TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2008

WEDNESDAY, FEBRUARY 28, 2007

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:33 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray, Lautenberg, Bond, Specter, and Allard.

AMTRAK

STATEMENT OF ALEXANDER KUMMANT, PRESIDENT AND CHIEF EXECUTIVE OFFICER

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. This subcommittee will come to order. This morning, the subcommittee is going to hear testimony on the Nation's intercity passenger railroad Amtrak. This past year, like the year before it, Amtrak posted a new record ridership, 24.3 million passengers. The reasons behind Amtrak's recent success go right to the heart of the debate over whether we need a national intercity railroad.

People boarded Amtrak in record numbers because gas prices were too high, because highways were too congested, because runways were too congested, because weather eliminated other travel options, and because airlines abandoned air service to rural communities. Amtrak certainly isn't the perfect solution to all these problems, but it certainly is part of the solution.

Many of my congressional colleagues have sited Amtrak's service problems and subsidy needs and have called for dramatic reforms. I agree that there are opportunities for reform at Amtrak, but we would all do well to remember some things about Amtrak's history before we launch into wholesale reforms with unknown outcomes.

Amtrak was created several years ago by combining the money-losing passenger operations of several different railroads. The Government didn't have the luxury of designing a national passenger railroad from scratch. To the contrary, with several railroads heading rapidly into bankruptcy, Amtrak was created to take over these financial liabilities and link together all these money-losing passenger lines. Today, Amtrak as we know it is still a hodgepodge. Amtrak owns its track in one region of the country, but not in other regions. Some States, like mine, pay for both the operating costs and some capital costs of their trains. Some States pay just a portion of the operating costs, and still other States pay absolutely nothing for their Amtrak service. Some Amtrak services run with equipment that is just a few years old. Some services run with equipment that is several decades old. Even today some of Amtrak's equipment dates back from before the railroad was founded. Some of it even dates back to before World War II.

When you are dealing with a hodgepodge system, you need to be very suspicious of reforms where one size is expected to fit all. I believe that reforms are needed at Amtrak, but I also believe these reforms should not just be about cutting employees, cutting wages, and cutting communities off the national rail map.

When it comes to cutting employees, Amtrak has already dropped its employee head count by almost 6,250. That is a cut of more than 25 percent in the last 6 years. When it comes to wages, most Amtrak employees haven't seen a real wage increase in almost 8 years. Last year, in the name of reform, Amtrak's Board of Directors proposed to send some Amtrak jobs overseas. That's right, a company that receives over $1 billion in taxpayer money each year would be using those tax dollars to send jobs overseas. Senator Byrd and I included an amendment on last year's appropriations bill to prohibit that. As a result, the Amtrak board abandoned its plan. But my point here is not everything that is proposed in the name of reform makes sense for the American people, or the taxpayers, or for Amtrak's passengers.

I can think of a number of reforms at Amtrak that do make sense and are long overdue. They include reforming the way the Nation's freight railroads dispatch Amtrak trains so that the passengers have a fighting chance to arrive on time. Reforming the way Amtrak compensates its employees so they can attract and retain the skilled personnel they need. Reforming the way the Bush administration budgets for Amtrak's needs so that the administration and Congress can focus together on truly modernizing the railroad rather than battling annually over whether the railroad will be allowed to limp into next year.

When you look at the recent record, Amtrak has been able to increase riders and revenue, not just on the Northeast Corridor, but on its State-supported and long-distance trains as well. That fact is all the more impressive when you look at the abysmal on-time performance on some of these trains outside the Northeast Corridor. Outside the corridor, Amtrak travels over track that is owned, maintained, and dispatched by freight railroads. But as a matter of Federal law, those freight railroads are required to give Amtrak trains preference over freight traffic when dispatching traffic over their rails. When you look at the on-time performance of many of these Amtrak trains you have to question whether the law is being ignored.

There is no question we need our freight railroads to move cargo. Freight mobility is an essential part of our economy, especially in an agricultural and trade State like mine. It is simply not realistic to expect our freight railroads to put every coal and container train on a siding so passenger trains can breeze through. But right now, more than half of Amtrak's long-distance trains arrive late—many of them extremely late. When you review the data as to why these trains are late, there's one factor that outweighs all the others: interference with freight trains.

More than 76 percent of the delay time that these trains endure is associated with problems at the host freight railroad. It is either interference with freight traffic, slow orders due to deferred maintenance, signal delays, or other problems. When you look at some of the Amtrak trains that are supported by State subsidies, the record is not much better.

Let me just talk about two examples of States that get a lot of attention by this subcommittee, Washington State and Missouri.

My home State does not only finance the operating losses of the Cascade Trains, it has even purchased some of the railcars for that service. But last year these trains still arrived late almost half the time. In Missouri, the State puts up millions of dollars to operate twice daily trains between Kansas City and Saint Louis, but last year those trains were allowed to arrive on time less than one-third of the time. The on-time performance of these trains in December was no better. It is a deplorable record. Given that record, it is amazing, indeed, that Amtrak can sell any tickets on this train. Yet here too, ridership has increased because people want to use the service.

When you look at the Bush administration's budget for Amtrak and the separate budget request submitted by Amtrak's Board of Directors, there is one notable area where they are in agreement. Both budgets want this subcommittee to set aside $100 million in matching funds, for the States to launch new passenger corridors. When both Amtrak and the Bush administration agree on a budget proposal, you have to take notice.

But given the problem with the on-time performance of these State-supported trains, I am left here asking, "What is the point in providing additional funds for new State-supported rail services if those trains are just going to suffer the same congestion and dispatching problems that befall Amtrak's current trains?" If we're going to put Federal tax dollars into capital improvements over privately-owned freight track, shouldn't we be focusing those on improving the current services, before we start paying for new services? Why should States like mine—States that already make substantial cash contributions for Amtrak service—have to put up even more State dollars just so that their existing trains don't arrive consistently late?

That was his bell for being late.

So, one Amtrak reform this subcommittee must look at, is how we can better ensure that Amtrak trains have a fighting chance of arriving on time. No one should expect Amtrak to dramatically improve their ridership and financial performance of the Northeast Corridor when it is more likely than not that those trains won't arrive on time.

Another Amtrak reform we should look at is seeing to it that Amtrak has the resources that it needs to recruit and retain the employees they need. Amtrak and its labor unions have not been able to reach agreements on a new contract for 7 years. It's time for that impasse to end. Many crafts have not experienced a meaningful pay increase in all of that time. The result has not just depressed employee morale. Amtrak is now facing serious shortages in a number of skill areas, because trained and experienced employees are taking better paying jobs with commuter railroads, freight railroads, or outside the railroad industry. Amtrak will not be able to improve its efficiency, safety, and service quality if it's lowest paying—if it is the lowest-paying competitor in the industry.

Finally, it is my hope that we can start having a meaningful, fact-based dialogue with the Bush administration about Amtrak's real financial needs. President Bush's Federal Railroad Administrator will testify to us today that if we cut overall funding for Amtrak by almost 40 percent, Amtrak can stay out of bankruptcy next year. I'm not sure that any other witness here is going to agree with that observation.

The DOT Inspector General has performed a valuable service for this subcommittee, by being an impartial monitor of Amtrak's financial condition. Today's witness from the Inspector General's office will testify that what Amtrak really needs is to be reauthorized. I totally agree that Amtrak desperately needs comprehensive legislation that addresses each of the challenges I have cited and many others. I sincerely hope this legislation is signed into law this year. This subcommittee's practice of providing incremental reforms through appropriations legislation each year is not the ideal way to do business. But absent the enactment of a comprehensive Amtrak reform bill, we will continue to do what needs to be done to address these areas and keep Amtrak alive for the steadily growing number of citizens that demand the service.

Senator MURRAY. Senator Bond.

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you, Madame Chair. And I join with you in welcoming our witnesses today, and look forward to hearing the differing views on each of you on the current needs of Amtrak and how best to meet the growing challenges that face intercity passenger rail. I have many concerns about Amtrak and look forward to an opportunity to discuss these.

I might say, for the record, that I was for Amtrak when it was first cool. About a third of a century ago as Governor of Missouri, I recommended and signed into law the appropriations to provide roughly $1 million a day for Amtrak. And I enjoyed the service, but I have a lot of questions about the economic feasibility.

Now, the good news is that my Representatives and Senators and Governor of Missouri have been putting about, I believe, $6 million a year into subsidizing it. So, they see the need. But the question is, "How do we make this viable for the long term?" Our highways continue to become more and more congested, and our airports are full of passengers—snowstorms, they stay there in the airports and I've done that—and people look for alternative modes of transport.

On the Northeast Corridor, I would love to be able to hop on the train to head to New York for the weekend versus trying to fight the traffic. But as I understand that while the highway traffic has increased markedly on 95, the ridership on Amtrak has been relatively stable. And obviously one of the reasons is because of the capacity constraints. So, I think that needs to be addressed for the Northeast Corridor.

But again, we need also to look at the economics of east coast to west coast service, and how that's going to be paid for. We are caught in a spiral where the costs are increasing significantly, while overall ridership on Amtrak has gone up. In other areas it does not—it is not coming close to paying for the service.

I, too, look forward to comprehensive legislation, but the measures that I've seen require significant infusions of additional Federal money. Given the budget constraints under which this committee operates, I don't see that money being available. So I look in the comprehensive legislation for what is proposed to pay for the additional costs that this legislation would incur.

Now, to talk about the specific budget, while I have questions, I do believe that the budget provided by the administration did not provide the funding needed to meet Amtrak's anticipated expenses for fiscal year 2008. As we know, for this coming fiscal year, the administration recommended $900 million for Amtrak, $800 million directly, and $100 million dedicated to issuing capital matching grants to States for intercity passenger rail projects.

Of the $800 million provided directly to Amtrak, $300 million is required for Amtrak's new management team to make the necessary decisions to act on its mandate and reshape the company. I expect Mr. Kummant, with Amtrak, to explain where we are today, where we're going, and how much it's going to cost.

Amtrak must be able to account for its expenditures with long-term plans for individual capital improvement similar to State TIPs or Transportation Improvement Plans. If the detailed Transportation Improvement Plans were provided by Amtrak, we'd be better able to understand what unmet needs are out there. And we could then decide whether or not we agree with providing additional funding for passenger rail service.

Currently, labor costs require 82 percent of the revenue generated for Amtrak, and Amtrak estimates that healthcare costs will total $238 million for this 2007 calendar year, approximately 22 percent of the total payroll. No business is sustainable at this level of operations, regardless of the amount of money put in to the efficiency incentive grant program.

Amtrak estimates that the savings they could achieve with labor changes is between $82 million and $100 million annually. But, unless all options are on the table to achieve savings—as highlighted by Amtrak's board—we're going to be unable to preserve Amtrak and passenger rail service for the long term. As you know, Amtrak spends $2 for every $1 of revenue collected on food and beverage service. If you factor out the cost for food and beverage, every dollar of revenue equals the labor cost to deliver it. We have yet to see results of how Amtrak is dealing with this.

I'm concerned that the budget submission we received for Amtrak does not include any funds for debt service payments. These payments are necessary, and will be paid whether they are a line item for debt service added by this subcommittee, or from the $500 million provided for capital costs. We can not ignore the fact that debt is there, and that there is an immediate and legal obligation to repay it.

To be blunt, we need a dynamic plan and commitment that will transform Amtrak into a viable transportation option. We can not afford to tread water year after year where all funding basically supports the status quo, while labor costs and infrastructure needs continue to explode faster than the ridership.

Thank you, Madame Chair.

Senator MURRAY. Thank you Senator Bond.

Senator Lautenberg, you have an opening statement?

STATEMENT OF SENATOR FRANK R. LAUTENBERG

Senator LAUTENBERG. Thanks very much, Madame Chairman, for holding this hearing. I had the opportunity yesterday in the committee—subcommittee in commerce—we had a chance to hear from Mr. Kummant and Mr. Boardman, and we're pleased to have a chance to talk to them as well as the other witnesses today.

In New Jersey we have enormous traffic problems, but we're not unique. Traffic problems across—all we have to do is look into Washington, DC and see how long it takes to cover routes that used to be 10 minute rides, like to my house—or 12 minutes—are now a half an hour, if you're lucky. And that's the way it is throughout the country. It's very hard to get into any area that has any development associated with it, where the traffic doesn't overwhelm the efficiency.

So, in New Jersey, for example, the average New Jerseyan spends 300 hours commuting by car each year, and 15 percent of that time is wasted in traffic. And, it's not simply the late arrivals. When you look at the problem with importing oil that's required to maintain those engines as they idle along, and the pollution that's created. Last year was the worst year for flight delays since 2000. One in four planes was late, and we expect nearly 5,000 new light jets to go into service over the next 10 years. The sky, we learn now, is finite, it just, you don't have room to put everything up there that you'd like to.

With this in mind, Amtrak requested what it needed to keep trains running safely and reliably. And then President Bush went ahead and requested half as much. And yesterday, when I chaired that subcommittee, we discussed the bipartisan bill being done by Senator Lott and myself, to fully fund Amtrak and expand its service into more cities, because it's critical in the traffic movement that is required in this country.

Last year the Senate approved our plan by a vote of 93 to 6, because America's travelers need another choice. Now, I look forward to getting the same kind of response and support this year. In the meantime, we can not continue to let Amtrak deteriorate, which is what the President's budget would do.

Now, when we look at what is spent in other countries to achieve first-class rail service, it dwarfs everything we do. Germany spent more in a year than we spend in a half a dozen years to get their service going. It's excellent. And you've got to pay for what you want. And we can not do it on skinny budgets that—many of which were designed to bankrupt Amtrak. And so I'm working with the Budget Committee to ensure that Amtrak gets the Federal resources it needs to provide services and options to our citizens.

And in my new assignment, in this committee, I'm happy to work with the Chair and the ranking member to ensure that Amtrak is a priority.

I heard, Madame Chairman, as you were making your statement, some of the equipment was as old as World War II. I think some of things that, during World War II, still have the viability as we go along, and I'm of that vintage. Thank you very much.

Senator MURRAY. Thank you, Senator Lautenberg.

Senator Allard.

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. Madame Chairman, thank you for holding this hearing. I followed Amtrak carefully, on the authorizing side for a number of years, so I appreciate the opportunity to be more involved on the budget side.

While passenger rail has a role in efficient modern transportation infrastructure, I'm concerned about how Amtrak has performed in providing that service. As my colleagues may know, I'm a strong proponent of results and outcomes. Amtrak and other Government-funded entities should not be judged based upon how much they receive in Federal funding, but by the results that can be demonstrated by those taxpayer dollars.

In the case of Amtrak, I'm afraid those results are not very impressive. In the administration's PART Assessment—that's their tool for evaluating the effectiveness of programs—Amtrak was rated as ineffective. I'm afraid that Amtrak's history before this Congress is plagued with unfulfilled promises over the years, stories of inefficiencies and a waste of taxpayer dollars. In fact, it was the only program in the entire Department of Transportation to receive an ineffective rating.

I want to be clear on what this really means. From the administration's description, ineffective means "programs receiving this rating are not using taxpayer dollars effectively." That seems pretty clear to me, and I'm pleased to see that the budget contains a proposal to incentivize more State participation.

Nearly every other area of transportation, including highways, mass transit, and aviation, is a partnership between the Federal and State or local governments. Passenger rail should follow the same model. It should not be considered the sole jurisdiction or responsibility of the Federal Government.

States and localities are also in a position to better understand the transportation needs of their citizens. Not only does the budget ask them to prioritize their needs, it does so in a meaningful way by asking them to share joint funding responsibilities. This will help ensure that the highest needs are met, rather than producing a wish list of wants.

I am concerned however, that this change may not be enough. I'm unconvinced that Amtrak has completely turned the corner and is solidly on the path of financial soundness. I look forward to the opportunity to hear from the witnesses about this budget request and how it fits into Amtrak's future. Their testimony will be helpful as we move forward with the appropriation process.

Thank you Madame Chairman.

Senator MURRAY. Thank you, Senator Allard.

We have five witnesses before our committee today. Mr. Kummant, President and CEO of Amtrak, Mr. Boardman, Administrator of the Federal Railroad Administration, Mr. Tornquist who's the Assistant Inspector General for Competition and Economic Analysis, Mr. Wytkind, President of Transportation Trades Department, and Mr. Serlin, President of Railroad Infrastructure Management.

You each will be allocated 5 minutes and I ask you to keep your remarks within those 5 minutes, so we can get to committee member questions.

And Mr. Kummant, we will begin with you.

STATEMENT OF ALEXANDER KUMMANT

Mr. KUMMANT. Madame Chairwoman, and members of the subcommittee, thank you for the opportunity to testify before you today.

While my testimony will primarily focus on the fiscal year 2008 budget request, I'd like to take a few minutes to update you on how the company is doing. With that, I'll reiterate a number of the points you made in the opening comment as well.

AMTRAK STATUS UPDATE

As you know, we finished the fiscal year 2006 by establishing new ridership and revenue records. Through January, we're continuing to outpace the previous with ridership and revenue ahead by 4 percent and 10 percent, respectively. The ridership increases are reflected across all services, and outside the Northeast Corridor ridership is up about 5 percent nationwide, though some corridors have seen double-digit growth.

Overall, the big driver right now is, of course, the Northeast Corridor, and particularly the Acela service, where ridership is up about 19 percent over the same period last year. This is the result of a number of improvements to the onboard experience, better reliability and much better on-time performance. We've consistently been hovering around 90 percent on-time for Acela, and that's the result of having significantly reduced the backlog of state of good repair work, leaving the Northeast Corridor in the best shape it's been in for years.

Our safety numbers—another key indicator—are also lower than last year's final numbers, and we finished this January at a 40 percent run-rate improvement over last year. Finally, we continue to pay down our debt, and have not assumed any new debt for 4 years in a row.

Within the next few months, we expect to send to Congress an update of our multi-year strategic plan, which will underscore, again, the need for a fiscal year 2008 funding request and provide a vision of where we hope the company will be within the next few years.

In summary, our vision for Amtrak is one of growth, particularly in corridor services, product excellence as we're demonstrating with Acela, and overall sound management. Looking forward, much of the success of passenger rail service will lie in the establishment of clear multi-year Federal policy, including a Federal-State matching program to fund corridor development. The other major initiative we'll have to undertake soon is procurement of new equipment as was also alluded to earlier. We have an aging fleet with little excess equipment, and as corridor service grows, it will be exhausted.

FISCAL YEAR 2008 FUNDING REQUEST

Let me turn to the fiscal year 2008 request. On February 15, we submitted to Congress our Grant and Legislative Request, which I would ask be enclosed for the record. This document contains both the specific request and details to explain the need for this funding. In short, Amtrak is requesting $1.53 billion, which is less than last year's request of $1.598 billion and an increase over the fiscal year 2007 enacted amount of $1.3 billion. The budget request breaks down as follows: for operating support, $485 million; capital, $760 million; and mandatory debt service, $285 million.

We've also suggested that Congress fund $100 million for a State corridor match program and an additional $50 million for ADA Station accessibility needs. It is worth noting that the administration's fiscal year 2008 budget request for Amtrak also recommended $100 million for State corridor match program, as was referenced earlier.

With regard to our operating request, the $485 million continues a downward slope of operating needs over the last 10 years. For comparison sake, in fiscal year 1996, operating support represented 23 percent of our total budget request. In fiscal year 2008, the amount now represents about 19 percent.

This reduced operating need is accomplished in the face of rising costs, particularly in the areas of health and benefits, insurance, and fuel. Keep in mind, the absence of new labor agreements has certainly helped to keep the operating costs relatively constant.

For our capital needs, Amtrak has requested $760 million, which would be used to continue state of good repair initiatives, including modernization of our fleet. As I said earlier, Amtrak has completed a substantial investment of the Northeast Corridor infrastructure, which we own and maintain. The on-time performance numbers for all users of the corridor reflect the benefit of these investments. For instance, on-time performance for New Jersey Transit, a major user of the Northeast Corridor, was 94 percent in fiscal year 2006.

Finally, we continue to invest in our fleet, and expect by the end of fiscal year 2009 to bring the entire fleet to state of good repair. During the short time that I've been with Amtrak, I have been struck by the enthusiasm and support that exists for passenger rail services, particularly at the State and local levels. And parenthetically, too, I must say the energy and drive of our frontline folks, as you alluded to—in the face of a long time without labor settlements—is also impressive. I believe that we're on the verge of significant growth and development of our Nation's rail infrastructure, and the steps we're taking today are essential to meet the need for the eventual expansion of passenger rail service.

PREPARED STATEMENT

Thank you again for the opportunity to testify today, and I look forward to working with you—with each of you in the coming months. I'd be happy to answer any question. Thank you.

[The statement follows:]

PREPARED STATEMENT OF ALEXANDER KUMMANT

Madame Chairwoman and members of the subcommittee, thank you for the opportunity to testify before the subcommittee today. While my testimony will primarily focus on the fiscal year 2008 budget request, I would like to take a few minutes to update you on how the company is doing.

As you know, we finished fiscal year 2006 by establishing new ridership and revenue records. Through January we are continuing to outpace the previous year with ridership and revenue ahead by 4 percent and 10 percent respectively. The ridership increases are reflected across all services, and outside the Northeast, corridor ridership is up about 5 percent nationwide though some corridors have seen double digit growth. Overall, the big driver right now is the Northeast Corridor (NEC) and particularly the Acela service where ridership is up about 19 percent over the same period last year. This is the result of a number of improvements both to the onboard experience, better reliability and much better on time performance (OTP). We have been consistently hovering around 90 percent OTP for Acela, and that is the result of having significantly reduced the backlog of state-of-good repair work, leaving the NEC in the best shape it has been for years. Our safety numbers, another key indicator, are also lower than last year's final numbers and we finished this January at a 40 percent run rate improvement over last year. Finally, we continue to pay down our debt and have not assumed any new debt for 4 years in a row.

Within the next few months we expect to send to Congress an update of our multi-year strategic plan which will underscore again the need for our fiscal year 2008 funding request and provide a vision of where we hope the company will be within the next few years. But, in summary, our vision for Amtrak is one of growth (particularly in corridor services), product excellence (as we are demonstrating with Acela), and sound management overall. Looking forward, much of the success of passenger rail service will lie in the establishment of clear multi-year Federal policy, including a Federal-State matching program to fund corridor development. The other major initiative we will have to undertake soon is procurement of new equipment. We have an aging fleet with little excess equipment, and as corridor service grows, it will be exhausted.

Let me turn to fiscal year 2008 request. On February 15 we submitted to Congress our fiscal year 2008 Grant and Legislative request which I would ask to be enclosed for the record. This document contains both the specific request and details to explain the need for this funding. In short, Amtrak has requested $1.53 billion which is less than last year's request of $1.598 billion, and a slight increase over the fiscal year 2007 enacted amount of $1.3 billion.

The budget request breaks down as follows:

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—Capital, $760 million; and,

—Mandatory debt service, $285 million.

We have also suggested that Congress fund $100 million for a State corridor match program and an additional $50 million for ADA station accessibility needs. It is worth noting that the administration's fiscal year 2008 budget request for Amtrak also recommended $100 million for a State corridor match program.

With regard to our operating request, the $485 million continues a downward slope of operating needs over the past 10 years. For comparison sake, in fiscal year 1996, operating support represented 23 percent of our total budget request. The fiscal year 2008 amount now represents about 19 percent. This reduced operating need is accomplished in the face of rising costs particularly in the areas of health and benefits, insurance and fuel. Keep in mind, the absence of new labor agreements has helped to keep operating costs relatively constant.

For our capital needs, Amtrak has requested $760 million which would be used to continue state of good repair initiatives including modernization of our fleet. As I said earlier, Amtrak has completed a substantial investment of the NEC infrastructure which we own and maintain. The on time performance numbers for all users of the corridor reflect the benefit of these investments to the NEC plant and structures. For instance, on time performance for New Jersey Transit, a major user of the Northeast Corridor, was 94 percent for fiscal year 2006. Finally, we continue to invest in our fleet and expect by the end of fiscal year 2009 to bring the entire fleet to a state-of-good-repair.

During the short time that I have been with Amtrak I have been struck by the enthusiasm and support that exists for passenger rail service, particularly at the State and local levels. I believe that we are on the verge of significant growth and development of our Nation's rail infrastructure and the steps we are taking today are essential to meet the need for the eventual expansion of passenger rail service. Thank you again for the opportunity to testify before the subcommittee today and

I look forward to working with each of you in the coming months. I would be happy to answer your questions.

Senator MURRAY. Thank you.
Mr. Boardman.

DEPARTMENT OF TRANSPORTATION

FEDERAL RAILROAD ADMINISTRATION

STATEMENT OF HON. JOSEPH H. BOARDMAN, ADMINISTRATOR

Mr. BOARDMAN. Chairwoman Murray, ranking member Bond, Senators Lautenberg and Allard, thank you for having me here today. I'm here on behalf of Secretary Peters and the Bush administration to talk about the budget proposal for 2008.

ADMINISTRATION FISCAL YEAR 2008 BUDGET PROPOSAL

As you've already noted, the administration requests $800 million in direct subsidies to Amtrak, and $100 million to fund a program of matching grants to the State under the capital investment projects for passenger rail services that the State believes are important.

The request includes that $500 million in direct Federal subsidies for Amtrak's capital costs, and in addition—I'll discuss in a moment—the $100 million, 50 percent Federal match program with the States. With this amount, Amtrak and its State partners could carry out a capital improvement program that, when combined with other collections from Amtrak, can address the most pressing investment needs, and given the system today, is an amount that they can reasonably manage in 2008. The administration also requests $300 million for transitional operating costs. The Government Accountability Office, the DOT IG, the Amtrak IG, and others have recently presented options for achieving the savings necessary for that number.

STATE MATCHING PROPOSAL

Most publicly-supported transportation in the United States is undertaken through a partnership between the Federal Government and the United States—and the States, excuse me. This model—which has worked well for generations for highway, transit, and airports—places the States—and in certain cases their subdivisions—in the forefront of planning and decisionmaking.

States are uniquely qualified to understand their mobility needs and connectivity requirements through state wide and metropolitan area inter-modal and multi-modal transportation planning, funded in part by the U.S. DOT. While intercity passenger rail has historically been an exception to this application of the model, in recent years some States have taken an active role in their rail transportation services. Several States have chosen to invest in intercity passenger rail provided by Amtrak as part of strategies to meet their passenger mobility needs. And over the past 10 years, ridership on intercity passenger rail routes that benefit from State support has grown by 73 percent—over that same period, ridership on Amtrak routes not supported by States, only by 7 percent.

State involvement and planning and decisionmaking for intercity passenger rail identifies where mobility needs justify public investment. An excellent example, you've already identified this morning—in Washington State, which has invested in intercity passenger rail from Portland, Oregon through Seattle, to Vancouver to make this service a viable alternative to highway travel on the congested I–5 Corridor.

Illinois provides another example where its recent investments have doubled the number of intrastate trains operated by Amtrak. Additionally, State involvement in planning and decision making helps ensure that the infrastructure such as stations and connectivity to other forms of transportation, support inter-modalism within the State. There's no better example for that than North Carolina.

State involvement in funding intercity passenger rail service also provides an added discipline on Amtrak to continually seek ways to provide the highest quality of service. An example of that can be found in Vermont where the State—when presented with prospects of higher State operating subsidies for its current service—is working with Amtrak to restructure this service, which will not only drive down operating costs, but will also increase the frequency of service.

Amtrak's own strategic reform initiative seeks to build on Amtrak's experience with the States. Amtrak is seeking to create a stronger role with the States in designing and supporting the services the States believe are important. The administration supports this aspect of Amtrak's internal reform.

In discussions with interested States, the U.S. DOT has found that the single greatest impediment to implementing this initiative is the lack of Federal-State partnership, similar to that which exists for highways and transit. For investing in the capital needs of intercity passenger rail, such a partnership is one of the five principles of intercity passenger rail reform laid out by former Secretary Mineta in 2002, and was a central element of the administration's Passenger Rail Reinvestment Reform legislative proposal.

PREPARED STATEMENT

Therefore, the administration is proposing a capital grant program that will encourage State participation in its passenger rail service. Under the new program, a State, or States, would apply to FRA for a grant up to 50 percent of the cost of investment. Priority would be given to infrastructure improvements, and projects that improve the safety, reliability, and schedule of intercity passenger trains, reduce congestion on the host freight railroads where the freight railroads commit to an enforceable on-time performance of passenger trains of 80 percent or greater. Additionally, the specific project would have to be on the State Transportation Improvement Program at the time of the application.

Thank you for the opportunity to speak.

[The statement follows:]

PREPARED STATEMENT OF HON. JOSEPH H. BOARDMAN

Chairman Murray, Ranking Member Bond, I appreciate the opportunity to appear before you today on behalf of Secretary of Transportation Mary Peters and the Bush administration to discuss the President's budget proposal for fiscal year 2008 as it relates to the Federal Railroad Administration and Amtrak.

The administration remains committed to improving the manner by which intercity passenger rail services are provided. This, of necessity, also includes improvements to how Amtrak provides this service and laying the groundwork for the States to have a stronger role in determining the important characteristics of services that States support financially and for the participation of other entities in the provision of intercity passenger rail service under contract to the States and/or Amtrak.

Since 2002, the administration has drawn a distinction between intercity passenger rail service, a form of transportation, and Amtrak, the company that provides the service. The administration supports the form of transportation as a component of our national transportation system but recognizes there are shortcomings with the service provider. The administration's advocacy for change is beginning to see results as Amtrak, through its Board of Directors, has acknowledged the urgent need for reform and issued a Strategic Reform Initiative plan that mirrors major elements of the administration's plan, such as introducing competition; empowering States to participate in infrastructure decisions; reducing operating subsidies; and enabling management to separate Amtrak's train operations from its infrastructure management. There is also a new management team being put in place with a mandate to overhaul the company. Congress similarly has taken steps to encourage cost efficiency and accountability. Nevertheless, much more is required to resolve Amtrak's well-documented problems.

For fiscal year 2008, the administration requests $800 million in direct subsidies to Amtrak and $100 million to fund a program of matching grants to the States to undertake capital investment projects for passenger rail services that the States believe important. This amount would support continued intercity passenger rail service and would enable Amtrak's new management team to act on its mandate to reshape the company. However, it would also require that Amtrak undertake meaningful reforms and control spending. The fiscal year 2008 budget request marks part of a multiyear effort to reduce, and eventually eliminate, operating subsidies for Amtrak. Overall, this level of subsidy is appropriate because it will provide Amtrak continuing incentive to grapple with costs, rationalize its services, and pursue innovations. It would also expand State support for intercity passenger rail, thus putting more of the decisions on what should be operated with public subsidies in the hands of those who know best what intercity passenger needs exist and how best to meet those needs.

Consistent with fiscal year 2006 appropriations account restructuring, the fiscal year 2008 budget seeks Amtrak funds through the Capital Grants and Efficiency Incentive Grant accounts. The administration agrees that using distinct budget accounts for Amtrak makes Federal spending more transparent. The budget also contains many of the stipulations included in the fiscal year 2006 appropriations language.

CAPITAL GRANTS

The request includes $500 million in direct Federal subsidies for Amtrak capital costs. In addition, the budget, as discussed below, includes $100 million to fund a program of grants to States, requiring a 50 percent match, to fund capital costs associated with intercity passenger rail services that the States deem important. With this amount, Amtrak and its State partners could carry out a capital improvement program that, when combined with other collections from Amtrak partners, can address the most pressing investment needs on the Northeast Corridor infrastructure as well as essential equipment investments. The request represents close to the maximum capital budget that Amtrak could reasonably manage in fiscal year 2008, given that it can complete only a certain amount of work annually.

AMTRAK OPERATING EFFICIENCY GRANTS

The administration requests $300 million for transitional operating costs. The request for operating subsidies is sufficient to avoid a bankruptcy, provided Amtrak acts to cut its costs by focusing on core services. To ensure this occurs, the administration proposes DOT be able to target funding based on Amtrak's progress in implementing cost-cutting measures. For example, the Secretary of Transportation could review and approve grant requests for individual train routes, or require Secretarial approval for the use of funds for specific operating expenses, such as subsidies of food and beverage service which, in fiscal year 2006, accounted for more than 10 percent of the total Federal subsidy of Amtrak. Amtrak must also improve its operating performance through revenue gains, debt service reductions, or other means. Ultimately, the $300 million request should lead to a more efficiently run railroad by causing Amtrak's management to explore opportunities for savings and for revenue gains. The Government Accountability Office, DOT Inspector General (IG), Amtrak IG, and others have all recently presented options for achieving savings.

INTERCITY PASSENGER RAIL GRANT PROGRAM

Most publicly supported transportation in the United States is undertaken through a partnership between the Federal Government and the States. This model, which has worked well for generations for highways, transit and airports places the States, and in certain cases their subdivisions, at the forefront of planning and decisionmaking. States are uniquely qualified to understand their mobility needs and connectivity requirements through Statewide and metropolitan area intermodal and multimodal transportation planning funded, in part, by the U.S. Department of Transportation.

While intercity passenger rail has historically been an exception to the application of this successful model, in recent years some States have taken an active role in their rail transportation services. Several States have chosen to invest in intercity passenger rail service provided by Amtrak as part of strategies to meet their passenger mobility needs. Over the past 10 years, ridership on intercity passenger rail routes that benefit from State support has grown by 73 percent. Over that same time period, ridership on Amtrak routes not supported by States has increased by only 7 percent.

State involvement in planning and decisionmaking for intercity passenger rail service identifies where mobility needs justify public investment. An excellent example can be found in Washington State, which has invested in intercity passenger rail from Portland, Oregon through Seattle to Vancouver, British Columbia, to make this service a viable alternative to highway travel on the congested I–5 corridor. Illinois provides another example, where its recent investments have doubled the number of intrastate trains operated by Amtrak.

Additionally, State involvement in planning and decisionmaking helps assure that the infrastructure, such as stations, and connectivity to other forms of transportation support intermodalism within the State. No better example of this exists than in North Carolina where the State has undertaken the redevelopment of its intercity passenger rail stations and transformed them into multimodal transportation centers serving the mobility needs of the communities in which they are located.

State involvement in funding intercity passenger rail service also provides an added discipline on Amtrak to continually seek ways to provide the highest quality of service. An example can be found in Vermont where the State, when presented with the prospects of higher State operating subsidies for its current service, is working with Amtrak to restructure the service that will not only drive down operating costs, but will increase the frequency of service.

Amtrak's own strategic reform initiative seeks to build on Amtrak's recent experience with the States. Amtrak is seeking to create a stronger role for the States in designing and supporting the services the States believe important. The administration supports this aspect of Amtrak's internal reform. In discussions with interested States, the U.S. Department of Transportation has found that the greatest single impediment to implementing this initiative is the lack of a Federal/State partnership, similar to that which exists for highways and transit, for investing in the capital needs of intercity passenger rail. Such a partnership is one of the five principles of intercity passenger rail reform laid out by former Secretary Mineta in 2002 and was a central element of the administration's passenger rail investment reform legislative proposal.

Therefore, the administration is proposing a Capital Grant Program that will encourage State participation in its passenger rail service. Under this new program, a State or States would apply to FRA for grants of up to 50 percent of the cost of capital investments necessary to support improved intercity passenger rail service that either requires no operating subsidy or for which the State or States agree to provide any needed operating subsidy. Priority would be given to infrastructure improvement projects that improve the safety, reliability and schedule of intercity passenger trains; reduce congestion on the host freight railroads where the freight railroads commit to an enforceable on-time performance of passenger trains of 80 percent or greater; commit States to contribute other additional financial resources to improve the safety of highway/rail grade crossings over which the passenger service operates; and protect and enhance the environment, promote energy conservation, and improve quality of life. To qualify for funding, States would have to include intercity passenger rail service as an integral part of Statewide transportation planning as required under 23 U.S.C. 135. Additionally, the specific project would have to be on the Statewide Transportation Improvement Plan at the time of application.

I appreciate your attention and would be happy to answer questions that you might have.

Senator MURRAY. Thank you, Mr. Boardman.

Mr. Tornquist.

OFFICE OF THE INSPECTOR GENERAL

STATEMENT OF DAVID TORNQUIST, ASSISTANT INSPECTOR GENERAL FOR COMPETITION AND ECONOMIC ANALYSIS

Mr. TORNQUIST. Thank you, Chairman Murray and members of the subcommittee. I appreciate the opportunity to present our views on Amtrak's fiscal year 2008 financial needs.

DOT IG FISCAL YEAR 2008 AMTRAK BUDGET PROPOSAL

Let me begin by providing some context for our 2008 funding recommendation for Amtrak. The fact that Amtrak set records in both ridership and ticket revenue in fiscal year 2006, ended the year with over $200 million in the bank, and achieved $61 million in savings from operational reforms might lead one to think that Amtrak has turned the corner. However, to the contrary, we believe that Amtrak remains in a precarious financial condition.

Amtrak deserves credit for the recent progress it has made in providing improved service and achieving cost savings. However, systemwide on-time performance declined again last year, operating losses remained unsustainably high, the infrastructure still shows a toll of years of underinvestment, and debt service continues to significantly cut into available funds. While much has been done to improve Amtrak, much more work remains.

Given this context, we believe Amtrak would need in fiscal year 2008, $465 million for cash operating losses, $600 million for capital spending, and $285 million for debt service to operate a nationwide system, while maintaining modest progress towards achieving a state of good repair.

Not all of this $1.35 billion needs to come from direct appropriations. Some could come from Amtrak's cash balances, depending on its projected year-end cash position later in the year. The $465 million operating subsidy would enable Amtrak to provide nationwide passenger rail service, while focusing its attention on needed reform and operational improvements. We also recommend that Amtrak's operating subsidy be appropriated separately from capital and debt service, just as Congress did in fiscal year 2006. This would prevent the deferral of capital projects, in order to avoid the more difficult work of improving Amtrak's operating efficiency. The capital amount would allow modest progress for a state of good repair, and the debt service amount we're recommending is Amtrak's estimate of its fixed cost for principal and interest.

In addition, we support—with caveats—the State capital matching grant program, as included in the President's fiscal year 2008 budget, and in S. 294, the Passenger Rail Investment and Improvement Act, as a means to stimulate rail corridor development. Rail corridors hold the greatest potential for future ridership growth, and steps need to be taken to begin to address the expected demand for these routes.

OIG CONCERNS WITH STATE MATCHING PROPOSAL

Our concerns with the proposed program are as follows. First, we believe it must be designed to ensure the Federal investment leverages new State investments, and does not simply supplant investments the States otherwise would have made.

Second, Amtrak must finalize and gain acceptance for its route restructuring, cost recovery for State services, and labor reforms to improve the efficiencies of its core operations, before turning its attention to expanding those operations. Put simply, Amtrak needs to get its own house in order before investing in another property down the street.

And third, we recommend an 80/20 match rate similar to that for the Federal Highway Program—rather than the 50/50 match rate proposed by the administration—to put State investment in rail on equal footing with other transportation modes.

AMTRAK REFORM EFFORTS

Increased investment in intercity passenger rail must go hand to hand with improved operating efficiencies. Mr. Kummant and his senior management team have come onboard at a critical time. In the ongoing efforts to instill fiscal discipline at Amtrak. The board and current management seem committed to reform. However, the real test of that commitment will come soon as Amtrak moves from implementing relatively easier reforms, to implementing the more challenging ones. As Amtrak stated just 1 year ago, "The test of its reform efforts will be its ability to implement substantial sustainable change that will deliver not only ongoing financial improvement, but a new environment for passenger rail that moves us beyond the stalemate of the last 35 years."

Amtrak's initial set of operating reforms saved $61 million last year. Amtrak reduced the cost of its food and beverage service, improved the productivity of its train operations, reduced corporate overhead, and increased revenues through variable fares in the Northeast Corridor, and enhanced services on the Empire Builder. This is a commendable start. Amtrak has committed to saving an additional $61 million in fiscal year 2007 and $82 million in fiscal year 2008.

We do have some concerns regarding Amtrak's reform efforts. These include a concern that Amtrak may miss its reform target in fiscal year 2007, because some planned reforms are on hold while their potential to generate actual savings is being reevaluated. We're concerned that Amtrak has limited details on its planned 2008 reforms, it has only high-level long-term implementation plans for its planned reforms—where it has any long-term plans at all—and that it may be overemphasizing revenue enhancements instead of cost reductions.

Over the long term, reauthorization holds the key to Amtrak's future. As we testified previously, our long-term proposal for financing intercity passenger rail would focus on three key goals: continuing improvement in cost effectiveness of services provided; devolution of power to determine those services to States, and adequate and stable sources of Federal and State funding. Absent a fundamental restructuring of the company through reauthorization, it will again fall to the Appropriations Committee to maintain fiscal discipline at Amtrak, specifically by limiting the funds available to subsidize operating losses, fencing those funds to prevent the shifting from capital to operating expenses, and then making Federal support conditional upon further operating restructuring.

PREPARED STATEMENT

Madame Chairman, that concludes my statement. I'd be happy to answer any questions you might have.

[The statement follows:]

PREPARED STATEMENT OF DAVID TORNQUIST

Chairman Murray, Ranking Member Bond and members of the subcommittee, I appreciate the opportunity to present the views of the Office of Inspector General on Amtrak's fiscal year 2008 financial needs, its recent efforts to improve its financial condition, and alternatives for financing intercity passenger rail. My statement today will draw upon the Quarterly Reports on Amtrak's Savings from Operational Reforms your committee and your House counterparts have requested of our office, as well as other work we have undertaken on Amtrak's financial and operating performance.

Amtrak's Condition Remains Precarious.—Amtrak set records in both ridership and ticket revenue in fiscal year 2006, ended the year with over $200 million in the bank, and achieved $61 million in savings from operational reforms. Does this mean Amtrak has turned the corner operationally and financially? No, unfortunately, it doesn't. While improvements have been made, we believe Amtrak's condition remains precarious.

Amtrak deserves credit for the recent progress it has made in providing improved service and achieving cost savings. The result of this progress is evident in Amtrak's improved ridership and revenue. Nevertheless, Amtrak has a long way to go before it can reach, let alone turn, the proverbial corner. Systemwide, on-time performance declined for the fifth consecutive year, operating losses remain unsustainably high, the infrastructure still shows the toll of years of underinvestment, and debt service continues to significantly cut into available funds. Much has been done to improve Amtrak, but much more work remains.

Amtrak Requires More in Capital and Less in Operating Subsidy in Fiscal Year 2008.—Based on the information available today, Amtrak would need $465 million available to it in fiscal year 2008 for cash operating losses, $600 million for capital spending, and $285 million for debt service to operate a nationwide system while maintaining modest progress towards achieving a state of good repair. As Amtrak revises its revenue and expense estimates during the year, our estimate also may change. Not all these funds need come from direct appropriations, some could come from Amtrak's cash balances, depending on its projected year-end cash position later in the year.

A $465 million operating subsidy in fiscal year 2008 would enable Amtrak to provide nationwide passenger rail service, while focusing its attention on needed reform and operational improvements. As Congress did in fiscal year 2006, appropriating the operating subsidy separately from the capital and debt service would prevent the deferral of capital projects in order to avoid the more difficult work of improving Amtrak's operating efficiency. The capital amount will allow modest progress toward a state-of-good repair and the debt service amount is Amtrak's estimate of its fixed cost for principal and interest.

We have testified previously that we support a State capital matching grant program as a means to stimulate corridor development. With caveats, we support the $100 million capital matching grant program included in the President's fiscal year 2008 budget and in S. 294, the Passenger Rail Investment and Improvement Act. We believe this program must be designed to ensure the Federal investment leverages new State investments and does not simply supplant investments that States otherwise would have made. Further, Amtrak must finalize and gain acceptance for its route restructuring, cost recovery for State services, and labor reforms to improve the efficiency of its core operations before turning its attention to expanding those operations. Finally, we would support an 80/20 match rate, similar to that for highways, rather than the 50/50 match rate proposed by the administration, to put State investment in rail on an equal footing as other transportation modes.

Increased Investment in Intercity Passenger Rail Must Go Hand in Hand With Improved Operating Efficiencies.—Amtrak's new CEO and his senior management came aboard at a critical time in the ongoing efforts to instill fiscal discipline at the corporation through operational reforms. Since the development of the current Strategic Reform Initiatives, Amtrak is on its second CEO and its Board has three new members. The Board and current management seem committed to reform. However, the real test of that commitment will come shortly as Amtrak moves from implementing relatively easy reforms to more challenging ones.

In fiscal year 2006 Amtrak realized $61.3 million in savings from operating reforms by reducing the cost of its food and beverage service, improving the productivity of its train operations, reducing corporate overhead, and increasing revenues through variable fares on the Northeast Corridor (NEC) and enhanced service on the Empire Builder. Amtrak has committed to saving an additional $61 million in fiscal year 2007 and $82 million in fiscal year 2008 from reforms.

Regarding Amtrak's continuing efforts to improve its financial condition, we are concerned that Amtrak: (1) may miss its reform savings target in fiscal year 2007 because some planned reforms are on hold while their potential to generate actual savings is being reevaluated; (2) has limited detail on its planned fiscal year 2008 reforms; (3) has only high-level long-term implementation plans for its planned reforms, where it has any long-term plans at all; and (4) may be overemphasizing revenue enhancements instead of cost reductions. Management's goal of "instilling a culture of continuous improvement throughout the organization" is the right one. Achieving it should be a necessary precondition for significant new State or Federal investment in intercity passenger rail service.

More work needs to be done to eliminate the losses on food and beverage and, in particular, first class sleeper service. Any subsidy of first-class passengers remains unacceptable. In July 2005, we reported that Amtrak could save between $75 million and $158 million in annual operating costs by eliminating sleeper car service, outsourcing food and beverage service, and eliminating other amenities on long distance trains. In fiscal year 2006, the operating loss on long-distance trains was almost $600 million with a per passenger operating subsidy of over $200 on three of the routes. A significant amount of work needs to be done to finalize and implement Amtrak's proposed route restructuring, state services, and labor reform initiatives, all three of which are critical components of Amtrak's long-term financial plan.

Reauthorization Holds the Key to Amtrak's Long-Term Outlook.—As we testified previously, our proposal for financing intercity passenger rail service would focus on three key goals: (1) continuous improvements in the cost-effectiveness of services provided, (2) devolution of the power to determine those services to the States, and (3) adequate and stable sources of Federal and State funding. Our proposal requires a reauthorization for Amtrak.

These goals can be achieved through six programmatic changes: formula grants to States for capital and operating costs of intercity passenger services, restoration of the forward-going system to a state-of-good repair, capital matching grants to States for corridor development, establishment of adequate Federal and State funding, resolution of the legacy debt issues, and resolution of NEC ownership and control.

Other alternatives for financing intercity passenger rail service include: (1) permitting States to issue tax exempt bonds for rail infrastructure development and (2) turning the NEC over to private investors with the support of a Federal loan. Permitting States to issue tax exempt bonds for rail infrastructure would address a goal we support of providing States with greater access to capital funds. Regarding whether tax exempt bonds is the preferred way to make these capital funds available, I would note that the Congressional Budget Office has concluded that when tax credit bonds are used in lieu of Federal appropriations, the cost to the Federal Government is greater than it would be through conventional financing through the Department of the Treasury. However, carefully designed tax credit bonds could cost the Federal Government less per dollar of assistance provided to State and local governments than the Federal tax exemption accorded "municipal" bonds issued by those governments.

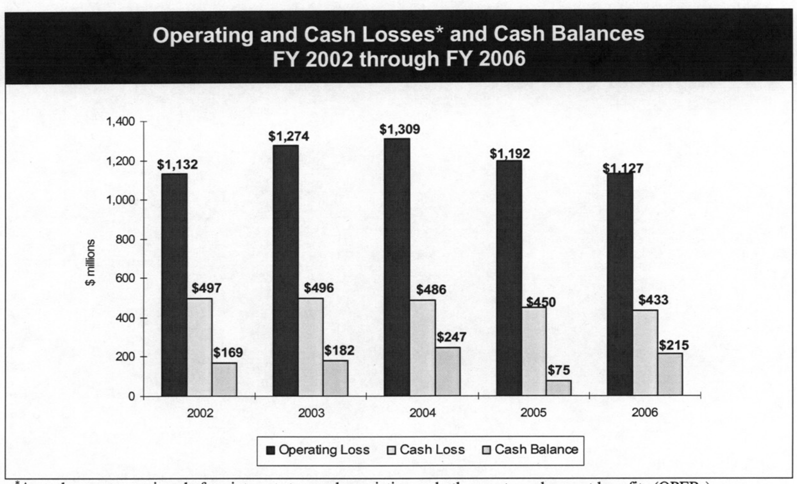
Turning the NEC over to private investors has some attractive features, particularly adding private investment through rail-dependent development and proposed service improvements. However, we raised in the past concerns regarding proposals to separate the NEC infrastructure management and operations into two independent companies. In addition, we would have to see a more detailed financing proposal to determine its soundness.

Absent a fundamental restructuring of the company through reauthorization, it will again fall to the Appropriations committees to maintain fiscal discipline at Amtrak, specifically by limiting the funds made available to subsidize operating losses and by making Federal support conditional upon further operational restructuring. I will now discuss these issues in greater detail.

DESPITE IMPROVEMENTS, AMTRAK'S FINANCIAL CONDITION REMAINS PRECARIOUS

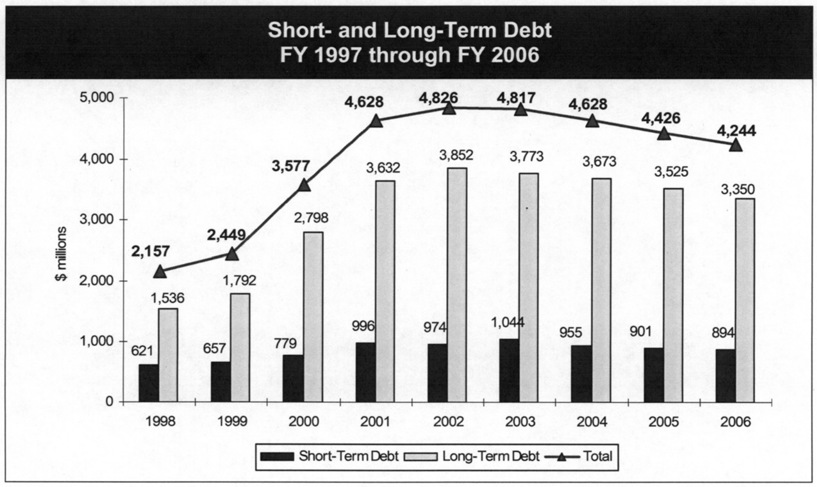
The current model for providing intercity passenger service continues to produce financial instability and poor service quality. We have seen some improvement in Amtrak's financial and operating performance recently, but there are limits as to how much can be done within the current framework.

Operating Losses.—Amtrak continues to incur substantial operating losses. It ended fiscal year 2006 with a net operating loss of $1.1 billion. On the positive side, Amtrak's net operating loss was $65 million less than last year and its cash operating loss, excluding interest and depreciation, was $17 million less than the same period last year. Operating losses on long-distance trains, excluding interest and depreciation, were $440 million in fiscal year 2006. Over the last 5 years, annual cash losses, excluding interest and depreciation, have fallen only modestly—a little more than 3 percent a year.

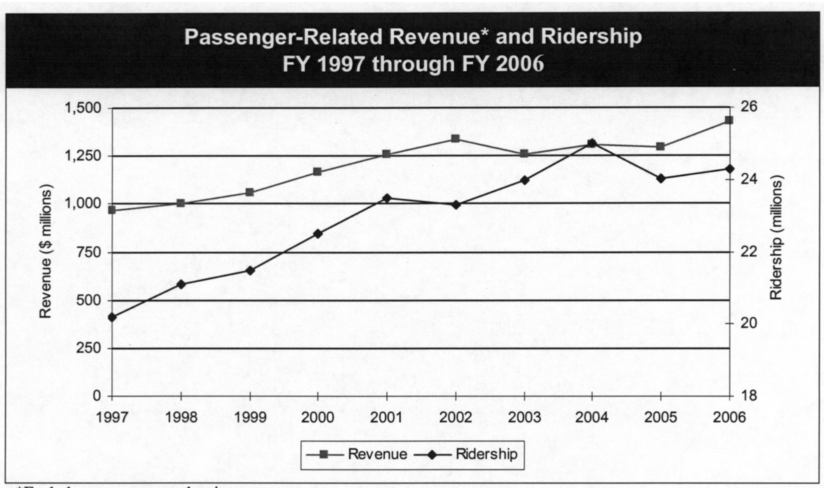


*Amtrak reports earnings before interest, taxes, depreciation and other post employment benefits (OPEBs).

Debt Burden.—Amtrak continues to carry a large debt burden. Its total debt peaked at $4.8 billion in fiscal year 2002 and has declined to $4.2 billion in fiscal year 2006. For the foreseeable future, Amtrak's annual debt service will approach $300 million, eating into the amount of funds potentially available for critical capital investments.

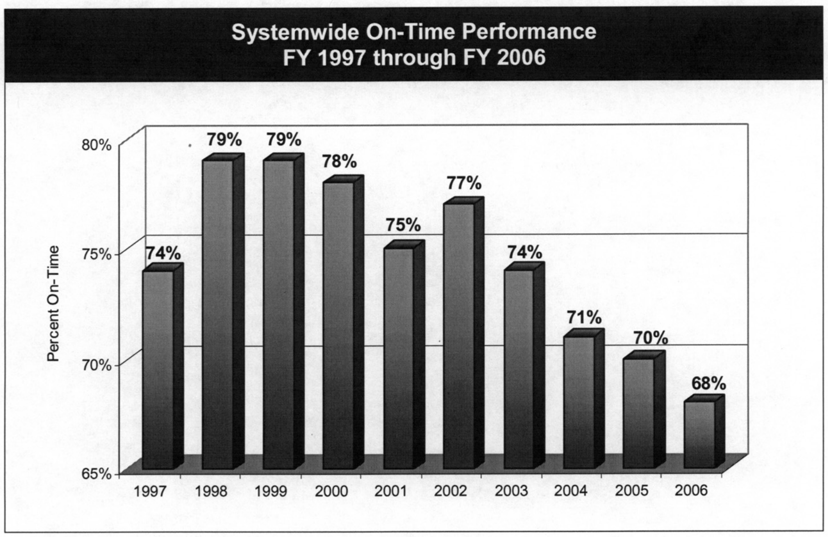


Revenue and Ridership.—Passenger revenues increased to a peak level of $1.426 billion in fiscal year 2006, primarily as a result of Amtrak's systemwide general fare increases and revenue management of the NEC Regional and Acela Express services (Amtrak's premier service). Despite the fare increases, ridership increased to 24.3 million in fiscal year 2006. For the first 3 months of fiscal year 2007, passenger revenues were $36 million higher than the same period in fiscal year 2006, mainly due to fare increases. Ridership growth during this period rose 3.9 percent.



*Excludes state supported train revenues.

On-Time Performance.—Systemwide, on-time performance has been declining steadily since fiscal year 2002, from 77 percent to 68 percent in fiscal year 2006. While Amtrak's Acela Express service achieved on-time performance of nearly 85 percent, long-distance trains averaged 30 percent last year. The poorest performing train, the Coast Starlight had an on-time performance of only 3.9 percent. Systemwide, on-time performance in the first quarter of fiscal year 2007 increased to 69.1 percent, compared to 65.3 percent for the first quarter of fiscal year 2006.



THE APPROPRIATIONS PROCESS CAN PROVIDE NEEDED FISCAL DISCIPLINE OVER AMTRAK'S OPERATING LOSSES WHILE AMTRAK CONTINUES TO ADDRESS CRITICAL CAPITAL NEEDS

The delivery of intercity passenger rail service needs to be fundamentally restructured through a reauthorization. However, as we have seen in the past year, meaningful, but incremental, operational reforms are still possible in the absence of a reauthorization. The process established by the Appropriations Committee in fiscal year 2006, which specifically directed Amtrak to achieve savings through operating efficiencies, achieved $61 million in savings in the first year. This process is not a substitute for reauthorization, but it is of considerable value nonetheless, and we strongly encourage Congress to continue it in fiscal year 2008. As we stated in our March 16, 2006 testimony, a critical component is funding Amtrak at a level that maintains the impetus for reform. This would require that the operating subsidy be appropriated separately from the capital and debt service appropriations.

Our recommendation of an operating grant of $465 million in fiscal year 2008 reflects the need to keep the process of continual improvement at Amtrak moving forward. It also takes into consideration Amtrak's better-than-expected fiscal year 2006 headcount, lower fiscal year 2006 expenses, and our concerns regarding the methodology Amtrak uses in developing its budget estimates, which we previously reported on. These factors led us to conclude in our January 2007 Quarterly Report on Amtrak's Savings from Operational Reforms that Amtrak needed a fiscal year 2007 operating subsidy of $470 million. (This recommended fiscal year 2007 operating subsidy was an increase of $37 million above Amtrak's actual cash operating loss in fiscal year 2006 of $433 million.) Our lower starting point for fiscal year 2007, recent increases in revenue, and lower personnel costs lead us to our recommendation of a $465 million fiscal year 2008 operating subsidy.

A significant unknown at this point is whether there will be labor settlements this year and, if they occur, what the associated costs and possible work rule changes may be. Agreement labor costs, including benefits, account for more than half of Amtrak's current cost structure. The net effect of a final settlement would need to be reflected in our recommended fiscal year 2008 operating subsidy recommendation.

Amtrak estimates a backlog of approximately $5 billion in capital projects. Our recommendation to provide an increase in fiscal year 2008 for capital to $600 million reflects a need to address this backlog to continue progress towards achieving a state-of-good repair balanced with practical considerations regarding how many additional capital projects Amtrak can take on in 1 year.

INCREASED INVESTMENT IN INTERCITY PASSENGER RAIL MUST GO HAND-IN-HAND WITH IMPROVED OPERATING EFFICIENCIES

Amtrak achieved $61.3 million in savings from operational reforms in fiscal year 2006, exceeding its original savings estimate by $37.7 million or more than 60 percent. Well over half these savings came from reforms that increased revenues, not reduced costs. Amtrak saved $14 million from food and beverage service reforms, $7.6 million from improved train operations, $5.6 million from reduced corporate overhead, $5.2 million from enhanced revenue generated on long-distance trains, and $28.9 million from revenue enhancements and operating efficiencies on the NEC. This is a good start, but, in part, reflects reforms that were easier to implement.

Amtrak has also taken steps to improve its oversight and management of reform initiatives. This includes developing a standardized project management approach in an effort to provide a more reliable measurement of cost savings, better internal oversight, and enhanced tracking and reporting capabilities. In addition, Amtrak is working to develop the appropriate links between its planning and financial systems for more reliable estimating and reporting of cost savings and better integration of these savings into the budget process.

In fiscal year 2007 and beyond, Amtrak plans to implement operational reforms in eight areas: (1) improving service quality on long-distance trains and reducing the cost of providing food and beverage service; (2) improving the efficiency of Amtrak's major ticket sales, distribution channels, and related pricing enhancements; (3) improving the reliability and efficiency of Amtrak's Mechanical Department and materials management; (4) increasing business efficiencies through the development of improved Management Information Systems and the reduction of overhead costs; (5) improving the cost-effectiveness of train operations; (6) network restructuring, corridor development, and improved fleet and infrastructure utilization; (7) improved cost recovery from States for corridor services and from commuters on the NEC; and (8) reducing unit costs and increasing job flexibility by negotiating new labor agreements that will eliminate certain work rule and outsourcing restrictions.

Amtrak estimates that these initiatives will save at least $320 million in fiscal year 2012. Almost three-quarters of these savings are expected to come from three initiatives: food and beverage reform and service quality improvements, mechanical service efficiencies, and network restructuring and asset utilization improvement.

There is considerable uncertainty as to whether these savings will be achieved. First, the savings estimates that do exist are preliminary and the proposals lack detailed annual program plans. Projected fiscal year 2012 savings have not yet been developed for the State payments and labor reform initiatives.

Second, the lack of detail makes it impossible for us to assess the accuracy of these cost estimates. As we have seen recently with the sleeper car initiative, once substance is added to the proposal, the savings can evaporate. This proposal was originally targeted to save almost $20 million in fiscal year 2007. However, it is currently on hold as Amtrak reevaluates whether the costs saved by removing some sleeper cars outweighs the associated foregone revenue. It is unlikely that any savings will be derived from this reform in fiscal year 2007, if any savings are derived from it at all.

Third, reliance on revenue enhancements to achieve savings raises concerns regarding their reliability over the long run. Several initiatives are aimed to increase ridership and ticket revenues, including service quality improvement, on-time performance, enhanced long-distance service, and market-based pricing initiatives. While we believe Amtrak should pursue initiatives to increase revenues, the long-term sustainability is subject to factors beyond their control, such as changing market demand, the relative cost of different travel modes, and competition from new air service. As such, it is more difficult for Amtrak to count on these savings in the long run.

Amtrak needs to define the reform initiatives it plans to implement in fiscal year 2008 to achieve its stated goal of $82 million in savings. In addition, it needs to settle on which initiatives it is willing to commit to over the long run, develop detailed implementation plans for those initiatives, and incorporate them into its upcoming multi-year strategic plan.

CRITICAL DECISIONS ARE NEEDED BEFORE IMPLEMENTING A STATE CAPITAL GRANT PROGRAM

Amtrak's vision for the future is based on passenger rail growth through State-led corridor service development, supported by a Federal program of State capital matching grants. We have long believed that corridor service, that is, routes of between 100 and 500 miles, represent the greatest potential for ridership growth. An obstacle to realizing this potential has been the significant capital investment needed to improve the freight-owned infrastructure to accommodate this expanded service. The administration's proposed $100 million State capital matching grant program would be an important start to new corridor development. A robust program that would support a reasonable level of new service in the long run could ultimately require this program to be funded at annual levels of $1.3 billion to $1.6 billion.

Several critical issues need to be addressed before this program is implemented. First, the purpose of this new Federal investment must be to leverage an increase in total investment in rail service and infrastructure. There is little point to this new program if it simply results in supplanting existing State investments.

Second, this program is premised on States assuming funding responsibility for any new service that does not cover its costs. If a significant Federal capital investment is going to be made to initiate a new service, consideration must be given to a State's commitment and capacity to support the operation of this service over the long run.

Third, we believe an 80/20 matching rate, instead of the administration's proposed 50/50 matching rate, would provide an incentive for a State to take an "ownership" role in developing rail corridors on a more comparable basis with other transportation modes (historically, highways have used an 80/20 match). A higher match rate for rail infrastructure would require a State to invest more of its own money to obtain the same amount of Federal funds in return. As such, this may cause States to favor highways over rail to maximize the "return" on their State investments.

REAUTHORIZATION IS A BETTER COURSE FOR REFORMING INTERCITY PASSENGER RAIL SERVICE

Incremental operating savings over the next 5 or 6 years will not be sufficient to fund the significant increases in capital investment required to return the system to a state-of-good-repair and promote corridor development. This mismatch of funding sources and needs requires a long-term solution that can be achieved only by changing the model for intercity passenger rail.

To create a new model for intercity passenger rail, a comprehensive reauthorization that provides new direction and adequate funding is needed. The problem with the current model extends beyond funding—there are inadequate incentives for Amtrak to provide cost-effective service; state-of-good-repair needs are not being adequately addressed; and States have insufficient leverage in determining service delivery options, in part because Amtrak receives Federal rail funds, not the States.

Reauthorization should establish meaningful reforms that ensure greater cost-effectiveness, responsiveness, and reliability in the delivery of passenger rail transportation. Three central themes will drive successful reform:

—*Improvements in Cost-Effectiveness*.—Amtrak, as the sole provider of intercity passenger rail service has few incentives, other than the threat of budget cuts or elimination, for cost control or delivery of services in a cost-effective way. Amtrak has not achieved significant costs savings since its last reauthorization.

—*States Need a Larger Voice in Determining Service Requirements*.—The current model for providing intercity passenger service does not put States in a position to decide upon the best mix of service for their needs—what cities are served, schedules and frequency of service, and what amenities should be provided. Those decisions are made by Amtrak, and the choices Amtrak makes are not always the same as the ones the States would make. Intercity passenger rail would be better served with State-led initiatives as to where and how intercity passenger rail service is developed. States are best able to determine the level of passenger rail service required to meet their strategic transportation needs and State sponsorship will become increasingly important as they will be asked to provide increased operating and investment support. Capital funding decisions, as with mass transit, should ultimately reside with the Department of Transportation, based on congressional direction and in partnership with the States.

—*Adequate and Stable Federal Funding is Essential*.—None of the corridors around the country, including the NEC, can provide the type of mobility needed without significant capital investment. In the NEC, this means bringing the existing facilities to a state-of-good-repair with no match requirement. In other corridors around the country, it means creating the infrastructure for high-frequency services in partnership with freight railroads and commuter authorities. A robust Federal program of capital matching grants will be essential if these corridors are to be developed. In addition, long-distance services that provide connections between corridors require recapitalization if they are to be run efficiently and are to provide the high quality services their passengers deserve. None of this, however, implies giving more money directly to Amtrak, especially under the current model.

In our view, a framework for reauthorization requires the incorporation of six core elements:

—*Capital Matching Grants to States for Development of Corridor Services*.—This program would give States the ability to improve and expand routes and service on their supported corridor routes through a Federal capital funding program with a reasonable state match requirement.

—*Formula Grants to States for Capital and Operating Costs*.—This program would address the needs of areas served by long-distance routes that have little corridor development potential, while simultaneously creating incentives for States to encourage operating efficiencies from the service operator. Formula funds can be used for operating expenses, capital maintenance, and/or capital improvements at the discretion of the States and have no match requirement.

—*Restoration of the Forward-Going System to a State-of-Good-Repair*.—This program would provide Federal funds, with no match required, to address the accumulated backlog of deferred investment and maintenance on the NEC and in fleet and facilities outside the NEC. After a state-of-good-repair has been achieved, capital funds with a reasonable State match would be available for capital maintenance.

—*Setting Federal and State Funding of These Programs at Adequate Levels*.—Federal funding levels, along with State contributions have not been sufficient to subsidize operations, address deferred capital needs, and significantly improve service along the existing rail network.

—*Resolution of the Legacy Debt Issue*.—This element would give the Secretary the authority to evaluate Amtrak's debt and to take action in the best interest of intercity passenger rail that is economically advantageous to the United States Government.

—*Resolution of Northeast Corridor Ownership*.—The NEC is of considerable interest in reauthorization. Unlike the rest of the passenger rail system, Amtrak owns the infrastructure between Boston and Washington, DC. The Federal Government may decide to take on the responsibility of restoring the NEC to a state-of-good-repair, and its debt—if it is determined to be in the public's interest to do so. Once the NEC is returned to a state-of-good-repair, the States can take a larger responsibility in directing and managing ongoing operations and maintenance. In return for fully funding the corridor, the Federal Government may decide to take title to Amtrak's assets. Although Amtrak may very likely remain the operator for the NEC, we will be in a better position to decide what is the best use and ownership structure of the NEC assets by the end of the reauthorization period.

This framework would require cost efficiencies as Federal funds available to cover operating losses would decline over the 5-year reauthorization period. Specifically, it would give States greater responsibility for passenger rail investments with oversight of capital investment vested in the department. Additionally, it would focus Federal funding on stable and robust capital investment programs that would bring the system to a state-of-good-repair, maintain it in that condition, and provide for the development of corridors throughout the country.

Madame Chairman, this concludes my statement. I would be happy to answer any questions at this time.

Senator MURRAY. Thank you, Mr. Tornquist. We're going to turn to Senator Spector for a short quick statement. He has to return to another committee.

STATEMENT OF SENATOR ARLEN SPECTER

Senator SPECTER. Thank you, Madame Chairperson.

I wanted to comment, very briefly, about my support for a much larger allocation than the appropriation than the administration has requested. I think we will work it through in the Congress, as we have in prior years.

I regret that I can not stay for the hearing. The Judiciary Committee, where I'm ranking, is conducting hearings on immigration, and I have to be there. But, my staff will be present and we'll examine the transcript, and submit some questions to you gentlemen, but you have my support for a very substantial increase above what the administration is asking for.

Thank you very much for permitting the interjection.

Senator MURRAY. Thank you, Senator Specter.

Senator MURRAY. Mr. Wytkind.

NONDEPARTMENTAL WITNESSES

STATEMENT OF EDWARD WYTKIND, PRESIDENT, TRANSPORTATION TRADES DEPARTMENT, AFL–CIO

Mr. WYTKIND. Madame Chair, thank you for inviting Transportation and Labor, on behalf of our 32 member unions, to participate in today's hearing.

I think a lot has been said this morning about Amtrak and its financial needs, but obviously the 20,000 workers—that we represent a substantial majority of—have a vested interest in the outcome of this debate. Amtrak workers know, better than anyone, how difficult it is to operate and maintain the national Amtrak network without sufficient resources. These workers have seen and felt the effects of neglect and underfunding for too many years. They've been forced to do more with less, due to the Federal Government's lack of attention to the severe financial needs of Amtrak, and the needs of the cities and the States, who—under the administration's proposal—would be really forced to fend for themselves.

Amtrak workers constantly read about Amtrak teetering on the edge of financial insolvency. Not because Americans do not want passenger rail service and Amtrak service, but because of an administration that has refused to support funding for a first-class national passenger railroad.

Fortunately, in the absence of administration leadership the Congress and especially key members of this subcommittee has stepped in to provide funding that has averted a financial collapse, year in and year out. A collapse, I might add, that would have occurred had the administration—over the last few years—had its way during debates over appropriations.

It is extremely disappointing to appear before you, and again have to comment on a Bush proposal, Bush administration proposal that frankly we view as a shut-down budget for 2008. A budget that leaves States, again, to fend for themselves, and a budget that leaves an already teetering system on the edge of probably insolvency, leaving 20,000 workers potentially out of work.

It is also disturbing that the administration has recycled old ideas that may sound different from past renditions, but in the end, amount to the privatization and breakup as Amtrak as we know it. It seems to us that the administration's learned nothing from the British rail privatization debacle, that we all read so much about in the late 1990s.

The fact is that our national approach to Amtrak must change. Forcing Amtrak to limp from one financial crisis to the next, with no long-term funding plan, is a recipe for failure. Deferred maintenance, unmet security needs since 9/11, outdated cars and equipment, poor training, and unfairly treated and unfairly compensated workers, whose morale has reached an all time low, are now the norm. And we must break this cycle.

Amtrak is a part of a vast network of publicly supported transportation services. No mode of transport in America can succeed without some form of public subsidy. This is the standard worldwide. As economic powers and emerging nations—as Senator Lautenberg alluded to, including Germany—spent literally billions to rebuild and expand their passenger rail systems. And yet, there are those who believe Amtrak should be a profitable enterprise.

This is pure fantasy, no matter Wall Street financiers and lawyers will tell you. Some believe Amtrak is better off if we sever it into pieces, and possibly spin off the Northeast Corridor into a separate entity controlled by private interests. Interestingly, the advocates of this approach want the Federal Government to back a $17.5 billion loan, permit payback of the loan, interest-free over 50 years.

Now, I can't speak for Amtrak's CEO, or anyone of that company, but maybe we should ask Amtrak if it could use such favorable financing tools to build and rebuild its system and infrastructure, before we venture into any sort of breakup Amtrak plans.

Finally, it is no secret that labor/management relations at Amtrak have eroded significantly. Most Amtrak workers are now in their eighth year without a general wage increase. I believe this is simply outrageous. Working people in this country can not live and make the ends meet under an 8-year wage freeze, which is what they've faced over the past decade. Amtrak's negotiators have used one delay tactic after another, have used the appropriations battles on Capital Hill, have used every possible excuse to deny workers what the new CEO of Amtrak—which we're pleased to hear—has referred to as a need for reasonable wage increases.

The result is that Amtrak workers are rated the lowest-paid in the industry, continue to fall further behind freight and commuter rail workers who earn up to 20 percent more in similar jobs. It is obviously unfair for Amtrak to continue to solve its financial shortfalls on the backs of its employees. Ultimately, should this trend continue, it will lead to more and more experienced Amtrak workers leaving their jobs for better paying, more stable opportunities with the freights and commuters.

We are heartened by the comments of Mr. Kummant, who has formally declared settlement of these long overdue contracts one of the company's seven objectives. Obviously, Mr. Kummant has inherited badly ruptured labor management relations that didn't occur on his watch. A product of poor management decisions by the Amtrak Board and poor decisions by previous managements. And while Mr. Kummant's public position is a welcome departure from past Amtrak leaders, it is time to move beyond the rhetoric and finally resolve a bargaining stalemate that is making it impossible for labor and management to work together to solve problems at Amtrak, to rebuild the system and to make it the finest transportation system in the world.

PREPARED STATEMENT

In closing, it is time for Amtrak to receive the resources it needs, not merely enough to survive. The political games that have re-peatedly put Amtrak on the brink of collapse must end. And the much needed long-term investment must recognize that the cost of doing business as our national passenger railroad includes treating, and compensating, the employees fairly.

I appreciate the opportunity to testify and thank you for letting us participate in today's hearing.

[The statement follows:]

PREPARED STATEMENT OF EDWARD WYTKIND

On behalf of the 32 member unions of the Transportation Trades Department, AFL–CIO (TTD) and specifically the 10 unions that make-up our Rail Labor Division (RLD), thank you for inviting us to testify this morning on Amtrak's financial needs for fiscal year 2008.[1] I must point out that we would not be talking today about Amtrak's financial needs for 2008 without this subcommittee—we wouldn't be talking about it because without your work Madame Chair, and the work and support of the other members of this subcommittee, Amtrak would be on the brink of collapse.

While its proposals have taken various forms, year after year the administration has sought to shut down Amtrak or subject the company to reckless privatization initiatives. By offering a zero budget for Amtrak in fiscal year 2006, the White House demonstrated its gross lack of understanding of Amtrak's importance to our transportation system and our economy. By attempting to dismantle Amtrak as a national system and downsize or eliminate its long distance service, the administration demonstrated it does not understand the importance of Amtrak to the cities and States that are clamoring for more, not less, transportation choices for its citizens. And by shortchanging Amtrak every fiscal year, the administration has forced the company to defer much needed security and safety upgrades because it simply does not have the resources.

Fortunately, Congress—and specifically this subcommittee—has rejected the administration's various plans and for this Americans owe you a debt of gratitude. This subcommittee, without the benefit of an authorization since 2002, has come forward and funded our national passenger railroad each and every year at levels adequate to avoid the catastrophe of bankruptcy and done so under extremely tight budget conditions. So on behalf of the men and women we represent, and the millions of passengers that use this vital service, I want to again thank you for your leadership and acknowledge the hard work that you have done on behalf of Amtrak.

For fiscal year 2008, the administration has once again submitted a budget request, at $800 million, that is nothing more than a shut down number. As members of this committee have already observed, this is asking the carrier to do the impossible and should be rejected. Furthermore, the administration has again attached destructive and disingenuous conditions to this meager request. For example, the budget request states that "within 30 days of the enactment of this Act, the Corporation shall produce a comprehensive corporate-wide competition plan that will identify multiple opportunities for public and private entities to perform core Corporation functions, including the operation of trains." Let's be clear—the administration would expect Amtrak to find others, including private entities, to provide the service that Amtrak is currently charged with providing. This isn't a funding plan—it's a path to privatization and ultimately destruction of Amtrak as we know it.

The fact is we need to change the way we look at and fund Amtrak. Forcing the carrier to limp from one financial crisis to the next with no long-term funding plan is simply a recipe for failure that can no longer be tolerated. Deferred maintenance, unmet security needs, outdated cars and equipment and unfairly treated and compensated employees whose morale has reached an all-time low are now the norm. First-class rail service that needs to be customer-sensitive cannot succeed in this environment. And we would submit that a portion of Amtrak's security needs should be borne by the Department of Homeland Security. Americans expect leaders of government responsible for our homeland security to ensure that our passenger rail system receives the Federal resources it needs to address security threats and vulnerabilities. A cash-starved Amtrak cannot meet these important homeland security objectives without adequate Federal assistance.

Labor-management relations at Amtrak have eroded significantly. Most of Amtrak's employees are now entering their eighth year without a general wage increase and have seen their employer, especially its Board of Directors, turn on them re-

[1] Attached is a list of TTD member unions.

peatedly. Meanwhile, because of the processes under the Railway Labor Act (RLA), collective bargaining agreements do not expire but become amendable at a certain date. In other words, if no new agreement is entered into by labor and management, the current contract remains in place interminably. That is exactly what has happened at Amtrak and, frankly, the company's negotiators have stonewalled and refused to engage in any meaningful negotiations. The result is that Amtrak workers, already the lowest paid in the industry, continue to fall further behind their counterparts in the freight and commuter railroads who make up to 20 percent more in comparable jobs.[2] Members of the committee, I am concerned that if this trend continues we will see more and more Amtrak employees leave their positions for more attractive jobs with the freight and commuter carriers.

I am heartened by the public comments of the new Amtrak President and CEO who has formally declared (in Amtrak's budget submission to Congress) that the settlement of collective bargaining agreements is one of his seven priorities for the coming year. Hopefully, Mr. Kummant will repair the badly ruptured labor-management relations he inherited last year when he accepted the CEO position. While Mr. Kummant's public position is a welcome departure from past Amtrak management teams, it is time to move beyond the rhetoric and finally resolve the bargaining stalemate that is making it nearly impossible for labor and management to work together towards making Amtrak the world's finest passenger rail system. We hope this committee will insist that new contracts get settled and that Amtrak stop this cycle of securing Federal funding but refusing to provide its workforce with—as Mr. Kummant wrote—"reasonable wage increases."

There have also been attempts over the years to contract-out jobs at Amtrak to the lowest-bidder with little regard for the impact such a move would have on delivery of vital services. There are also safety and security questions raised when onboard positions and maintenance posts are targeted by the drive to outsource. And history is replete with examples of badly botched contracting out plans that paint a sad picture of incompetence, mismanagement and shabby service. In last year's committee passed bill, Senators Murray and Byrd inserted language that would have prevented Amtrak from using Federal money to outsource work overseas. We supported this language but more broadly would urge the committee to monitor closely any attempts by Amtrak to pursue reckless outsourcing initiatives that jeopardize service, security, safety and jobs.

Of course, there are those that still believe Amtrak should somehow "turn a profit" or only offer service that is "commercially responsible." Others believe private companies should be permitted to cherry-pick the most lucrative parts of Amtrak's national system such as its Northeast Corridor, jettison the rest and leave the States to fend for themselves. Great Britain tried this approach and failed miserably. We reject these propositions and fortunately, so do a substantial majority in Congress.

As public transportation privatization scholar Elliot Sclar wrote:

Proposals to privatize Amtrak rest on hopes that its deficits can be eliminated. But privatization will not cut the operating deficit unless it shrinks passenger rail service. And far from yielding more efficient operation, privatization will make Amtrak more cumbersome. That is the primary lesson of Great Britain's recent experience with privatization and reorganization.[3]

Amtrak is part of our vast network of publicly supported transportation services. No mode of transport in America can succeed without some form of public subsidy. This is the standard worldwide. Economic powers and emerging nations around the globe spend billions on passenger rail because they know that a strong economy is dependent on a strong transportation system and infrastructure. There is no substitute for a transportation system that can move our people and goods safely and efficiently.

Amtrak should be efficient, it should recover as much as possible from the farebox (which it does), and it should offer the best service at the most reasonable price. But in the end, Amtrak will always need substantial public support—as does our aviation and air traffic control system, our mass transit and commuter rail systems, our ports and our highways, and America's entire public infrastructure.

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[2] In 2003, the rail unions released a study on Amtrak wage data prepared by expert labor economist Thomas Roth. It definitively showed that labor costs at Amtrak, including wages and benefits, have remained constant over 21 years and have actually declined in real dollars; wages have also been well below the prevailing rates of those working in the freight and commuter rail industry.

[3] Amtrak Privatization: The Route to Failure. Elliot D. Sclar. 2003. Economic Policy Institute.

It is time for Amtrak to receive the resources it needs to succeed. And that investment must recognize that the cost of doing business as America's national passenger railroad includes paying fair wages to Amtrak's 20,000 workers.

Thank you for the opportunity to testify this morning. TTD and our members unions look forward to working with you throughout the fiscal year 2008 appropriations process. I would be happy to answer any questions the committee may have.

ATTACHMENT—TTD MEMBER UNIONS

The following labor organizations are members of and represented by the TTD:

Air Line Pilots Association (ALPA); Amalgamated Transit Union (ATU); American Federation of State, County and Municipal Employees (AFSCME); American Federation of Teachers (AFT); Association of Flight Attendants-CWA (AFA–CWA); American Train Dispatchers Association (ATDA); Brotherhood of Railroad Signalmen (BRS); Communications Workers of America (CWA); International Association of Fire Fighters (IAFF); International Association of Machinists and Aerospace Workers (IAM); International Brotherhood of Boilermakers, Blacksmiths, Forgers and Helpers (IBB); International Brotherhood of Electrical Workers (IBEW); International Federation of Professional and Technical Engineers (IFPTE); International Longshoremen's Association (ILA); International Longshore and Warehouse Union (ILWU); International Organization of Masters, Mates & Pilots, ILA (MM&P); International Union of Operating Engineers (IUOE); Laborers' International Union of North America (LIUNA); Marine Engineers' Beneficial Association (MEBA); National Air Traffic Controllers Association (NATCA); National Association of Letter Carriers (NALC); National Conference of Firemen and Oilers, SEIU (NCFO, SEIU); National Federation of Public and Private Employees (NFOPAPE); Office and Professional Employees International Union (OPEIU); Professional Airways Systems Specialists (PASS); Sailors' Union of the Pacific (SUP); Sheet Metal Workers International Association (SMWIA); Transportation-Communications International Union (TCU); Transport Workers Union of America (TWU); United Mine Workers of America (UMWA); United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (USW); United Transportation Union (UTU).

Senator MURRAY. Thank you.

Mr. Serlin.

STATEMENT OF ROBERT SERLIN, PRESIDENT, RAIL INFRASTRUCTURE MANAGEMENT, LLC

Mr. SERLIN. Thank you.

Madame Chairman, Ranking Member Bond, distinguished committee members. Thank you for inviting me to testify.

Recently the IMO plan, the Infrastructure Management Organization Plan, received a wonderful criticism. I was told the plan sounds too good to be true. I'm here today to tell you the plan is good, and that it is true. I'm also here to free up for you, and your committee, more than $1 billion, this year, and for each of the next 50 years.

Instead of Amtrak requiring appropriations for its own infrastructure, the private sector is willing to fund it. Bridges and tunnels will be constructed, tracks will be laid, 14 new stations and parking will be built.

Under the IMO Plan, Amtrak's owned infrastructures will be spun off into a federally owned company. The right to manage that company for a 50-year period will be granted to a private entity through an open, transparent, public solicitation, run by the Surface Transportation Board.

The IMO Plan is a win, win, win solution. The Federal Government, taxpayers, Amtrak, the States, labor, and—most importantly—the traveling public, will all come out ahead. Your subcommittee and the taxpayers will come out ahead, being relieved of the obligations to fund Amtrak's own infrastructure. And Amtrak's required ongoing subsidy should only be around $500 million.

Amtrak comes out ahead. Amtrak is a minority user of its own corridor, yet it is funding all of the corridor's infrastructure costs. This allows other users to pay only the avoidable costs. Under the IMO Plan, Amtrak would have no infrastructure cost and would simply pay, as it already does on 98 percent of its route miles, a track usage fee. By implementing the IMO Plan, Amtrak can focus on providing rail passengers transportation services.

The Northeast Corridor States come out ahead. For the first time ever, infrastructure investment is guaranteed at a minimum level of $600 million per year, or more than 2.5 times what is currently being invested. And this entire amount from the $17.5 billion RRIF loan—the repayment of which is fully secured—therefore, to the Federal Government, it's a risk-free undertaking.

The Northeast Corridor commuter carriers are protected, because all preexisting contracts and agreements are transferred to—and must be honored by—the IMO. Additionally, as in the Lautenberg-Lott bill, the Northeast Corridor States will gain a stronger voice and role through the reconstituted Northeast Corridor Coordination Board and Northeast Corridor Safety Committee.

The non-Northeast Corridor States come out ahead, because Amtrak's Northeast Corridor infrastructure costs will no longer show up in the financial accounts of trains going through their States. This makes the operating costs of the Empire Builder—serving Senator Murray's Washington or Kansas City Mule going through Senator Bond's Missouri—more transparent, because it will no longer reflect the Northeast Corridor-infrastructure incurred costs.

Labor comes out ahead. Under the IMO Plan, the IMO is required to offer employment to all Amtrak employees performing infrastructure work. The IMO is also required to honor existing collective bargaining agreements and rights, and it is obligated to fund the back pay requirement for all Amtrak employees. If RIM, my company, is awarded the right to be the IMO, we intend to immediately negotiate higher rates of pay for those employees agreeing to work with us.

As Senator Murray said, we can not pay significantly less than the regional and commuter carriers, and still retain the quality workforce we require. We will also offer employees signing bonuses and back pay effective to the year 2000. This translates into a payment ranging from $10,000 to $25,000 per employee. In addition, RIM will contribute sufficient monies to a trust fund to settle Amtrak's full back pay obligation to those employees remaining with Amtrak. RIM believes that in the long run, paying more will cost less.

And finally, the traveling public comes out ahead. Under the IMO plan, train riders will enjoy more frequent service, increased travel options, new city pairs, and very likely lower prices, which is exactly the vision Senator Lautenberg expressed yesterday at his hearing.

Reliability and security redundancy will be increased, while trip times will be reduced, as the IMO addresses deferred maintenance, and makes major new capital investments. Washington-New York trip times will be reduced from roughly 3 hours to roughly 2 hours as Acela trains finally achieve their 150-mile-per-hour top speeds.

Senator MURRAY. Mr. Serlin, if you can summarize quickly that would be great.

PREPARED STATEMENT

Mr. SERLIN. Sure.

Ultimately, the IMO Plan is about growth. This means providing an infrastructure base that allows more reliable service at higher speeds and lower prices. We are convinced this plan will work. We're willing to bet our own money on it. The business model is simple. The more riders, equal more trains, equal success for the IMO, and this is what attracts investors, and what will attract Wall Street.

[The statement follows:]

PREPARED STATEMENT OF ROBERT SERLIN

Madame Chairman, Ranking Member Bond, and distinguished committee members, my name is Robert Serlin. I have, for over 20 years, developed business solutions to revitalize capital-intensive transportation and basic commodity companies. I am President of RIM Services, LLC.

Thank you for inviting me to comment on Amtrak's financial condition, efforts Amtrak has made to improve its financial condition, and Amtrak funding options. I will limit my comments to—

—exploring a new Amtrak funding option that can revitalize Amtrak's owned rail properties in the Northeast and Midwest;

—eliminating much of Amtrak's private-sector debt; and

—giving this subcommittee a means to reallocate limited transportation budget dollars to other priorities, including enhanced rail passenger service.

In 1997, JP Morgan—currently the third largest bank in the United States—invited me to assemble a group of experienced rail industry professionals and companies to develop a plan to address Amtrak's recurrent funding problem. Ultimately, using techniques from existing legislation and Federal programs, a method to inject significant non-appropriated funds into Amtrak and its owned infrastructure was identified. The solution was embodied in the Infrastructure Management Organization ("IMO") Plan.

The IMO Plan, developed as a direct result of numerous meetings with stakeholders interested in better intercity rail service—

—preserves Amtrak as our country's single national passenger rail carrier;

—keeps all of Amtrak's assets under Federal ownership and oversight;

—frees monies to this subcommittee to appropriate as the Federal share under Lautenberg-Lott; and, most importantly,

—provides a platform to grow train services and rail industry employment.

BACKGROUND

Amtrak is active in two different businesses: furnishing rail transportation services, and owning and operating rail infrastructure.

—The rail transportation services business is a variable cost business. New train services can be added and existing train services dropped or modified on short notice with few drastic or unforeseeable financial consequences.

—The rail infrastructure business, in contrast, is a fixed cost business. Infrastructure projects take years, sometimes decades, to implement. During the implementation period, there is very little to show other than large front-loaded outlays. Furthermore, once completed, those formerly new infrastructures must be repaired, maintained and upgraded—invisible tasks, for which the public has little appreciation, and consequently, for which it has proven not possible to appropriate funds.

Amtrak's owned rail infrastructure is the overwhelming problem. Though it has been recognized for decades as the part of Amtrak that singularly requires the most funds, this is a truth no one dares to speak. Amtrak cannot live without using its owned infrastructure, but it also cannot afford to keep it.

While Amtrak operates passenger trains over roughly 23,000 route-miles, it owns and is responsible for only about 2 percent or 600 route-miles (about 500 route-miles in the Northeast and about 100 route-miles primarily in Michigan).

Former Amtrak President David Gunn stated in a Railway Age article that it is a myth that Amtrak's long-distance trains are the primary source of Amtrak's losses. "Out of our current year Federal subsidy of $1.05 billion, only $300 million will go to covering the operating loss of long-distance trains."[1] Kenneth Mead, former Inspector General, U.S. Department of Transportation, found that eliminating long distance trains would only reduce operating losses by $300 million.[2] In 2003, Amtrak lost approximately $1.3 billion.[3] Consequently, losses of about $1 billion must be attributable primarily to Amtrak's owned infrastructure.

A previous Amtrak President, W. Graham Claytor, Jr., once said Amtrak would be unfundable were the country to recognize that the great majority of Amtrak's annual appropriations went into Amtrak-owned rail infrastructure in just a few Northeastern States. On a route-mile basis, two States alone account for over 50 percent of Amtrak's owned Northeast Corridor infrastructure.

Even without political considerations, it is inherently harder to secure public support for infrastructure projects than for transportation services. Infrastructure investment benefits are not immediately, publicly apparent and can easily be delayed with few immediately visible consequences. Yet, infrastructures must be funded. Without continuous funding, infrastructure will deteriorate to the point of being unusable.

Since 1997, the Department of Transportation's Inspector General, the Government Accountability Office and, most recently, numerous members of Congress have reached the conclusion: the status quo is not sustainable and change is necessary.

Ken Mead, the former Department of Transportation Inspector General put it most succinctly on September 21, 2005 when, before the House Committee on Transportation and Infrastructure, Railroads Subcommittee he stated: "We have testified numerous times since Amtrak's authorization expired in 2002 that the current model is broken. Amtrak continues to incur unsustainably large operating losses, provide poor on-time performance, and bear increasing levels of deferred infrastructure and fleet investment on its system."[4] Infrastructure degradation reduces service reliability, and jeopardizes all of Amtrak and its national rail system.

The IMO Plan offers a solution both to Amtrak's short-term funding requirements and the two-pronged challenge of Amtrak's infrastructure needs—injecting new current maintenance funds annually into Amtrak's owned Midwest and Northeast infrastructures, and addressing Amtrak's looming $9 billion deferred maintenance liability.

Under the IMO Plan, the IMO—

—makes a one-time payment of about $2.0 billion to Amtrak;

—assumes from Amtrak almost $750 million in infrastructure-secured debt;

—funds the back pay for Amtrak employees (estimated by Amtrak to be about $200 million); and

—invests not less than $600 million annually in Amtrak's owned Midwest and Northeast infrastructures.

THE IMO PLAN

The IMO Plan separates Amtrak into two federally-owned entities.

The first Federal entity, Amtrak, continues its primary responsibility as a transportation service provider. It retains the reservations system, locomotives, passenger cars, maintenance of equipment workshops, and operating rights on the Nation's rail network. It continues to operate all of its current intercity, Northeast Corridor and contract commuter trains.

By separating Amtrak's train operating functions from its owned infrastructure, William Crosbie, Amtrak's Senior Vice President of Operations estimated that the current 46-State network can be sustained on an annual appropriation of under

[1] David Gunn, Separating Fact from Fiction, Railway Age (May 2003).

[2] Hearing Before the Subcomm. on Railroads, Transp., H. Comm. on Trans. And Infrastructure, 109th Cong., 1st Sess., Dep't of Transp. Doc. No. CC–2005–070, at 8 (2005) (statement of Kenneth M. Mead, Inspector General, Department of Transportation) [hereinafter IG Testimony].

[3] See Nat'l R.R. Passenger Corp., 2003 Consolidated Financial Statement, Consolidated Statement Of Operations (2004).

[4] IG Testimony at 1.

$500 million[5]—significantly less than the $1.5 billion that Amtrak is requesting for fiscal year 2008.

The second Federal entity owns the 600 route-miles of Amtrak infrastructure, passenger stations on that infrastructure, and overhead wires that power the trains. The Surface Transportation Board (STB), in a process similar to its existing "directed service" authority, would conduct a public solicitation and select a private sector IMO from among the qualified applicants.

The IMO, for a period of 50 years, is responsible for managing and funding all rail infrastructure operations and improvements. This time period is necessary due to the very high level of front-end loaded investments—it is projected that the IMO will require about 15 years to generate enough revenue to break even. Each improvement becomes the property of the Federal Government as it is made. At the end of the 50 years, the Federal Government can either re-bid the management concession or operate the infrastructure itself. At any time during the concession, the designation of the IMO is revocable for cause.

FUNDING STRUCTURE

The IMO is financed using the existing Railroad Rehabilitation Infrastructure Financing ("RRIF") loan program. Under the Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2005 (SAFETEA–LU), RRIF program authorization was increased to $35 billion.

The IMO would be allowed to borrow up to $17.5 billion under the RRIF program, after having given the United States Treasury a repayment guarantee issued by an investment-grade third party in the amount of the full $17.5 billion.

As interest on the loan, the IMO is required to invest a minimum average of $600 million annually in the Federal Government's owned infrastructure. This "payment-in-kind" has been successfully used in other Federal Government initiatives in defense and power generation. On average, this statutory minimum investment exceeds by more than 200 percent the amount Amtrak currently spends annually on its owned infrastructure.[6] If my company—RIM—is designated the IMO by the STB, we foresee laying out in excess of $1 billion annually.

The IMO Plan does more than just shift the financial burden of Amtrak's owned infrastructure from Congress to the private sector; it provides natural incentives to increase capacity, services, reliability and safety. It is the IMO's responding to these incentives that translate into an increase in the number of passengers carried by all transportation service providers and, in turn, into new revenues for the IMO. Revenue increases come from new train services that pay track-mileage fees to the IMO and from which the IMO pays for infrastructure improvements.

STAKEHOLDER BENEFITS

The IMO Plan creates a platform upon which new and exciting rail services can be launched by Amtrak, existing commuter operators, or new transportation service providers, while the IMO, which is prohibited from operating trains, focuses on infrastructure management and improvements. The result will be more service options with greater access to both the Northeastern and Midwestern rail networks, allowing more passengers to enjoy the efficiencies and benefits of rail travel.

The Plan forces the IMO to innovate by developing new opportunities for transportation service providers. To meet these goals, the IMO must be a truly neutral party. This is achieved by not permitting the IMO to operate its own trains. The IMO may not compete with its customers—the users of the infrastructure it manages. The only way the IMO should succeed is if its customers succeed.

This vision of rail passenger service can be reached. The IMO Plan is the route:

—High-speed train trip-times between New York and Washington will be reduced from close to 3 hours to roughly 2 hours through capital expenditures that eliminate choke points and provide infrastructure redundancy.

—Commuter carriers will be able to integrate their services by operating new run-through trains, as the IMO adds infrastructure capacity, instead of being confined to historic geographic areas. For example, New Jersey Transit and SEPTA will each be able to save millions of dollars and be able to offer faster and more attractive travel options by instituting a pooled New York-Philadelphia service, instead of forcing all passengers to change trains at Trenton, NJ.

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[5] William Crosbie, Senior Vice President of Operations, National Rail Passenger Corporation, Remarks at Railway Age Conference (October 17, 2006).

[6] Right-of-way and Other Properties and Leasehold Improvements increased just $254.4 million in 2005. See Nat'L R.R. Passenger Corp., 2004–2005 Consolidated Financial Statements, Consolidated Balance Sheets (2006).

—New city pair combinations will be encouraged to permit rail passenger traffic to expand meaningfully. For example, Princeton Junction, NJ has sufficient population and business activity to support multiple direct trains daily to Baltimore and Washington. New riders will be attracted by convenient and faster direct trains offering expanded travel options.
—Building 14 new stations in the first 20 years at rail/highway intersections will attract more travelers though more convenient access.
—Dedicated airport express train services will help speed travelers to airline check-in while reducing airport overcrowding.
—Redundancy of infrastructure will provide more security and reliability.
—More employment will be created to build and maintain the enhanced infrastructure.
—Further employment will be created to staff and operate added train services.
—Carbon emissions will be reduced by seamlessly shifting travelers from automobiles to electrically powered trains.

STAKEHOLDER PROTECTIONS

Addressing the needs of principal stakeholders is a key element of the IMO Plan's win-win solution.

Federal Government

The RRIF loan principal is never at risk because it is fully secured by an investment-grade third-party guarantee in the full amount of the RRIF loan.

The Inspector General of the Department of Transportation is vested with the authority to certify compliance with the terms of the legislation. The IMO is also required to file with the Secretary of Transportation and Congress annual reports both of its audited financial results and its operations, thus ensuring accountability to the public and to Congress.

To align the long-term interests of the owners of the IMO to those of the Federal Government, ownership of the IMO is non-transferable for the full 50-year management concession term.

Under the IMO Plan, Congress continues to maintain oversight over both Amtrak and Amtrak's owned infrastructure, yet is relieved of the burden of funding Amtrak's owned infrastructure since the IMO, using non-appropriate funds, is now responsible. It frees Congress to focus more on transportation services that constituents demand, and that States and other governmental entities desire.

States

The States will gain a stronger voice and role in infrastructure investment through the reconstituted Northeast Corridor Coordination Board and the Northeast Corridor Safety Committee.

Multi-State compacts are not required and States are not obligated to fund the maintenance of or capital expenditures in the Government's owned infrastructure. Under the IMO Plan, State-requested projects may be expedited either by the IMO advancing funds to a State or the Department of Transportation providing funds to a State under a grant program.

Amtrak

The IMO Plan improves Amtrak's financial statements by—
—transferring $2 billion to Amtrak;
—assuming from Amtrak up to $750 million in infrastructure-secured debt; and
—relieving Amtrak of its responsibility for the roughly $1 billion in annual losses attributable to Amtrak's owned infrastructure, most of which are incurred in just 5 Northeastern States.

Commuter Carriers and Freight Railroads

Vested commuter carriers and freight railroads with operating rights must also be protected. All pre-existing contracts and agreements are transferred to and honored by the IMO, including the commuter carriers' "avoidable cost" access fee structure codified in Title 49, United States Code.[7]

This furnishes Amtrak the means and allows it the time to address the needs of its entire 46-State system, including the need to acquire new passenger cars and locomotives.

[7] See 49 U.S.C. § 10904.

Labor

The existing Amtrak employees are a great and irreplaceable resource. Labor must be treated fairly and equitably in order to assure the success of the IMO. Wages must be increased to be competitive in the region.

Under the IMO Plan, the IMO is required to offer employment in seniority order to all Amtrak employees performing infrastructure work to be performed by the IMO. The IMO is also required to honor existing collective bargaining agreements. If RIM is awarded the right to be the IMO, it intends to negotiate Northeast-competitive rates of pay and working conditions for those employees to whom it offers employment.

Many of Amtrak's employees have been working for over 7 years without contract base rate increases. As a result, there is pressure on many of these highly qualified workers to join commuter carriers or retire early. This potential loss of experience would be highly detrimental to the development of improved passenger services.

To assure the future integrity of both Amtrak and its owned infrastructure, I personally believe that a fair wage settlement, including full back pay for the IMO's employees must be implemented quickly. To encourage Amtrak employees to accept employment with RIM, RIM will also offer signing bonuses. This translates into payments (signing bonuses and back pay) in amounts ranging from $10,000 to $25,000 per employee. In addition, RIM is prepared to contribute sufficient monies to a trust fund to settle Amtrak's full back pay obligation to those employees remaining with Amtrak.

If RIM is awarded the right to be the IMO, with regard to the IMO's employees, it intends to—

—resolve outstanding proposed contract changes by offering rate increases to make wages competitive with the commuter carriers in the area and by paying full back wages from January 1, 2000;

—withdraw Amtrak's proposed concessionary contract changes, including Amtrak's proposal that employees pay a portion of their health and welfare premiums; and

—negotiate for working conditions that provide quality of life improvements without adversely effecting productivity.

In a more general vein, the IMO Plan—

—furnishes incentives to resolve the outstanding section 6 contract notices;

—preserves collective bargaining agreements and rights, including labor representation for IMO employees;

—makes the IMO subject to the Railway Labor Act, the Railroad Retirement and Unemployment Insurance Acts, FELA, and all rail safety legislation and FRA regulations; and

—protects employees affected by the transfer.

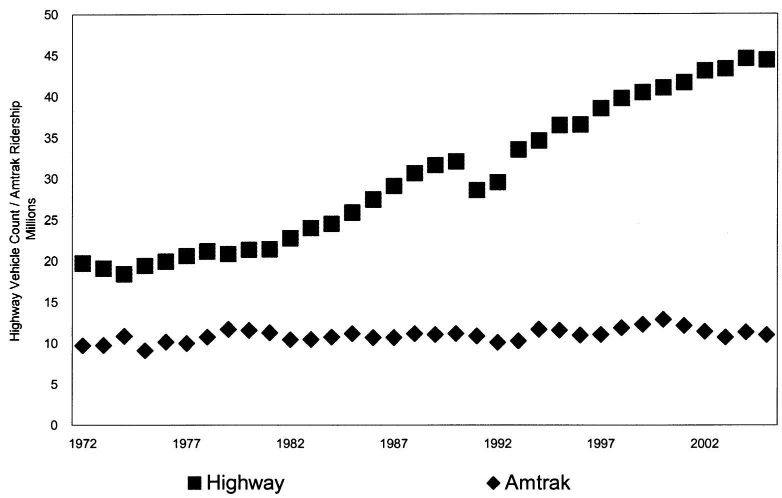
The Traveling Public

For the traveling public, reliability and security redundancy will increase, while trip-times will be reduced by the IMO's addressing deferred maintenance through aggressive engineering and construction, and major new capital investments. Train riders will also enjoy more frequent service, increased travel options, new city pairs, and—very likely—lower prices.

The traveling public is looking for transportation options. RIM believes that rail can offer such options, but it requires a new vision. In 1974, at the high of the first energy crisis, Amtrak reported carrying approximately 10.9 million Northeast Corridor riders, compared to approximately 11 million riders in 2005. Despite the fact that the number of I–95 automobile trips more than doubled over the same period of time,[8] Amtrak's ridership remained flat. The following graph shows this long-term divergence.

[8] Amtrak—1972: ICC freight railroad filings; 1973: Nat'l R.R. Passenger Corp., 1973 Consolidated Financial Statement (1974) extrapolated; 1974, 1976–1978, 1980–1986: former Amtrak personnel; 1975, 1979, 1986–2000: Nat'l R.R. Passenger Corp., 1975, 1979, 1986–2000 Consolidated Financial Statements (1976, 1980, 1987–2001); 2001, 2002: extrapolated; 2003–2005: 2003–2005 Consolidated Financial Statements (2004–2006). Highway—Maryland Department of Transportation, State Highway Administration.

Northeast Corridor Mode Trends



RIM believes that Amtrak, unburdened by infrastructure ownership, can fulfill the new vision.

THE STATUS QUO HAS FAILED—AMTRAK'S HIDDEN LIABILITY

Amtrak's owned infrastructure, particularly its Northeast Corridor, suffers from many years of deferred maintenance and depreciated assets. Major infrastructure components, renewed in the early 1980's, are now approaching the end of their useful and reliable lives, and will soon have to be replaced.

According to Kenneth Mead, former Inspector General, U.S. Department of Transportation, "Amtrak [had in 2002] an estimated $5 billion backlog of state-of-good-repair investments, and underinvestment is becoming increasingly visible in its effects on service quality and reliability."[9] Due to the continued inability of Amtrak to maintain its infrastructure and construction project inflation over the last 5 years, RIM estimates this liability today to be around $9 billion.

If Amtrak's deferred maintenance is not addressed in a timely manner, the integrity of the Federal Government's owned infrastructure will be in jeopardy. Trip-times will be increased. Service will be degraded. Safety could be compromised.

The General Accounting Office (now Government Accountability Office) defines "state-of-good-repair" to be a condition requiring only cyclical maintenance. The last time the Northeast Corridor was in a state of good repair, was in 1981 at the conclusion of the Northeast Corridor Improvement Project.[10]

If all we do today is desire to bring the corridor up to a state-of-good-repair, we are aspiring to return it to its state in 1981. Is that our goal in 2007, to return the corridor to its condition in 1981?

RIM's answer is: No! RIM believes that the Northeast Corridor should move into the 21st century and is prepared to make the investments to bring it there.

Through enactment of the IMO Plan, the repair, operations, and improvement of Amtrak's owned infrastructure is fully funded using non-appropriated funds.

The following graph shows the positive effects of transferring the Federal Government's infrastructure liability to the private sector and of reducing—by about two-thirds—Amtrak's required annual appropriations.

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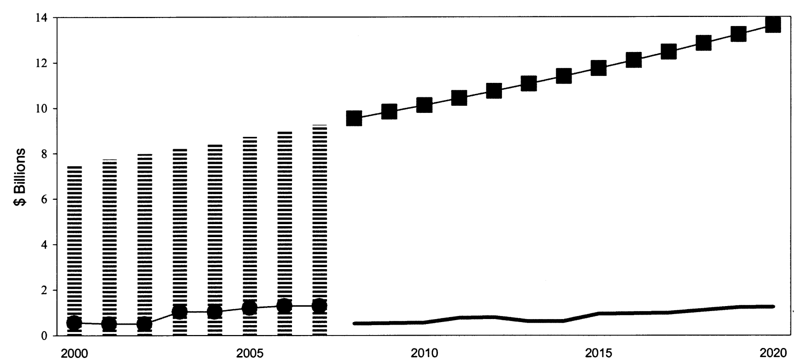
[9] IG Testimony at 7.

[10] Briefing Report to the Chairman, Subcomm. on Surface Transp. and Merchant Marine of the S. Comm. on Commerce, Science and Transp., 104th Cong. 1st Sess., Gen. Accounting Office Doc. No. RCED–95–151BR, at 47 (1995).

Amtrak's Hidden Liability



Historic Cummulative Cost to Remove Deferred Maintenance
Federal Liability to Fund Deferred Maintenance Removed Under IMO Plan
Historic Appropriated Amtrak Grants
Amtrak Appropriated Grants Required Without Infrastructure

APPROPRIATION CHALLENGES

The Federal Government is able to fund Amtrak's annual operating budget. Amtrak's transportation services-related commitments (whether capitalized or expensed) tend to be completed in less than 1 year—a time period that corresponds to an appropriation cycle. Those outlays are expended throughout the 46 States through which Amtrak operates.

The Federal Government has been unsuccessful at funding all of Amtrak's capital improvements and infrastructure investments. Infrastructure undertakings tend to be multi-year in nature and, to be implemented efficiently and cost-effectively, require multi-year funding commitments. They, by their very nature, do not conform to the appropriations process. This has resulted in the massive and increasing deferred maintenance liability shown above.

On January 16, 2007, Senators Lautenberg and Lott, joined by other members of this subcommittee, introduced S. 294—the Passenger Rail Investment and Improvement Act of 2007 (PRIIA). The IMO Plan is highly complementary with PRIIA.

SOLUTION AT HAND

By increasing the RRIF loan authority in 2005, Congress expanded a loan program that enables the private sector to fund our Nation's rail infrastructure multi-year investments. The vehicle to achieve this is the IMO Plan—a Plan that benefits labor, the Federal Government, States, the commuter carriers, and Amtrak.

By passing the IMO Plan, Amtrak's infrastructure improvements and debt repayment appropriation-requirements will be reduced by over $1 billion annually. And, that $1 billion will be available to this subcommittee to allow Federal funds to focus on providing enhanced passenger rail service to the United States.

The IMO Plan is a win-win opportunity for the Nation's rail passenger stakeholders—labor, the States, rail passengers, transportation service providers, Amtrak. It provides a solid base upon which to build the modern rail passenger network that government leaders and travel advocates have championed for the past 30 years.

Thank you for providing me the opportunity to testify, and I welcome questions you might have.

BENEFITS OF THE IMO PLAN

The IMO Plan:

- **Reduces Amtrak's annual appropriation requirement by over $1 billion**
- **Removes all infrastructure ownership costs from Amtrak and can eliminate Federal infrastructure appropriations**
- **Retains full Federal Government ownership of all Amtrak infrastructure assets**
- **Keeps Amtrak as the single national rail passenger carrier**
- **Assures Amtrak's infrastructure employees their positions, preserves their collective bargaining agreements and rights, and funds their backpay requirements**
- **Invests over 200% more annually in Amtrak's owned infrastructure than now**
- **Permits Amtrak to match passenger revenues with train costs to increase accounting transparency to public agencies**
- **Allows Amtrak to run entire current National System for appropriations under $500 million annually**
- **Results in improved intercity passenger service throughout the nation**

SUPPLEMENTAL STATEMENT

Under the Infrastructure Management Organization ("IMO") Plan, the Federal Government continues to own all of Amtrak and all of the real property Amtrak owns today, including all of Amtrak's owned rail infrastructure ("AOI"). The IMO, an entity selected by the Surface Transportation Board from a pool of competing applicants, will upgrade and maintain AOI on behalf of the Federal Government for a period of 50 years. During this period, neither the States nor the Federal Government is obligated to fund the maintenance of or capital expenditures on Amtrak's owned infrastructure. If selected, my company—RIM—anticipates spending more than $1 billion annually on AOI for each of the 50 years that it will be the IMO.

The IMO Plan provides a zero scoring funding mechanism to maintain and expand Amtrak's owned infrastructure, while providing Amtrak with a one-time payment of $2 billion of non-appropriated funds and relieving it of almost $750 million in infrastructure-secured debt.

Under the IMO Plan, labor is protected: the mechanism is established to settle all section 6 notices; back pay to all Amtrak employees, including those who remain with Amtrak, is paid in full from funds furnished by the IMO; and the IMO offers employment—in seniority order, under existing contracts and representation—to all current Amtrak infrastructure employees. The IMO will be subject to the Railway Labor Act, FELA, the Railroad Unemployment Insurance Act and Railroad Retirement. The enabling legislation will also provide for expedited claim settlements for infrastructure employees.

The IMO Plan allows Amtrak to improve its balance sheet, so that it can operate its entire existing 46 State national passenger rail system on a subsidy of about $500 million annually. Amtrak receives more money, more quickly than any other plan being discussed.

Senator MURRAY. Thank you very much.

AMTRAK'S OPERATING COSTS

Mr. Boardman, the Bush administration's budget that you sent us is, again, proposing a drastic funding cut to Amtrak. And once you set aside that $100 million that you're proposing for State grants for our new passenger corridors, your budget request cuts direct support for Amtrak by almost 40 percent.

In your written testimony you said, "The request for operating subsidies is sufficient to avoid a bankruptcy provided Amtrak acts to cut costs by focusing on core services." So, Mr. Kummant, I wanted to ask you, can your railroad avoid bankruptcy if we accept the administration's proposal to cut funding by 40 percent, and limit your operating support to $300 million?

Mr. KUMMANT. Well, we would have to go through and drastically reduce services overall. We certainly haven't run scenarios on that. There are also a lot of payments that go to employees if the work is terminated. So, in other words, legacy costs continue for some time if, in the extreme case, for example, if you would shut down today, in total there'd be a whole stream of costs associated with existing contracts, as well as honoring labor commitments. So it would be very, very difficult.

Let me say this though, I guess I take the administration's statement as, in a sense, a philosophical challenge or statement for us to continue work on reduction, on continuous improvement, and really change the culture of the organization to be far more motivated in that direction. I take that as a philosophical challenge, and I think that's what our newly constituted management team is about.

The specific number is obviously very difficult to achieve, but again on a philosophical point, I would say that we embrace the challenge.

Senator MURRAY. So it's a nice talking point, but you expect us to provide the dollars—otherwise, bankruptcy.

Mr. KUMMANT. Perhaps your words not mine, but I think it would be very, very difficult to function under that specific financial scenario.

Senator MURRAY. Mr. Tornquist, let me ask you. The Inspector General's office has consistently advocated efforts by Amtrak to reduce its operating costs. Do you see a way that Amtrak could avoid bankruptcy if we enacted the President's proposed budget?

Mr. TORNQUIST. No, we don't believe that Amtrak would remain viable at the President's request level. We have recommended ways that they could save money, but it seems a bit aggressive to assume they're going to save all that money in 1 year.

Senator MURRAY. So, you don't see any way they can cut their budget that dramatically?

Mr. TORNQUIST. I don't see how they could cut their staff and their budget quickly enough to live within the President's request.

Senator MURRAY. Mr. Boardman, I think if I heard you correctly, you said the GAO and IG have endorsed your proposal to cut Amtrak operating figures to $300 million—maybe I should ask Mr. Tornquist—have you endorsed that proposal?

Mr. TORNQUIST. We haven't endorsed it, if I remember Mr. Boardman's statement, he said that we had suggested ways that Amtrak could save money and GAO might have suggested similar ways, and we have suggested ways, but not in the amounts in the time frame that the administration is talking.

Senator MURRAY. Mr. Boardman, did I hear you?

Mr. BOARDMAN. No, I didn't say they endorsed, Madame Chairman. What I said was that the Government Accountability Office, the IGA, and others have recently presented options for achieving savings.

Senator MURRAY. Okay, I thought I heard you say endorsed and I wanted to find out where the GAO had endorsed that, as well. So, you're telling me that's not what you said.

Mr. BOARDMAN. If I used the word, it was inappropriate, I didn't mean it.

Senator MURRAY. Okay, Mr. Wytkind, there is a footnote in your testimony that states that wages at Amtrak are now well below the prevailing rates and the freight and commuter railroads. Mr. Kummant, do you agree with that observation?

Mr. KUMMANT. Yes, we have big gaps that certainly have opened up, and many of the proposals we have on the table have closed those gaps, but the way the current status is, that is true.

Senator MURRAY. What impact do those wage differences have on your ability to retain skilled craft people?

Mr. KUMMANT. Oh, it's certainly a problem, particularly in the high skilled areas. We're very challenged with electricians, for example, who can command good wages elsewhere, and a number of skilled positions. So it's certainly a core issue for us.

Senator MURRAY. Mr. Wytkind do you want to comment on that?

Mr. WYTKIND. Yes, it's really quite astounding that we're in the position we're in, having employees have to wait 8 years—and potentially more—to have general wage increases, ends up creating this mass exodus environment. I can't give you specific data today, but it's very clear that, you know, American workers are smart. If they see better opportunities in other employment venues, they will pursue them. So this shortage that Mr. Kummant refers to, I believe, becomes exacerbated over the next several months and years if we don't resolve these issues. We have workers that are making as much as 20 percent less than their counterparts in the commuters and the freights. And in the event the freight collective bargaining agreements get achieved in the coming weeks or months, that will again further bump those workers even further ahead of Amtrak workers. So, it's a real problem that needs to be resolved.

Senator MURRAY. You talked in your testimony about getting a contract nailed down affecting morale and other things. Do you see any other ways in which Amtrak's Board of Directors or, and the labor force might work together more cooperatively?

Mr. WYTKIND. Well, I think it's very clear that the employees of this company during these very difficult years have really been at the front line of keeping this company operating. Mr. Kummant has, you know, in various ways basically said that, without these employees this company would have a very difficult time succeeding. And, yeah, we could cooperate more. We could work up here on Capitol Hill to find real sound reforms, and maybe we could work together to adopt many of the reform planks that you've articulated today in your opening comments, which I wholeheartedly embrace.

I think there is a way to work on it, but we will not get to that point if Amtrak continues to ignore the needs of its employees. Because our employees morale is as low as it's ever been, and more importantly, they're not going to continue to support and work with a company that continues to turn on them.

Senator MURRAY. Mr. Kummant, you want to make a comment?

Mr. KUMMANT. I don't have that much issue really with Mr. Wytkind's words. In fact, we spent a lot of time together, and are on the phone a lot. I have probably, personally, along with my VP of Labor Relations, done more personal outreach in the last 6 months than my predecessors have in the last several years. It's a thorny issue, it's a tough issue. One of the first objectives is to build trust, and to build an environment where dialogue is possible.

I do think going forward if the freight railroads do settle here shortly that will, in a sense, clear out some of the underbrush. It will likely set a pattern of sorts in a number of the areas that I think may give us another basis for going forward.

Senator MURRAY. Okay, thank you very much.

And Senator Bond I will turn to you.

MULTI-YEAR CAPITAL INVESTMENT PLAN AND THE NORTHEAST CORRIDOR

Senator BOND. Thank you, Madame Chair.

I have asked year after year for a detailed multi-year capital investment plan from Amtrak, and to my knowledge we've not seen it in Congress. I note on page 2 of your testimony and your statement that you will send to Congress a multi-year strategic plan on which we can base our decisions. When do you expect to send that to us?

Mr. KUMMANT. First, let me say I think we could give you very specific numbers on the Northeast Corridor over—in terms of capital needs over the coming years—we could deliver that to you in short order. We expect to have a broader strategic plan relative to expenditures across the country, probably in the April timeframe.

Senator BOND. Speaking of the Northeast Corridor, I have a chart here that shows State payments to Amtrak for train operations. It says that it's incomplete, but I note that Washington contributes $11.2 million, Missouri contributes $6.6 million for our humble little operations, but when I look down the list I see New York contributing $3.8 million, but I don't see any numbers for Maryland, New Jersey, Connecticut, Massachusetts—what are their contributions?

Mr. KUMMANT. Yes, I was just handed a chart. First, let me make the general point that we are really working through a process, top to bottom, to address all those issues. There are system trains where States don't pay. There are variable payment structures in terms of the history of the services. And as we rotate the whole organization to face the States and build that organization that's fundamentally an issue we need to clarify and, in fact, create an equity across. We need to have a very clear funding structure, almost a menu approach on services.

So, I don't have the numbers at my fingertips to respond to the specific question, other than that equity and clarity of those structures is one of the key goals of one of the executives, in fact, we recently brought in.

Senator BOND. Mr. Tornquist, have you looked into that?

Mr. TORNQUIST. We haven't specifically looked at it, but Mr. Kummant is right, that there is an equity issue across States. Some of the States don't pay for their service, some States do, some pay operating costs, some pay capital, some pay a combination. One of their reforms is to have a new State pricing policy. One of the issues that we've raised is the need to move ahead, some definition on that policy and get an implementation plan that is accepted by the stakeholders.

Senator BOND. We look forward to seeing it. Mr. Kummant, your discussion about the pay—and the inadequacy of pay—are there work rule changes which could enable Amtrak to operate safely and more efficiently, and be able to pay your skilled employees more?

Mr. KUMMANT. Sure, let me be very direct. Clearly, moving forward, the two fundamental issues on the table will be some sort of upfront bonus payment or back pay in Mr. Wytkind's terms, as well as workplace flexibility. We do need, in Amtrak's view, a more flexible workforce to build the groundwork for a 21st century operation.

I still believe that that's possible for us to jointly work on. I think we can get there, but it's thorny, it's tough, it clearly runs into the craft tradition, which is the cornerstone of the union structure. But yes, we do need to reform workplace flexibility issues, some of which date back many, many years.

Senator BOND. Mr. Wytkind, you probably have a comment on that.

Mr. WYTKIND. Well, I would say, I'm not going to comment specifically on each craft in the railroad industry because I'm certainly not the chief negotiator for each union. But, I've always viewed this workplace reform issue in the context of the Washington debate on what we do with Amtrak and its future funding needs as a bit of a red herring. The reality is that the employees of Amtrak over the years have gone through numerous renditions of a reform. Many of the reforms that the company insisted on in the 1980s and 1990s, they then came back to the bargaining table and said, "Oops, those didn't work very well, we want to retrieve those." And I could give you all kinds of good examples that have been submitted to the authorizing committee, which I could send you copies of, that explain some of the various reforms that have been tried, say on on-board service employees.

The history is filled with attempts to deal with "reforms," and at the end of the day reforming the workplace is not going to save this company from getting 40, 50 percent less than it needs from year in and year out, other than the fact that this committee has saved Amtrak from those funding crisis.

What's going to solve it is, labor and management working together and trying to find a way to cooperate on issues that modernize this company in a way that makes it effective and successful. But to just deal with these workplace issues as if they're going to solve Amtrak's problems, I think, is really frankly not going to work and is going to be disingenuous in terms of getting into this debate.

Senator BOND. Mr. Wytkind, I am disappointed in that because we are going to provide more money for Amtrak, we are demanding from Amtrak a comprehensive plan for the future. We have heard in many instances—Mr. Kummant said that there must be flexibility which would enable paying the workers more, and I would hope in—your negotiating posture, I understand—but we expect to see results because there are many areas in which we need not only to provide more money for Amtrak, but see reforms and see a clear vision for how it's going to work in the future.

Thank you, Madame Chairman.

Senator MURRAY. Senator Lautenberg.

Senator LAUTENBERG. I listen with great attention to the testimony of the witnesses, and I thank each one of you for your participation. I don't understand, I must tell you, why it is that we don't lay out the urgency of doing something about this, instead of lame reviews of what didn't take place in the past.

And I ask you, Mr. Boardman, and I quote from your statement yesterday in front of my other committee. "Amtrak is an outdated monopoly that is on a flawed business model,"—I take it Mr. Serlin would like to become the monopoly, you didn't say that, I said it—"it does not provide an acceptable level of service, nor has it been able to control the finances."

How long have you been on the board of the company?

Mr. BOARDMAN. Three months now, sir.

Senator LAUTENBERG. Three months. But you've represented, you're representing the interests and the views of the administration, are you not?

Mr. BOARDMAN. Yes, sir.

Senator LAUTENBERG. Did you fight back when they offered this budgetary plan for 2008?

Mr. BOARDMAN. We had discussions, they were lively discussions——

Senator LAUTENBERG. No, no, no.

Mr. BOARDMAN [continuing]. About what it is.

Senator LAUTENBERG. But the lively discussions, I had those. I used to run a very large company. The company has 46,000 employees today; a company I started called ADP with two other guys. So I know something about the corporate world. Lively discussions had to have a termination point, just like the railroad has. Are you satisfied with what you've presented here today?

Mr. BOARDMAN. We believe that it continues to provide the incentive for Amtrak to improve, and to reduce its costs. We believe that—when combined with the $2 billion that Amtrak has now in terms of revenue—the probably $200 million of cash reserves at the end of last year, that it continues to provide some difficult decisions that would have to be made to operate Amtrak next year.

Senator LAUTENBERG. I'm glad I'm not the patient and you're my doctor telling me what my condition is, Mr. Boardman.

What amazes me is that the Secretary of Transportation never went to a board meeting. Do you know whether Mr. Sosa has yet taken a ride on an Amtrak train?

Mr. BOARDMAN. You would have to ask Mr. Sosa that. I do not know, sir.

Senator LAUTENBERG. Has he?

Mr. KUMMANT. Yes.

Senator LAUTENBERG. You know when, and how often?

Mr. KUMMANT. I can't give you the details, but he certainly——

Senator LAUTENBERG. Because when he was being promoted for membership he had never been on an Amtrak train, and I think it's a worthwhile experience. And I submit to my friend from Missouri that New Jersey put $1.6 billion over the last decade in Amtrak for capital improvements. And a bill that Senator Lott and I have proposed, would require all Northeast Corridor States and Amtrak to revise the funding formula for those States just as the non-Northeast Corridor States are doing. So we're paying pretty much as we go. I'm sorry?

Senator BOND. I asked a question about how much the other States were providing?

Senator LAUTENBERG. How much are we providing? We're providing—the question is opening, we're talking about a formula, developing a formula for these States. So that, we know that we have to make contributions. As a matter of fact, we do make significant contributions, because the value of the travel that comes to the Northeast Corridor is manifested in every part of the county, every State of the country, to the world's financial center, and we provide the skills and the persons to do this. And they typically use Amtrak tracks to get from New Jersey to New York, and it's a very high level of use that is required.

And when we look back at the experience that we had not too many years ago, 9/11, a building in which I had an office and saw 50,000 people come to work everyday like one city, and Amtrak was the only thing that was able to transport people. Aviation was shut down, the highways were jammed and I don't understand, honestly, why it is that we argue about whether or not this cow that has never been fed properly doesn't give enough milk.

It just doesn't work, Mr. Boardman. And the request, I am shocked to hear what you say about this, about the condition of things, without acknowledging that there was total lack of interest by the President, and the administration, in having that board functioning in a way—because they were the ones on the job during this period of terrible performance that you talk about. Where was the Board of Directors as this failure, that you call it, was taking place? I don't get it.

So you voted to approve the funding that's presented here, in the President's budget?

Mr. BOARDMAN. In the President's budget we—I support the decision that was made.

Senator LAUTENBERG. So you don't believe this, these things about the inevitability of bankruptcy at this funding level?

Mr. BOARDMAN. I did not believe in bankruptcy when David Gunn said it. I think there are decisions that have to be made—difficult ones. And you have to make them early not to have a bankruptcy.

But I do understand your point. And if I could just add, for your benefit and the effort that went on, on the access fees last year, Senator Bond, that we determined at that time—and I was in the middle of that—that the States on the Northeast Corridor were contributing, and in fact, were contributing more than what was necessary.

Where Mr. Gunn again, I guess—and again I was in New York State—said that some States had a free ride. The State he was talking about at the time was New York State. New York State has the system trains that Mr. Kummant's talking about. New York should be paying between $20 and $30 million a year for those system trains. And I think that's the frustration and difficulty that comes from—whether it's Washington or Missouri and others. But in the middle of that we were negotiating with an Amtrak that could not complete our Turbo Program and we did not agree to the kind of things they needed.

And I think that's important for this debate, that we are, in fact, and have received the kinds of investments in the Northeast Corridor from the States in the Northeast Corridor that I think you're relating to.

And I thank you for that opportunity.

Senator LAUTENBERG. Thank you.

SEPARATION PROPOSAL

And Madame Chairman, forgive me for just a couple of seconds more, maybe a minute or so, if it's all right.

I listen with interest to Mr. Serlin's proposal, and I'm determined to be here when that loan is paid off that you want, that $17 billion. It means I have to run 6.5 more times.

We've seen the results of what happened in the United Kingdom, which is held out as an example of what you're proposing. Separating the infrastructure from the operating structure is quite a deal, because if you have the infrastructure available, you can build buildings, sell papers, do all kinds of things with those installations and take money in, but that doesn't mean that the railroad operates any more efficiently. You are going to call on rail professionals to run it, but it's quite a revelation when we see that this—Secretary Grayling said we think that—he's British Conservative Party—admits flawed rail privatization. "We think the separation has helped push up the cost of running the railroad, hence fares, have slowed decisions about capacity improvement. Too many people in organizations are now involved in getting things done so nothing happens."

Mr. Serlin, it's, I'm not sure that your proposal adds much to the debate here, because it ain't going to happen. That's the way it's going to be. This railroad is like all other railroads in other countries. It needs subsidy. It operates, it makes money during 2, 3 hours a day and the rest of the day you can't get by. So maybe we can send the workers home and have them come back for a couple of hours every day, Mr. Serlin. Thank you. Otherwise that doesn't bother me.

Senator MURRAY. Senator Lautenberg, thank you so much for you passion on this issue. We all appreciate it.

AMTRAK'S ON-TIME PERFORMANCE

As I talked about in my opening statement the on-time performance of many of Amtrak's trains really is disappointing. And sometimes the fault lies with Amtrak itself, but most of the time it really relates to the congestion with the freight traffic.

And Mr. Boardman, I wanted to ask you what measures have you taken, as the administration's top railroad official, to try and improve Amtrak's on-time performance over freight on track?

Mr. BOARDMAN. Thank you, Senator. I think on-time performance is probably my—one of my top priorities outside of safety itself, which I think Alex has figured out in the board meetings that I have attended. And, one of the things I understood as you gave your opening statement is that there wasn't necessarily an understanding at this point in time, that the capital program that we would propose wouldn't benefit existing corridors. Rather than putting in an entirely new corridor online, what we're really looking for is for States to start planning all of their transportation—whether it's highways, or rail, or whether it's aviation, or whatever it is—as a transportation plan in their States. And part of that would be to improve that corridor, the I–5 corridor.

And the way that you would do that—and one of the things I began to understand is—that a lot of times you get caught behind a freight train because the freights never intended to pass each other, they intended to be able to get by each other when they meet, rather than to have the ability to pass. So some of the improvements that could be made for the future using that capital program, could be passing sidings to allow an Amtrak train to get by instead of caught behind it.

I meet with every major class I railroad every year to talk about safety, but one of the things on the agenda is the importance for on-time performance that I expect them to have.

Senator MURRAY. Well, let me ask you, do you think the freight railroads are uniformly complying with both the letter and spirit of the law, in granting Amtrak trains preference?

Mr. BOARDMAN. I don't think there's uniformity in terms of the importance of this among the class 1 railroads. I think there has been difficulty explaining the importance of how we see that work for the future.

And I took a particular case example of the Southeast Corridor where there are the Silver Services, the Palmetto, the AutoTrain, and I know that Amtrak has as well. And even if you look on our website today, you'll find a linkage to the Southeast Corridor, where we're really trying to make a change in how we would manage that particular service. And the reason is—and I don't want to take up too much time—but the reason is because CSX operates on that corridor. Their main interest is their juice train and their UPS train. They don't have coal on that corridor, like so many of the difficulties we have across the country.

I think there's a new model that we can work out. I guess my point is, that we're trying to apply both the grant pressure, we're trying to—I'm trying to work with Amtrak itself, and with the freight railroads, to improve on-time performance.

Senator MURRAY. Under the law, freight railroads can apply to DOT for an exception from the requirement to provide preference to Amtrak trains. Has this administration ever received any applications from freight railroads for an exception?

Mr. BOARDMAN. I don't have an answer to that, I'll get you an answer to that. They haven't spoken to me since I've been here.

Senator MURRAY. Okay, I'd like to know that.

[The information follows:]

No, FRA has not received any applications under 49 U.S.C. 24308(c) from freight railroads seeking a Secretarial determination that the passenger preference should not be granted at a specific location.

STATE MATCHING GRANTS

Senator MURRAY. You talked a minute ago about the $100 million for State matching grants for the development of new passenger corridors and let me go into that a little bit more. Before we grant new money to leverage more State contributions I do think we have to look at the service the States are getting for their current contributions. You heard several times up here my State gets $11 million and Senator Bond's State gets about $6.5 million.

I'd like to ask, Mr. Boardman and Mr. Kummant, if you believe new money is part of the solution to easing freight congestion, shouldn't we focus some of our new dollars on improving current services before we try to launch new services? Maybe Mr. Kummant, if I could start with you.

Mr. KUMMANT. I don't disagree with that. I mean these problems are very thorny, and they are really grinding things out day by day. And as Mr. Boardman suggested, even looking at small projects; a siding, a signaling change, a crossover, to really opening things up. I do think we need to tie those expenditures to very specific gains to be made, and in some cases on existing services.

I would like to see some of those dollars, if possible, float toward equipment, as well, because I think that could have a fairly dramatic effect on the overall service, and perception of the service. But, again, the whole on-time question is as much about investment. I do think there are gains to be made in dispatching, and again it's a gut feel number, but perhaps 5 to 10 points of on-time performance, but not 30 or 40. And so it really in the end is about capital.

And—if I may say—it's almost a personal mission of mine to really build a different relationship between Amtrak and the freight railroads. And I've just completed a cycle of meeting all the U.S. CEOs, I'll meet the Canadians. And I think part of it is really just sitting down and getting everybody to agree that we are living in a different world than we did 10 years ago, and it has to be some commitment on their part at just a very personal level.

Senator MURRAY. Mr. Boardman.

Mr. BOARDMAN. I think I agree with you. I think we need to improve the existing corridors first. I think we would be looking at that from terms of, a priority as they would come to the FRA. When they had to put their projects on the STIP in the States I think they would have to evaluate that.

I think a more difficult problem, you almost related to it, is a lot of the States such as yourself that have made major investments, could be somewhat frustrated by the fact that, "Hey, we've gone ahead and made these investments and now we're being asked to put money on the table to make future investments." And I wondered about that myself.

If you look back at the interstate system, one of the things that New York always felt bad about was that they made this major investment in the New York State thruway and then, along comes the interstate highway system, which was providing the money necessary for the future. And my thought was that one of the ways that that got treated at the time was that there were credits given for the thruway that you could use as part of the matching requirement.

So, I don't think we've gone in far enough to understand that, how we would do that for the future, but certainly we're open to discussing that kind of thing.

Senator MURRAY. Okay. Well let me ask you one other question. Your proposed State-matching grant program only funds projects when the host freight railroad commits itself to 80 percent on-time performance for new train service. It makes sense to have a minimum on-time performance for new Amtrak services. Why hasn't the administration pushed for minimum on-time for current State-subsidized Amtrak services?

Mr. BOARDMAN. I don't have an off-the-top answer for that, but I'll get you one. I think we've tried to use different methodology and this just kind of tightens it up tighter.

[The information follows:]

This is a complex issue that the administration has been trying to tackle for some time. As the chairman noted in her opening remarks, the solution to this problem lies not only with Amtrak, but also with the host freight railroads whose track Amtrak operates over. The administration, through the FRA, has been trying for some time to influence the debate and push for safer and more reliable service for all railroads. In many instances, however, extensive capital investment is required in order to make the infrastructure improvements required to expand capacity, increase reliability and ensure safer operations. Host freight railroads have not always been willing or able to make those improvements. The $100 million grant program included in the administration's fiscal year 2008 Budget Proposal would help facilitate those infrastructure improvements.

VOLUME: AMTRAK VS. FREIGHT RAILROADS

Senator MURRAY. Okay, well when you look at Amtrak's on-time performance report, you see some extraordinary differences in the way different freight railroads treat Amtrak trains. We have two major freight railroads serving the western United States. We've got UP and BNSF. Somehow looking at this, Amtrak trains running over the Union Pacific are encountering twice the volume of delays for the same amount of train miles that are encountered by BNSF. What do you think explains that differing treatment?

Mr. BOARDMAN. I think there are probably various reasons. Certainly the Coast Starlighter, I don't have all the reasons to that. The most recent ones, though, were some rebuilding of track, and perhaps Alex can supplement what I'm about to say here, I don't have as good an understanding of that.

I know that it's extremely difficult to run trains through the coal chute—which I call the coal chute—through Nebraska and out on the California Zephyr has been a real difficulty. That's a UP. And when you see the Empire Builder, which is at about 74 percent, and Southwest Chief, I think, which is also run by the BNSF, you have much better numbers. I don't know Alex whether you might add to that for me.

Senator MURRAY. I think you used to work for UP.

Mr. KUMMANT. Yes, I guess I have to not sound not like an apologist in that sense, but let me make a couple of comments. BNSF does do a very nice job. Take, for example, when they run on their major Transcon route. There's some mix, but a very large amount of that traffic is inter-modal traffic that itself moves at 60 or 70 miles an hour. So it is easier for us to mix into that than in other traffic. Senator Bond and I chatted a little before the hearing—I used to actually run the River Sub, which is between Kansas City and Missouri and a tremendous amount of UP coal traffic goes across there and it's just a brutal thing to run. Some of it's single tracked, ice storms in the winter, mud slides in the spring, floods in the summer, and the operational performance there is just incredibly difficult.

So, in the end you have to go back and look at what commitment did we really make, but it's really a hand-over-hand climb on taking slow orders off, on undercutting, on adding those sidings. UP also has a very, very difficult time, obviously on the Sunset route, which is not fully double-tracked yet. And on the north-south Coast Starlight, a tremendous amount of slow orders. That being said, they have a huge capital program going forward, and we expect, for example, that we may be—in a sense from a marketing point of view—relaunching the Coast Starlight at the end of this summer when they're through with that work.

On the long distance trains there is some good news, although the absolute numbers are still low, we are actually up, year-over-year in 13 of the 15 long distance trains. Where we really need to focus, though, is on the State corridors, because on those shorter routes the on-time performance is all the more critical. So we're up only in 9 out of 15 and we're down in 6 out of 15. So there are no easy answers, except for grinding it out and UP still has tremendous amount of slow orders out there, and catch-up maintenance work that they're doing this year.

Senator MURRAY. Okay.

AMTRAK SERVICE TERMINATIONS

There are no other members present. I have a couple more questions, and appreciate all of your patience. Mr. Kummant, I wanted to ask you. Your formal grant request for the coming year for you long distance services, you say you may be implementing selected route adjustments? I wanted to ask you if those selected route adjustments are another name for service terminations?

Mr. KUMMANT. No, I think what we'll look at, there may be one long-distance route that we look at converting into a series of State corridors and have a multi-year plan to do that. We have absolutely no plans for wholesale service terminations, but the strategy that we're developing—and we'll be speaking about in April/May timeframe—will be looking at long term. Where do the State corridors really grow, and where are they dominant, and particularly where they overlay long distance routes. We ask ourselves, does it make sense perhaps to find some ways to focus on those segments and to grow those segments and perhaps then adjust the service into a series of State corridors, rather than a long distance piece?

Senator MURRAY. Do you anticipating any communities in this, in the rail service?

Mr. KUMMANT. Any communities?

Senator MURRAY. Are you going to eliminate any communities from your rail service?

Mr. KUMMANT. It could be. We may have to face some of that. We do know, for example, that we haven't run the eastern portion of the Sunset since Katrina. It is an example of what we're working through. It was not a great service to start with. It hit a number of communities late at night only three times a week. However, we'd like to look at some State corridor alternatives in that area. That decision hasn't been made, but that's an example. So selectively, yes, if those decisions are made there may be some communities affected.

Senator MURRAY. Mr. Tornquist, would you like to comment on Amtrak's need to implement route cuts?

Mr. TORNQUIST. Sure.

There is little secret that there are several routes in Amtrak's system that lose substantial amounts of money both in total and on a per person, per rider basis. There's only a limited amount that Amtrak can do to make those operations more efficient. They have a long-term goal, which we would agree to, of running an efficient system. Amtrak needs to look at its routes in light of the issues Mr. Kummant mentioned. This is something the Board has been looking at for the last year. Specifically, where does the service make sense, both in terms of the transportation standpoint and an economic standpoint? Amtrak then should determine where they can augment the service cost effectively through corridor route development and where they can make a net savings to the company by altering the service.

They have gone through a very deliberative process. We've met with their consultants who have done some modeling for them. We don't have any problems with the methodology they're looking at, and we're eager to see what they come up with. Right now we're waiting for Amtrak to figure out what their final proposal is going to be and what criteria they are going to apply to each route.

ADDITIONAL COMMITTEE QUESTIONS

Senator MURRAY. Well, thank you very much.

And I appreciate all of your testimony. Obviously, our committee will be waiting to get our allocation and once again looking at the administration's request and trying to figure out how we can balance the incredible needs to make sure we keep this service running.

[The following questions were not asked at the hearing, but were submitted to the agencies subsequent to the hearing:]

QUESTIONS SUBMITTED TO ALEXANDER KUMMANT

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

Question. Can Amtrak really grow ridership over congested corridors?

Mr. Kummant, you have stated that, through the initiation of a Federal-State capital grant program, Amtrak will be able to double its ridership in the next 15–20 years.

Realistically, will you be able to achieve that goal if the Government and freight railroads don't take a more aggressive posture on delivering Amtrak trains on time?

Answer. Ideally, capital investment and more aggressive on-time performance (OTP) measures should go hand-in-hand, in order to improve reliability for current and future services. Host railroads are responsible for most delays to Amtrak trains—75 percent of minutes-of-delay in fiscal 2006, compared to 18.7 percent from Amtrak-related causes (mechanical issues, connections, etc.) and 6.3 percent from other causes (weather, trespassers, etc.).

Traffic congestion accounts for just over half of all host-railroad delays, i.e., 38.6 percent of all delays to Amtrak trains. While some of that could be improved by better dispatching practices, we believe most of it arises from too much traffic using too little rail capacity. According to the Association of American Railroads, from the time that the freight rail industry was deregulated in 1980 through 2005, track-miles among the Class I (major) freight railroads decreased 39 percent, but traffic (ton-miles) increased by 85 percent and is expected to keep growing. In other words, compared to years past, there now is significantly more traffic competing for space on fewer miles of track. Another 16.9 percent of all delays to Amtrak trains results from track-related speed restrictions on host railroads. Targeted infrastructure investment will go a long way toward reducing delays due to host railroad congestion and track condition.

While we want to retain and improve the quality of today's long-distance train network, the greatest potential for ridership growth lies in corridor development. Already, corridors make up a large majority of Amtrak's ridership. In fiscal 2006, the Northeast Corridor spine accounted for 38.8 percent of the total ridership of 24.3 million; other short-distance services accounted for 45.8 percent of the total, and long-distance services accounted for 15.4 percent.

Generally, OTP is a greater issue for long-distance trains than it is for corridors. In fiscal 2006, where systemwide OTP was 67.8 percent, it was just 30.0 percent on long-distance trains, with a couple, individual services below 10.0 percent. Aside from Northeast Corridor services, where OTP was in the 78–86 percent range, OTP on short-distance services averaged 67.3 percent. However, there was a wide range of results for those services, from 17.0 percent for the Carolinian (a 704-mile "short-distance" route with a long run on a congested CSX line) to 89.7 percent for the Hiawathas (at 86 miles from Chicago to Milwaukee, the shortest route).

As we have said, corridor development will depend on a Federal-State partnership for infrastructure. This partnership will lead to investment aimed at rolling stock acquisition, station improvements or development, signal improvements, track improvements, and track capacity expansion, where needed to meet the development objectives of each individual corridor. Of those items, the ones involving signals and track should be designed and implemented in such a way as to not only allow for higher speeds and frequencies, but also to minimize conflict with anticipated freight traffic levels. The freight railroads will have to be part of this process, so that infrastructure improvements meet the needs of all parties involved. If this is done successfully, the resulting service should be reliable and attract ridership with the aim of doubling our systemwide ridership in the next 15–20 years.

Question. Mr. Tornquist included in his testimony a chart indicating that Amtrak carried over a cash balance of $215 million into 2007. That level was well above its cash balance of $75 million carried over into 2006, but well below the $247 million it carried into 2005. Some people have argued that Amtrak can endure a cut in its subsidy because of this $250 million cash balance.

Mr. Kummant, does this cash balance represent excess funds that the corporation does not need? What is the rational for maintaining this cash balance?

Answer. We suggest that a company of the size of Amtrak, with over $3 billion per year of cash outlays, and with extraordinary funding uncertainties, prudently requires cash working capital of at least $200 million, the approximate amount in place at the end of fiscal year 2006. Unlike other companies, Amtrak cannot obtain a short term line of credit on which to draw in the event that its operating cash balance is insufficient to continue operations. Amtrak's only alternatives are to rely on its cash working capital, obtain emergency Federal funding, or become insolvent.

Amtrak's Federal funding requirement has been averaging slightly more than $100 million per month. But Amtrak's actual cash usage varies widely because of structural reasons like seasonality in revenue, capital expenditures, and debt service payments. For example, this past January, Amtrak used $177 million of its cash balance because of seasonally low revenue and high principal and interest payments. Therefore, with a cash balance of $200 million, the Company should be able to meet its cash requirements for at least a month; at $100 million, the Company has 2 to 4 weeks of cash remaining; and lesser amounts become critical.

The risk to Amtrak's cash is increased further by the uncertainties in amount and timing of Continuing Resolutions and appropriations as well as an unexpected service interruption, economic event, or security issue affecting ridership and revenue. These factors are among the few events affecting cash flow management that we cannot predict in our annual financial planning cycle, though delays to the appropriations process are most likely to affect us in the early months of a given fiscal year.

QUESTION SUBMITTED BY SENATOR ARLEN SPECTER

Question. Amtrak and the Commonwealth of Pennsylvania recently made $145 million worth of improvements to the Keystone Corridor from Harrisburg to Philadelphia. Has this investment translated into service and revenue improvements?

If so, in what other corridors might similar investments also benefit the corporation?

Answer. The heart of our Keystone Corridor is the Harrisburg-Lancaster-Philadelphia segment. Some Keystone trains also extend beyond Philadelphia to New York. At Philadelphia, Keystone passengers also may connect to other north-south Amtrak services and to SEPTA and New Jersey Transit commuter services.

Investments in the line that were made jointly by Amtrak and the Commonwealth from 2004 through 2006 included conversion of 57 miles of track from wood to concrete ties, renewal of 75 miles of track with new wood ties, installation of 28 new wayside concrete turnout switches, installation of 5 miles of new signal cable, installation of 43 instrument houses, installation of 26 new breakers, brush and tree cutting along 90 miles of track, and improved drainage. Some track work has continued into 2007.

The Keystone Corridor schedules that took effect with our general timetable change of October 30, 2006, reflect the improvements that were made possible by the joint investment. At that time, Amtrak increased weekday train service west of Philadelphia from 11 to 14 trains each way. We reduced express train travel times from Philadelphia to Harrisburg from 120 to 95 minutes. We restored all-electric operation of these trains, where we had been running diesel service west of Philadelphia for a number of years. Top speeds west of Philadelphia were increased from 90 to 110 mph.

Even with shorter schedules, on-time performance (OTP) has improved. For all of fiscal 2006, 83.1 percent of Keystone trains were on-time (within 10 minutes). While we had initial delay challenges after the new schedule took effect, with Keystone OTP dropping to 65.2 percent in November 2006, it has since recovered, increasing to 87.2 percent in April 2007 and 92.3 percent in May 2007.

Keystone ridership in the first 7 months of fiscal 2007 (October 2006 through April 2007) was 552,674, an increase of 17.1 percent over the same period in fiscal 2006. Ridership in all of fiscal 2006 was 823,097, but in the current year, at the current rate of growth, could surpass 950,000. Revenues so far in fiscal 2007 are $11.5 million, an increase of 23.4 percent over the same period in fiscal 2006.

Comparisons of the Keystone Corridor to others that await development can be only approximate due to the unique history of this route. Because of infrastructure investments made by the Pennsylvania Railroad through the 1930's, the Keystone Corridor was second only to the Northeast Corridor in terms of track capacity, electric propulsion, top speeds, and other factors. That gave Amtrak and the Commonwealth a good base for the improvements that were made after 2002.

That said, other corridor partnerships under discussion include Raleigh-Charlotte ($189 million to double frequencies and cut travel time by 15 percent); Chicago-Milwaukee-Madison ($351 million to increase Chicago-Milwaukee service and start Milwaukee-Madison service); Chicago-St. Louis ($164 million to cut travel time by 15 percent); Eugene-Portland ($60 million to increase frequencies by 50 percent); Seattle-Portland ($552 million to increase frequencies by 67 percent and cut travel time by 5 percent); San Diego-Los Angeles-San Luis Obispo ($756 million to reduce travel times by 21 percent); San Jose-Oakland-Sacramento ($89 million to reduce travel times by 8 percent); and Bakersfield-Oakland/Sacramento ($203 million to reduce travel times by 11 percent). (Figures from appendix A–21 of Amtrak Strategic Plan Fiscal Year 2005–09.)

QUESTION SUBMITTED BY SENATOR PETE V. DOMENICI

Question. Passenger rail service is important to New Mexico, especially to the communities along the Southwest Chief and the Sunset Limited lines that depend on its services. For example, the Philmont Boy Scout Ranch hosts over 20,000 scouts per year and many arrive via Amtrak's Raton stop. Like many other policy makers, I am concerned about the continued service to New Mexico and other regions of the country. It is my understanding that Amtrak has cut its expenses and trimmed its workforce, while achieving increased rider numbers.

How do we keep Amtrak viable and still have Amtrak provide service to rural areas like New Mexico?

Answer. Though we believe that the greatest potential for growth and for Federal-State partnerships lies in expanded corridor services, we are committed to retaining a network of long-distance train services that connect the corridors and regions of the country. We believe that there are opportunities to make further efficiencies and improvements to the long-distance services, and at the direction of our Board of Directors, we are in the process of evaluating the entire long-distance network to look for such opportunities. We will keep all stakeholders, including Members of Congress, informed of our findings. However, though the make-up of the long-distance network may change somewhat as a result of this work, in the end there still will be a long-distance network.

That said, our goal of maintaining a nationwide system of trains rests on our ability to provide our services and make various strategic changes within the scope of the revenues we earn and the funding we are provided. Our funding request for fiscal 2008 will allow us to move forward in these areas. We look forward to working both with appropriators and authorizers on issues of funding and overall policy.

QUESTION SUBMITTED TO HON. JOSEPH H. BOARDMAN

QUESTION SUBMITTED BY SENATOR PATTY MURRAY

Question. Can Amtrak Really Grow Ridership Over Congested Corridors?

Mr. Kummant has stated that, through the initiation of a Federal-State capital grant program, Amtrak will be able to double its ridership in the next 15–20 years. I am concerned that Amtrak will not be able to achieve that goal if the Government and the freight railroads don't take a more aggressive posture on delivering Amtrak trains on time.

Mr. Boardman, do you have view on that question?

Answer. Ridership growth is possible. It is all about providing a high quality and reliable service that meets the traveler's needs and expectations. A high level of on-time performance is an important part of that equation. That is why the administration's proposed grant program would permit States to fund the elimination of bottlenecks on freight railroads that create on-time performance problems for passenger trains and capacity constraints for freight trains if the freight railroad commits to an enforceable passenger train on-time performance of 80 percent or higher.

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

Question. What level of funding remains necessary to bring the Northeast Corridor to a state of good repair, and when can this be accomplished?

Answer. There are multiple estimates of the cost of returning the Northeast Corridor to a state of good repair. That is why I directed Amtrak, as a condition of its fiscal year 2006 grant, to undertake a comprehensive assessment of NEC capital investment needs in cooperation with the States and other users of the rail line. While that effort has not moved as quickly as I would have liked, I hope that more reliable estimates will be available within the next 12 months.

Question. Can the development of passenger rail service contribute to reducing our Nation's dependency on foreign oil, a goal that was emphasized in the President's State of the Union address?

Answer. Some Amtrak services certainly can contribute to reducing our Nation's dependency on foreign oil. The Northeast Corridor, which has high load factors and is powered by electricity, is the best example. However, this is not true of all of Amtrak's routes. Indeed services that involve two locomotives and six cars but have an average patronage of 100 passengers or fewer do not represent a particularly effective use of petroleum based fuel.

Question. Similarly, can increased rail service significantly reduce highway congestion and automobile emissions?

Answer. Well-patronized passenger services in relatively short intercity rail corridors can contribute to lessening highway congestion, but the impact of long distance trains on highway congestion and automobile emissions is negligible.

QUESTION SUBMITTED TO DAVID TORNQUIST

QUESTION SUBMITTED BY SENATOR PATTY MURRAY

Question. What is the appropriate working capital level Amtrak should have?

Mr. Tornquist, in your testimony you included a chart indicating that Amtrak carried over a cash balance of $215 million into 2007. That level was well above its cash balance of $75 million carried over into 2006, but well below the $247 million it carried into 2005. Some people have argued that Amtrak can endure a cut in its subsidy because of this $250 million cash balance.

Mr. Tornquist, what do you think is the appropriate level of cash that the company should have on hand at any given time?

Answer. We believe that Amtrak's fiscal year 2008 appropriation could be reduced to create a start of year cash balance of $75 million. Amtrak has previously argued that it required a cash balance or working capital fund of $250 million. However, Amtrak was willing to increase its spending and live with in an end-of-year cash balance of $103.9 million, an amount not materially different than $75 million. We take Amtrak's actions to spend down its cash balance as a better indicator than its rhetoric of what constitutes an acceptable cash balance. The risk associated with this lower cash balance is minimized by the approximately $60 million in unspent Efficiency Grants which can provide a further cushion against unforeseen cash flow problems. However, in deciding whether to offset Amtrak's subsidy with a portion of its cash balance, Congress should consider the likelihood of a labor settlement in the near-term and how the associated increased costs should be funded.

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

Question. Can food and beverage service on Amtrak play a role in attracting passengers, thereby offsetting its costs?

Answer. We believe that intercity rail passengers expect access to food service, particularly on long-distance trips. Ridership and revenues would undoubtedly drop dramatically if passengers were expected to spend 10–12 hours on a train without food. In that context, it could be argued that Amtrak's food and beverage service would likely attract enough passenger revenue to offset its costs. The same argument could be made for other basic services, such as restrooms and running water. Few people would ride intercity trains without them, therefore, it could be argued that the same passenger revenues are attributable to these basic services.

We are unaware of any proposals to run long distance service without providing access to some level of food service. Therefore, the comparison of trains with food service to those with no food service does not appear to be relevant or meaningful at this time.

A more relevant, but more difficult question, is whether the cost of providing an enhanced food service above a basic level generates sufficient revenues from sales and additional ticket revenue to offset its fully-allocated costs. Determining whether this was the case would require very complex modeling attempt to isolate the revenues derived from food and beverage service. We have seen studies that purport to address this issue, but have not seen any such studies supported by the analysis that would be required to properly answer the question.

Rather than trying to isolate the revenues related to food service, we have recommended previously that Amtrak pilot different levels of amenities on its trains, including different food service options, to determine which option maximizes net revenues for the train as a whole. At the same time, the net revenues from food sales is a reasonable measure for Amtrak managers to use to measure the day-to-day performance of Amtrak's food and beverage service. It would be impractical to try to use models of marginal revenue changes to manage food service on a day-to-day basis.

Question. By granting more decisionmaking authority to States with regard to rail service, do we run the risk of developing a patchwork system of routes that do not promote connectivity across state borders and transportation corridors?

Answer. The risk of developing a patchwork system of routes that do not promote connectivity across State borders and transportation corridors by granting more decisionmaking authority to States with regard to rail service is minimal. If given the authority to do so, States could conceivably choose different operators or service levels on segments of multi-State routes, thereby curtailing connectivity. However, this presumes a State would actively decide to inconvenience its own citizens, which we believe is not likely to happen. States already have experience working together through the Federal-aid highway program on multi-State surface transportation issues. In the near term, Congress is considering proposals that would provide States capital grants for corridor development, i.e., routes of up to 500 miles. These grants would be awarded by the Secretary of Transportation based on applications from one State or a group of States. We would expect the Secretary to take connectivity into consideration when awarding these grants.

QUESTION SUBMITTED TO EDWARD WYTKIND

QUESTION SUBMITTED BY SENATOR ARLEN SPECTOR

Question. What are your unions seeking in their contract negotiations with Amtrak?

Answer. The Transportation Trades Department, AFL–CIO (TTD) represents 10 of the 14 unions at Amtrak and a majority of Amtrak's nearly 20,000 employees. However, let me clarify that TTD is not the collective bargaining representative for these unions nor is it directly involved in contract negotiations. Amtrak and its workgroups have 24 separate collective bargaining agreements. Some unions represent more than one bargaining unit and some unions bargain jointly. As you are aware, the collective bargaining process at Amtrak is governed by the Railway Labor Act under which contracts do not expire, but rather become amendable. A large number of Amtrak's employees are working under contracts that have not been updated in nearly 8 years.

With a few exceptions, most bargaining units have been at impasse for years. In short, the process for all practical purposes has stopped. Employee representatives have been frustrated that Amtrak, when it does come to the table, is simply unwilling to negotiate. For one union, the Brotherhood of Railroad Signalmen, for example, Amtrak has placed the same proposal on the table since negotiations started in 2000. The company's negotiators have made no meaningful effort to engage in good faith bargaining. As a result, the vast majority of Amtrak's employees have gone more than 7 years without a general wage increase. Meanwhile, Amtrak has found the resources to institute, effective June 4, 2007, a 10 percent Premium Pay Plan for managers in certain geographic areas and in "hard-to-fill" positions. This program represents a slap in the face to the rank-and-file employees whose needs are being ignored as management employees prosper.

Other unions have been in mediation for years with no prospects for either resolution or release by the National Mediation Board. In summary, negotiations are hopelessly deadlocked due mostly to Amtrak management's refusal to enter into serious negotiations and its tactical decision to use the uncertainty of Federal funding as a strategic ploy to evade its obligations to the employees. And meanwhile, there is no serious mediation taking place as the NMB majority has refused to carry out its duties responsibly.

As you know, Amtrak employees have played a major role in keeping Amtrak running despite anemic Federal investment and continuous attempts by this administration to grossly under-fund Amtrak. Amtrak CEO Alexander Kummant has conceded that Amtrak workers are paid significantly less than their counterparts in the freight and commuter industries and that this reality is making it difficult for Amtrak to remain competitive in retaining its workforce. In sum, Amtrak workers are expecting equity for the years they have put in supporting our national passenger railroad without being compensated fairly. Employees also are opposed to changes in benefits to the health and welfare system. Amtrak's workers intimately understand the budgetary constraints under which Amtrak operates and, indeed, it is the driving force behind rail labor's collective efforts in favor of Amtrak funding year after year. However, Amtrak workers are having a difficult time making ends meet. Amtrak workers are highly-skilled and dedicated employees who are responsible for the safe transportation of millions of Americans nationwide. It is unconscionable that Amtrak refuses to negotiate collective bargaining agreements with these workers.

If you have specific questions about the status of bargaining by individual union, please don't hesitate to contact me and I will be pleased to put you in contact with the appropriate union officer or representative. We greatly appreciate your interest in this area and are thankful for your forceful voice in support of Amtrak employees.

QUESTIONS SUBMITTED TO ROBERT SERLIN

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

Question. Can you explain the accountability measures that would be put in place for the Infrastructure Management Organization under your proposal?

Answer. Under the IMO Plan numerous accountability measures would be put in place.

Safety is first and foremost. The IMO would be a statutory railroad subject to all present and future Federal safety laws and regulations. The IMO would be subject to enforcement by the Federal Railroad Administration.

The IMO would be required to report annually its financial and operating performance to Congress and the Executive Branch in the same manner and timeframe as is statutorily required of Amtrak. The IMO's and Amtrak's parallel reporting would permit the Government to review concurrently and overlay the performance of Amtrak and the IMO. The IMO's financial reports would be required to be GAAP compliant and audited by an independent certified public accountant.

To assure Congress and the administration that the IMO is fulfilling its annual investment in AOI requirement, the Department of Transportation's Inspector General would be designated to oversee and certify lease compliance by the IMO. The DOT IG would also have the authority to review the IMO's use of Federal funds and compliance with Federal laws and regulations.

The Secretary of Transportation would be required to review and approve the IMO's disposal of AOI fixed assets above $500,000 as well as approve IMO related-party transactions.

The IMO's investment plan would be reviewed by the reconstituted Northeast Corridor Coordination Board—a body composed of AOI States and rail carrier user representatives. The IMO would be obligated to publish annually a rolling five-year capital plan that incorporated not only the IMO's planned capital expenditures, but also those requested by AOI States and users. The Northeast Corridor Coordination Board would review and determine that capital expenditure projects are integrated and consistent with the balanced transportation needs of the region.

The IMO Plan is fully accountable to labor—both infrastructure and non-infrastructure labor.

Under the IMO plan, the IMO would be required to offer employment in seniority order to all Amtrak employees performing infrastructure work to be performed by the IMO. The IMO would also be required to honor existing collective bargaining agreements for the Amtrak employees it hires. Were RIM awarded the right to be the IMO, it would resolve infrastructure employees pending section 6 notices by withdrawing both Amtrak's health and welfare contribution demand and its concessionary rule-change demands, and by negotiating Northeast-competitive wage rates and working conditions for those employees to whom it offers employment.

RIM would pay full back pay and signing bonuses (between $10,000 and $25,000 per employee).

Non-infrastructure labor's pending section 6 notices would be partially resolved through mandated arbitration of back pay disputes were such disputes not resolved within 6 months of the IMO becoming the IMO. Non-infrastructure back pay payments would be funded by the IMO escrowing the funds from which Amtrak would meet its back pay obligations.

The IMO Plan would do much to help Amtrak's non-infrastructure employees by strengthening Amtrak as the sole national passenger rail carrier. Employment at Amtrak would be more secure since Amtrak would be more fundable, having been relieved of AOI operating losses. Expanded employment opportunities on the IMO and on Amtrak would generate more operating, clerical and shop craft employment as transportation demand over AOI grew. New jobs would be filled very quickly from union training facilities and union operated hiring halls. Finally, the IMO Plan is a corridor development model, which can increase rail employment throughout country.

The IMO would also be held fully accountable to repay any Government funds made available to it. Prior to the IMO being eligible to draw upon a Government loan ("RRIF loan"), the IMO would have to furnish an investment grade, third-party, irrevocable full principal repayment guarantee that would also function as a risk premium payment. The private sector owners of the IMO would be obligated to guarantee jointly and severally payment of the RRIF loan interest. The IMO's owners would also be required to consolidate fully the financial results of the IMO into their public disclosures. Publicly traded owners of the IMO would be subject to oversight by the Securities and Exchange Commission. Full accountability is ultimately derived from the estimated $2 billion in equity the owners of the IMO would be required to invest in the IMO and the non-transferability of IMO ownership for the full 50-year concession-term. The IMO's investors and owners will have to believe in the long-term competitiveness of the rail mode.

The IMO, as a railroad, would be subject to Surface Transportation Board jurisdiction and be required to deal fairly with the carriers operating over AOI. In the event of an operating or compensation dispute, the IMO would be subject to orders issued by the Board.

Question. Would service under your proposal be consistent with the level of service we see today?

Answer. The IMO Plan leaves the transportation service provider ("TSP") component of Amtrak untouched and, as a result of the transfer of $2 billion to it and assumption of up to $750 million in debt from it, significantly better capitalized than today. Amtrak's train service levels would remain as they were prior to the adoption of the IMO Plan. Amtrak would continue to operate its Northeast Corridor and national network of intercity trains, subject only to existing agreements and contracts.

TSPs operating over AOI when the IMO Plan takes effect would be granted "vested carrier" status. This would entitle each of them to current service pattern protections on AOI. Amtrak and commuter carriers would be encouraged to improve service levels by offering more "one-seat" rides. Commuter carriers could do this by combining operations and operating outside their historic service areas. An example of this would be SEPTA and New Jersey Transit pooling their equipment and operating New York/Philadelphia without requiring passengers to change trains at Trenton.

Amtrak's operating rights over the freight carrier network are not altered, and are subject to existing and future contracts that Amtrak may negotiate.

Key to the success of the IMO Plan is improving the Northeast Corridor ("NEC") and increasing its capacity through investments of, were RIM to be selected the IMO, more than $1 billion annually. These investments would enable Amtrak, the commuter carriers and new intercity TSPs to expand transportation offerings and increase service levels. This can only be achieved by an independent infrastructure manager actively promoting new options. With an upgraded infrastructure and reduced travel times, the railroad mode will be able to increase its market share as new services are created, which are time-competitive with highway and aviation.

The NEC is the most densely populated, most affluent corridor in the world—bar none. RIM believes that the only way that the NEC can be made to prosper is by increasing the level of service.

SUBCOMMITTEE RECESS

Senator MURRAY. So, thank you to all of you. This subcommittee will stand in recess until Thursday, March 8, when we will take in testimony on the administration's recent announced plans for cross-border trucking with Mexico.

[Whereupon, at 12:05 p.m., Wednesday, February 28, the subcommittee was recessed, to reconvene subject to the call of the Chair.]