeast Corridor and other high-speed corridors. The Council believes that if bonds are to be a possible source of funding for high-speed rail projects, state and regional rail transportation authorities, in addition to Amtrak, should be able to issue the bonds. Moreover, states and regional authorities should have primary responsibility for choosing projects outside the Northeast Corridor, and each project should be evaluated and approved by an impartial government body on its own merits and free from any requirement that Amtrak be the sole provider of the services benefiting from the funding. The bonds should only be used to finance equipment if private sector financing is not available. All bond funds (including state 20 percent matching funds) should be under the control of an independent trustee until paid out for capital projects or to redeem the bonds. Bond proceeds should not be available to Amtrak (or any other operating company) for short term borrowing, nor should they be otherwise co-mingled with any operating company's internal finances.

NEXT STEPS

The Council will hold formal hearings on the issues raised in this report to receive comments and recommendations from federal, state and local officials, freight railroads, the public and other interested parties. Subject to available funding, the Council will also initiate further studies on options for restructuring Amtrak and related issues.