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STATEMENT OF  
HENRY ESCHWEGE, DIRECTOR  
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION  
BEFORE THE  
SURFACE TRANSPORTATION SUBCOMMITTEE  
SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION  
ON

[AMTRAK'S COSTS AND OPERATING RESULTS]

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE ARE HERE TODAY TO DISCUSS THE RESULTS OF WORK WE HAVE DONE AT AMTRAK OVER THE PAST FEW YEARS. WE RECENTLY ISSUED REPORTS ON AMTRAK'S SERVICE CONTRACTS WITH OTHER RAILROADS AND ITS DEBT ELIMINATION ALTERNATIVES. PAST REPORTS INCLUDED REVIEWS OF AMTRAK'S SUBSIDY NEEDS, ITS INVENTORY CONTROLS, ITS HIGHLY UNPROFITABLE ROUTES, THE POTENTIAL FOR DEVELOPING HIGH-SPEED CORRIDORS, AND OTHER ASPECTS OF AMTRAK'S PERFORMANCE. A LIST OF OUR REPORTS ON AMTRAK IS INCLUDED AS AN APPENDIX TO THIS STATEMENT.

BACKGROUND

AMTRAK HAS GROWN SUBSTANTIALLY SINCE IT BEGAN OPERATIONS IN 1971. THE NUMBER OF ROUTES HAS INCREASED FROM 25 TO 46; THE NUMBER OF TRAINS PER WEEK IS UP 32 PERCENT; THE TRAIN

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MILES PER WEEK ARE UP 24 PERCENT. AMTRAK CARRIED 21.4 MILLION PASSENGERS IN 1979, WHICH REPRESENTED LESS THAN ONE PERCENT OF THE INTERCITY TRAVEL. AUTOMOBILES ACCOUNTED FOR 83 PERCENT OF THE PASSENGER MILES, AIRPLANES 14 PERCENT, AND BUSES 2 PERCENT.

FROM AMTRAK'S BEGINNING IN MAY 1971 THROUGH SEPTEMBER 1980, IT GENERATED REVENUES OF OVER \$2.6 BILLION, BUT INCURRED OPERATING EXPENSES OF MORE THAN \$6.3 BILLION AND A \$3.7 BILLION DEFICIT. DURING THE SAME PERIOD, THE GOVERNMENT PROVIDED OPERATING SUBSIDIES OF ABOUT \$3.3 BILLION, LOANS OF \$850 MILLION, AND GRANTS OF MORE THAN \$820 MILLION FOR AMTRAK'S CAPITAL ACQUISITIONS AND IMPROVEMENTS.

AMTRAK MANAGEMENT RECENTLY ESTIMATED THAT ITS REVENUE FOR FISCAL YEAR 1981 WILL BE \$527.8 MILLION AND THAT OPERATING EXPENSES, INCLUDING DEPRECIATION AND INTEREST, WILL BE \$1,364.4 MILLION, RESULTING IN A DEFICIT OF \$836.6 MILLION. ON THE AVERAGE, PASSENGERS WILL PAY 39 PERCENT AND THE GOVERNMENT WILL PAY 61 PERCENT OF AMTRAK'S COSTS. AMTRAK ESTIMATES THAT ITS OPERATING DEFICIT FOR FISCAL YEAR 1982 WILL BE \$884.8 MILLION.

#### AMTRAK'S REVENUE GOALS

THE AMTRAK REORGANIZATION ACT OF 1979 ESTABLISHED SYSTEM-WIDE REVENUE GOALS FOR AMTRAK AND THE PASSENGER RAILROAD REBUILDING ACT ON 1980 ESTABLISHED REVENUE GOALS FOR AMTRAK OPERATIONS IN THE NORTHEAST CORRIDOR. AMTRAK'S 46 ROUTES LOST \$676 MILLION IN FISCAL YEAR 1980: THE 10 NORTHEAST CORRIDOR

ROUTES LOST \$126 MILLION; THE 20 SHORT-HAUL ROUTES LOST \$95 MILLION; AND THE 16 LONG-HAUL ROUTES LOST \$455 MILLION. IN FISCAL YEAR 1980, ONLY 9 OF THE 36 NON-NORTHEAST CORRIDOR ROUTES MET THE SYSTEMWIDE 1982 REVENUE GOAL OF RECOVERING 44 PERCENT OF EXPENSES THROUGH REVENUES. TWENTY-FIVE ROUTES HAD REVENUES OF LESS THAN 40 PERCENT OF EXPENSES. IN THE NORTH-EAST CORRIDOR, ONLY 1 OF THE 10 ROUTES (METROLINER FROM WASHINGTON TO NEW YORK) MET THE 1981 GOAL OF RECOVERING 55 PERCENT OF EXPENSES. TO MEET THE REVENUE GOALS, AMTRAK WILL HAVE TO SUBSTANTIALLY INCREASE RIDERSHIP AND FARES AND ELIMINATE ITS MOST UNPROFITABLE ROUTES.

IN 1978, WE REVIEWED AMTRAK'S PROSPECTS FOR REDUCING ITS SUBSIDY NEED, AND INQUIRED WHETHER EITHER HIGH-SPEED CORRIDOR SERVICE OR LONG-HAUL SERVICE COULD BE MADE MORE PROFITABLE. WE CONCLUDED THAT THE ONLY WAY AMTRAK COULD SUBSTANTIALLY REDUCE ITS SUBSIDY NEED WAS TO REDUCE SERVICE, AND THAT NEITHER CORRIDOR SERVICE OUTSIDE THE NORTHEAST CORRIDOR NOR LONG-HAUL SERVICE HELD MUCH POTENTIAL FOR IMPROVEMENT.

WE FOUND SOME AREAS WHERE AMTRAK COULD REDUCE ITS COSTS, BUT THAT DOING SO WOULD BE DIFFICULT AND THE OVERALL EFFECTS ON SUBSIDY NEEDS WOULD NOT BE SUBSTANTIAL. FOR EXAMPLE, IT IS UNUSUALLY DIFFICULT FOR AMTRAK TO CONTROL ITS LABOR COST BECAUSE MUCH OF IT IS INCURRED BY OTHER RAILROADS PROVIDING SERVICE TO AMTRAK UNDER CONTRACT. THE INDIVIDUAL RAILROADS ARE THE ONLY SOURCE AMTRAK HAS FOR TRAIN AND ENGINE CREWS

AND MOST TRACKS AND OTHER RAILROAD FACILITIES. ALTHOUGH AMTRAK HAS WORKED TO IMPROVE ITS CONTRACTS WITH THE RAILROADS ON WHICH IT DEPENDS, THE SOLE-SOURCE ARRANGEMENT MAKES IT DIFFICULT FOR AMTRAK TO GET THE RAILROADS TO IMPROVE THEIR SERVICE AND REDUCE AMTRAK'S COSTS.

#### CORRIDOR SERVICE

IN RECENT YEARS, 20 SHORT HAUL ROUTES HAVE BEEN CONSIDERED FOR UPGRADED AMTRAK SERVICE. THESE ROUTES, REFERRED TO AS EMERGING CORRIDORS, LINK TWO OR MORE CITIES WHICH SEEM TO HAVE HIGH DEMAND FOR RAIL PASSENGER SERVICE. PROPONENTS BELIEVE MANY PUBLIC BENEFITS INCLUDING LOWER AIR POLLUTION, GREATER ENERGY EFFICIENCY, MORE SAFETY, AND LOWER AMTRAK DEFICITS COULD GROW OUT OF EXPANDED CORRIDOR SERVICE. BUT OUR REVIEW OF AMTRAK'S MOST PROMISING CORRIDORS SHOWED THAT THE POTENTIAL BENEFITS OUTSIDE THE NORTHEAST MIGHT NOT BE AVAILABLE OR WORTH THE COST.

GREATER SPEED AND BETTER ON-TIME PERFORMANCE COULD REASONABLY BE EXPECTED, BUT WE FOUND THAT TOTAL SUBSIDY NEEDS GREW AS MORE PASSENGERS WERE SERVED. FOR EXAMPLE, IN THE SAN DIEGO-LOS ANGELES CORRIDOR, WHILE THE NUMBER OF PASSENGERS SERVED GREW FROM 690,000 IN FISCAL YEAR 1977 TO MORE THAN 1.2 MILLION IN 1980, THE SUBSIDY GREW FROM \$6.6 TO \$11.7 MILLION, ALTHOUGH INFLATION ALSO AFFECTED THIS SUBSIDY INCREASE.

THE EXCEPTION IS THE NORTHEAST CORRIDOR WHERE AMTRAK OFFERS COMPARATIVELY HIGH SPEED AND LOW FARES AND WHERE THE

MAJOR CITIES ALONG THE ROUTE HAVE ADEQUATE PUBLIC TRANSPORTATION TO MOVE PASSENGERS FROM THE RAILROAD STATIONS TO THEIR ULTIMATE DESTINATIONS. IN 1980, NORTHEAST CORRIDOR OPERATIONS ACCOUNTED FOR 51 PERCENT OF AMTRAK'S TOTAL RIDERSHIP, 30 PERCENT OF AMTRAK'S REVENUES AND ONLY 23 PERCENT OF AMTRAK'S COSTS. ON THE AVERAGE, NORTHEAST CORRIDOR ROUTES RECOVERED 50 PERCENT OF THEIR OPERATING EXPENSES THROUGH REVENUES AS COMPARED TO ONLY 34 PERCENT FOR ALL OTHER ROUTES. THERE ARE PROBLEMS, HOWEVER, EVEN IN THE NORTHEAST CORRIDOR. WE REPORTED IN 1979 THAT, TO THE EXTENT THEY SERVE THE SAME LOCATIONS, AMTRAK'S FEDERALLY-SUBSIDIZED FARES WERE SET AT A LEVEL THAT COMPETED WITH AND DREW PASSENGERS AWAY FROM UNSUBSIDIZED BUS SERVICE.

THE DEPARTMENT OF TRANSPORTATION RECENTLY RANKED THE EMERGING CORRIDORS BASED LARGELY ON THEIR RIDERSHIP POTENTIAL, BUT IT DID NOT ANALYZE THE COSTS AND BENEFITS OF UPGRADING ANY OF THE ROUTES. WE SUGGEST THE COMMITTEE INSIST ON COMPLETE INFORMATION ON OVERALL COSTS AND BENEFITS BEFORE MAKING ANY DECISIONS ON PROPOSALS TO APPROVE SUCH DEVELOPMENT.

#### LONG-HAUL SERVICE

IN 1978 WE REPORTED THAT THE 11 LONG-HAUL ROUTES WE REVIEWED LOST \$111 MILLION IN FISCAL YEAR 1977, AND THAT THE LOSSES WOULD HAVE BEEN OVER \$56 MILLION EVEN IF ALL THE TRAINS HAD BEEN FILLED TO CAPACITY AT ALL TIMES. SINCE OUR REPORT, AMTRAK HAS DISCONTINUED FOUR OF THE 11 ROUTES. THREE OF THE REMAINING ROUTES CONTINUED TO HAVE LARGE LOSSES, BUT

SMALLER THAN THEY WERE IN 1977, AND FOUR OF THE ROUTES HAVE LOSSES TWICE AS LARGE AS THEY WERE IN 1977. AMTRAK RECENTLY ANNOUNCED FURTHER PLANS TO DISCONTINUE ONE OF THESE ROUTES AND TO RESTRUCTURE ONE.

ENERGY EFFICIENCY OF PASSENGER TRAINS

BY NOW MOST PEOPLE REALIZE THERE IS LITTLE HOPE THAT INTERCITY PASSENGER RAIL SERVICE OUTSIDE THE NORTHEAST WILL EVER AGAIN GENERATE ENOUGH REVENUE TO COVER ITS OPERATING COSTS. HOWEVER, SOME BELIEVE AMTRAK SHOULD BE ENCOURAGED BECAUSE IT IS A RELATIVELY ENERGY EFFICIENT MODE OF TRANSPORTATION THAT CONSERVES SCARCE OIL.

MOST STUDIES, HOWEVER, INCLUDING OUR OWN, FIND LITTLE SUPPORT FOR THIS VIEW. THE CONGRESSIONAL BUDGET OFFICE'S MAY 1979 STUDY "THE CURRENT AND FUTURE SAVINGS OF ENERGY ATTRIBUTABLE TO AMTRAK" CONCLUDED THAT AMTRAK MAY HELP TO SAVE ENERGY IN THE NORTHEAST CORRIDOR BECAUSE MOST OF ITS PRESENT RIDERS WOULD SWITCH TO LESS ENERGY EFFICIENT AUTOMOBILES AND AIRPLANES IF TRAINS WERE NOT AVAILABLE. FOR INTERCITY TRAVEL OUTSIDE THE NORTHEAST CORRIDOR, HOWEVER, THE REPORT CONCLUDED THAT AMTRAK'S OPERATIONS RESULT IN A NET ENERGY LOSS BECAUSE IT USES MORE ENERGY PER PASSENGER THAN EITHER THE BUS OR THE AUTOMOBILE. THE REPORT CONCLUDES THAT, EVEN WITH ESTIMATED IMPROVEMENTS IN BOTH EQUIPMENT AND RIDERSHIP, AMTRAK WILL PROBABLY NOT BE AS ENERGY EFFICIENT.

ENERGY EFFICIENCY GAINS DEPEND ON GREATLY INCREASED DEMAND FOR RAIL PASSENGER SERVICE. AMTRAK'S CURRENT RIDERSHIP

IS AT ITS HIGHEST LEVEL SINCE IT BEGAN OPERATIONS BUT STILL REPRESENTS LESS THAN 1 PERCENT OF ALL INTERCITY TRAVEL. DESPITE THE INCREASED COST OF GASOLINE, THE AUTOMOBILE CONTINUES TO PREDOMINATE INTERCITY TRAVEL, FOLLOWED BY AIRPLANES AND BUSES. THE REASONS ARE CLEAR; AUTOMOBILES ARE MOST CONVENIENT, ESPECIALLY WHERE, UPON ARRIVAL, THEY ARE NEEDED TO GET FROM PLACE TO PLACE. AIR TRAVEL IS MUCH QUICKER FOR BUSINESS AND OTHER TIME-SENSITIVE TRAVELERS, AND BUSES ARE CHEAPER AND GO MORE PLACES. WE BELIEVE THAT THESE TRENDS WILL CONTINUE AND THAT THERE IS LITTLE LIKELIHOOD THAT DEMAND FOR INTERCITY RAIL PASSENGER SERVICE WILL INCREASE ENOUGH TO MAKE AMTRAK'S ENERGY-EFFICIENCY COMPARABLE TO BUSES', UNLESS ONE OR MORE OF THESE OTHER TRAVEL MODES IS DISRUPTED.

NORTHEAST CORRIDOR IMPROVEMENT PROJECT

THE PRESIDENT HAS PROPOSED THAT THE NORTHEAST CORRIDOR IMPROVEMENT PROJECT BUDGET OF \$2.5 BILLION BE REDUCED BY \$310 MILLION. A LARGE PART OF THE REDUCTION WOULD BE ACCOMPLISHED BY ABANDONING PLANS TO ELECTRIFY THE SYSTEM BETWEEN NEW HAVEN AND BOSTON. ABOUT \$200 MILLION WAS BUDGETED FOR THIS WORK.

THE PASSENGER RAILROAD REBUILDING ACT OF 1980 ESTABLISHED NEW CRITERIA FOR THIS PROJECT THAT MAY HAVE PERMITTED THE DEPARTMENT TO ELIMINATE THE ELECTRIFICATION WORK ON THE NORTH END MONTHS AGO. UNDER THAT LAW, SAFETY, RIDERSHIP POTENTIAL, AND RELIABILITY WERE TO BE CONSIDERED AHEAD OF TRIP-TIMES,

THE FACTOR MOST CLEARLY ASSOCIATED WITH THE ELECTRIFICATION WORK, IN CHOOSING THE IMPROVEMENTS TO BE MADE UNDER THE PROJECT.

THE DEPARTMENT ESTIMATES THAT ABOUT 80 PERCENT OF THE CORRIDOR'S PASSENGERS WILL BE ON THE SOUTH END, BETWEEN WASHINGTON AND NEW YORK, WHERE THE TRIP TIME IS COMPETITIVE WITH AIR TRAVEL. ONLY 20 PERCENT WILL RIDE THE NORTH END AND EVEN THE FASTEST PLANNED TRIP TIME (3 HOURS 40 MINUTES) WOULD NOT HAVE BEEN COMPETITIVE WITH AIR TRAVEL. A 15 TO 30 MINUTE LONGER TRIP, THE ESTIMATED EFFECT OF ELIMINATING THE ELECTRIFICATION WORK, WOULD LIKELY HAVE LITTLE EFFECT ON PASSENGER DEMAND FOR THE SERVICE.

ON THE OTHER HAND, WE NOTED IN OUR OCTOBER 1980 REPORT THAT THE DEPARTMENT HAD REDUCED OR ELIMINATED SEVERAL WORK ITEMS THAT COULD AFFECT SAFETY AND RELIABILITY WHILE THE NORTH END ELECTRIFICATION WORK WAS STILL BEING PURSUED. ELIMINATING THE NORTH END ELECTRIFICATION WORK NOW INSTEAD OF SEVERAL MONTHS AGO OBVIOUSLY WILL RESULT IN ADDITIONAL COSTS BECAUSE CONTRACTS WILL HAVE TO BE TERMINATED AND CONTRACTORS COMPENSATED FOR THEIR COSTS. WE DO NOT KNOW HOW MUCH THE SAVINGS WILL BE REDUCED BECAUSE OF THE DELAY, BUT SIGNIFICANT SAVINGS STILL SEEM POSSIBLE.

#### DEBT ELIMINATION ALTERNATIVES

ANOTHER OF OUR RECENT REPORTS DISCUSSED ALTERNATIVES FOR ELIMINATING AMTRAK'S OBLIGATIONS RESULTING FROM \$850 MILLION

IN LOAN GUARANTEE AUTHORITY. AMTRAK ORIGINALLY BORROWED THESE FUNDS FROM PRIVATE LENDERS TO OBTAIN EQUIPMENT AND THE LOANS WERE GUARANTEED BY THE GOVERNMENT. SUBSEQUENTLY THEY WERE CONVERTED TO DIRECT FEDERAL LOANS FROM THE FEDERAL FINANCING BANK.

WE CONCLUDED THAT AMTRAK IS UNLIKELY TO RETIRE THIS DEBT FROM PROFITS AND THAT THE DEBT SHOULD BE RECOGNIZED AS UNRECOVERABLE AND WRITTEN OFF. WE CONSIDERED SEVERAL ALTERNATIVES AND RECOMMENDED, IN SPITE OF ITS LARGE BUDGETARY IMPACT, THAT A ONE-TIME APPROPRIATION OF \$850 MILLION SHOULD BE MADE TO RETIRE THE DEBT. THE MAIN ADVANTAGE OF RETIRING THE DEBT IN THIS MANNER IS THAT BUDGETARY DISCLOSURE AND CONTROLS WOULD BE RESTORED. THIS DEBT HAS NEVER BEEN INCLUDED IN THE BUDGET SINCE IT WAS CONVERTED TO A DIRECT FEDERAL LOAN. IN ADDITION, AN UPCOMING REPORT TO THE COMMITTEE WILL NOTE THE NEED TO PROTECT THE GOVERNMENT'S INVESTMENT IN THE EQUIPMENT IF THE DEBT IS RETIRED AND EXPLAIN HOW THIS COULD BE DONE.

#### CONCLUSION

TO SUM UP, OUR WORK OVER A NUMBER OF YEARS HAS SHOWN THAT REDUCING AMTRAK'S FEDERAL SUBSIDY WOULD NECESSITATE THAT IT DISCONTINUE PART OF ITS SERVICES. BUT VIEWED SOLELY IN ECONOMIC TERMS, AMTRAK'S BLEAK OPERATING RESULTS SUGGEST LITTLE JUSTIFICATION FOR CONTINUING MANY RAIL PASSENGER TRAINS. THE CONGRESS MAY ALSO WANT TO CONSIDER SOCIAL AND ENVIRONMENTAL FACTORS IN MAKING ITS FINAL DECISIONS ON

AMTRAK FUNDING. IT SEEMS CLEAR, HOWEVER, THAT ENERGY EFFICIENCY SHOULD NOT BE A MAJOR ISSUE IN DETERMINING WHETHER TO CONTINUE OR CHANGE MOST EXISTING RAIL SERVICE.

THIS CONCLUDES MY PREPARED STATEMENT. I WILL BE GLAD TO RESPOND TO YOUR QUESTIONS.

PREVIOUS GAO REPORTS ON AMTRAKREPORTS REQUIRED BY THE RAIL  
PASSENGER SERVICE ACT, AS AMENDED

Quality of Amtrak Rail Passenger Service Still Hampered by Inadequate Maintenance of Equipment (RED-76-113), June 8, 1976).

Amtrak's Incentive Contracts With Railroads--Considerable Cost, Few Benefits (CED-77-67, June 8, 1977).

Should Amtrak Develop High-Speed Corridor Service Outside the Northeast? (CED-78-67, Apr. 5, 1978).

Amtrak's Inventory and Property Controls Need Strengthening (CED-80-13, Nov. 29, 1979).

Further Improvements are Needed In Amtrak's Passenger Service Contracts, But They Won't Come Easily (CED-81-35, Jan. 7, 1981).

OTHER REPORTS

Railroad Passenger Service, Analysis of Train Scheduling and Operations, prepared for the General Accounting Office as part of its review of the operations of the National Railroad Passenger Corporation, B-175155, Feb. 22, 1973.

Amtrak Needs to Improve Train Conditions Through Better Repair and Maintenance, B-175155, June 21, 1973.

Railroad Reservation, Information and Ticketing Services Being Improved, B-175155, Aug. 22, 1973.

Fewer and Fewer Amtrak Trains Arrive on Time--Causes of Delays, B-175155, Dec. 28, 1973.

How Much Federal Subsidy Will Amtrak Need? (RED-76-97, Apr. 27, 1976).

An Analysis of Amtrak's Five Year Plan, GAO Staff Study (PAD-78-51, Mar. 6, 1978).

Amtrak's Subsidy Needs Cannot Be Reduced Without Reducing Service (CED-78-86, May 11, 1978).

Should Amtrak's Highly Unprofitable Routes Be Discontinued? (CED-79-3, Nov. 27, 1978).

Problems In The Northeast Corridor Railway Improvement  
Project (CED-79-38, Mar. 29, 1979)

Amtrak's Economic Impact On The Intercity Bus Industry  
(PAD-79-32, Jan. 12, 1979).

How Much Should Amtrak Be Reimbursed for Railroad Employees  
Using Passes to Ride Its Trains? (CED-80-83, Mar. 28,  
1980).

Alternatives for Eliminating Amtrak's Debt to the Government  
(PAD-80-45, Mar. 28, 1980).

Impact of Work Cutbacks on Northeast Corridor Improvement  
Project (CED-81-23, Oct. 31, 1980).

Amtrak's Productivity On Track Rehabilitation Is Lower  
Than Other Railroads'--Precise Comparison Not Feasible  
(CED-81-60, Mar. 13, 1981)