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BY THE COMPTROLLER GENERAL

111979

Report To The Congress

OF THE UNITED STATES

How Much Should Amtrak Be Reimbursed For Railroad Employees Using Passes To Ride Its Trains?

The Amtrak Reorganization Act of 1979 required GAO to study the free or reduced rate transportation Amtrak provides to railroad and terminal company employees, retirees, and their spouses and dependents under the Rail Passenger Service Act. The act also required GAO to recommend the appropriate means to reimburse Amtrak for its costs to provide the transportation.

As of December 1979, about 1 million people were eligible. During 1979 they used Amtrak-issued passes to make 384,000 trips and travel 140 million miles.

GAO concludes that the costs Amtrak incurs to furnish transportation to pass riders are debatable, and the Congress must decide for which costs Amtrak should be reimbursed.



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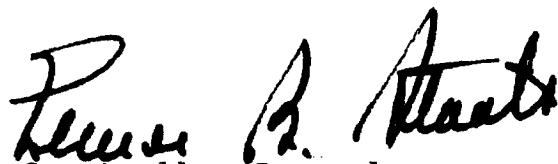
To the President of the Senate and the
Speaker of the House of Representatives

This report concerns the free and reduced rate transportation Amtrak provides to railroad employees and retirees and their spouses and dependents under the Rail Passenger Service Act (45 U.S.C. 565(f)). The report describes the program's background and discusses its costs and benefits, the value of the service provided, and the reimbursement to Amtrak.

The Amtrak Reorganization Act of 1979--Public Law 96-73, Section 120(b)--required us to conduct the study and report the results to the Congress and the Interstate Commerce Commission. Our report was to include recommendations for reimbursing Amtrak for the free and reduced rate transportation.

Amtrak's costs to provide transportation to pass riders are debatable, and we did not find adequate analytical evidence to support one position over another or to recommend a specific means to reimburse Amtrak. We conclude that the matter requires a policy decision by the Congress and suggest alternatives regarding how much Amtrak should be reimbursed for pass rider travel.

We are sending copies of this report to the Chairman, Interstate Commerce Commission; the Director, Office of Management and Budget; the Secretary of Transportation; the president of Amtrak; and the chairmen of the congressional committees concerned with railroad passenger service.


Comptroller General
of the United States



COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

HOW MUCH SHOULD AMTRAK BE
REIMBURSED FOR RAILROAD
EMPLOYEES USING PASSES TO
RIDE ITS TRAINS?

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AGC/10/12*

D I G E S T

Amtrak, as required by law, has been providing free or reduced rate transportation to certain railroad (and terminal company) employees, retirees, and their spouses and dependents since 1972. As of December 1979, over 1 million people were eligible. During 1979 they used Amtrak-issued passes to travel 140 million miles and make about 384,000 trips. Much of this travel was free. (See pp. 1 and 19.)

Pass riders are entitled to free or reduced rate travel, provided space is available. They travel free or at half fare depending on factors such as length of railroad employment, whether they are retired, and whether they are traveling on or off the rail lines of their home railroad. To give priority to full fare passengers, Amtrak restricts pass riders from metroliner service and limits their reservations on reserved trains to 24 hours before the scheduled departure times. Once on board, pass riders are supposed to stand if there are not enough seats. (See pp. 6 and 22.)

The Rail Passenger Service Act requires the railroads to reimburse Amtrak for its costs of providing the transportation, but they have paid Amtrak very little. Before October 1, 1979, the railroads reimbursed Amtrak for its administrative costs but not for transportation costs. (See pp. 3 and 5.)

The Amtrak Reorganization Act of 1979 required the railroads to pay Amtrak 25 percent of the monthly average yield (revenue from ticket sales) for each mile traveled by pass riders. This rate is to be effective for a 2-year period ending September 30, 1981. (See p. 5.) The act further required GAO to recommend the appropriate means to reimburse Amtrak for its costs,

taking into account the value of the service provided. (See p. 1.)

~~GAO concludes that~~ the costs Amtrak incurs in furnishing transportation to pass riders are debatable. The basic question is whether Amtrak is to be reimbursed for (1) its incremental costs, which are small compared to total operating costs, or (2) a portion of total operating costs equal to the value of the service pass riders receive. GAO did not find adequate analytical evidence to recommend one position over the other. The choice is a policy decision the Congress should make. (See pp. 29 and 30.)

COSTS

How much Amtrak should be reimbursed for pass riders has been an issue ever since the program began. Before Amtrak took over rail passenger service, the railroads provided free or reduced rate transportation to their own employees and reduced rate transportation to other railroad employees under reciprocal agreements. The railroads considered their incremental costs--or the additional costs incurred solely because a pass rider is transported in a seat that would otherwise go empty--to be minor.

The railroads believe that when the Rail Passenger Service Act required Amtrak to provide free or reduced rate transportation to railroad employees as the railroads had, the act recognized that Amtrak would only be incurring incremental costs. The railroads therefore believe Amtrak should be reimbursed accordingly. (See p. 29.)

The original legislation required the Interstate Commerce Commission to determine how much the railroads should reimburse Amtrak. The Commission agreed that Amtrak should be reimbursed for its incremental costs at a rate of less than one-tenth of a cent per passenger-mile and that this amount should be offset by the revenue Amtrak received from the pass riders' reduced rate fares. (See pp. 3 and 5.)

Amtrak believes that it is responsible for recovering as much of its operating costs as practicable.

Amtrak considers pass privileges to be a valuable fringe benefit to the employees and the railroads and, for this reason, the incremental cost argument to be inappropriate. (See p. 31.)

Amtrak was also dissatisfied with the Interstate Commerce Commission rate decision because its incremental costs for all the transportation it provided pass riders were offset by the revenue received from those pass riders who paid reduced rates. This revenue was always greater than the total incremental costs as determined by the Commission. As a result, Amtrak received no reimbursement or revenue for much of the pass riders' travel. However, as previously mentioned, the railroads did pay for Amtrak's administrative costs. (See p. 29.)

VALUE OF THE SERVICE

Pass riders, for the most part, have no difficulty getting on the trains they want because empty seats are usually available. Once on the train they are usually treated the same as regular passengers. However, regular passengers are given first priority for space, and pass riders are subject to some restrictions, such as a 24-hour reservation limitation, and some uncertainty about available space. (See p. 28.)

The value of the service provided regular passengers may be considered to be the price of their ticket. The value of the service to pass riders probably should be something less because of the restrictions and uncertainties they are subject to.

It depends
GAO, however, was unable to place a definitive value on the service pass riders receive. How much the value should be reduced because of the restrictions could vary from pass rider to pass rider. For example, many pass riders in the northeast corridor have several unreserved trains and more total

trains available to them. Pass riders in other geographic locations may have access to only a limited number of trains. Similarly, some pass riders may care less about the 24-hour reservation limitation than others.

The purpose of pass restrictions and limiting pass riders to second priority for seats is to ensure that pass riders do not replace full fare passengers or require additional equipment, not to control the level of service to pass riders.

Amtrak and the railroads have not placed a value on the transportation pass riders receive, but before Amtrak was created, the railroads usually charged other railroads' employees half fare. Amtrak now receives half fare from all pass riders when traveling off the lines of their home railroad and also from some pass riders when traveling on their home railroad's lines. (See pp. 27 and 28.)

ALTERNATIVES FOR THE CONGRESS

Congressional action will be required to decide the issue of reimbursement. Two options are available:

--Provide for Amtrak to be reimbursed only for the incremental costs of providing free or reduced rate transportation to eligible persons.

--Provide for Amtrak to be reimbursed for the value of the service it provides.

If the Congress decides that Amtrak should be reimbursed only for its incremental costs, it should require the Interstate Commerce Commission to update its 1972 rate determination to reflect inflation and the additional experience Amtrak has gained with the program. The Congress should also inform the Commission whether the revenue from the pass riders' reduced rate fares should offset the incremental costs.

If the Congress decides that Amtrak should be reimbursed for the value of the service it provides, it may wish to establish the traditional half fare as the value to be used, or establish some other value. The Congress then would have three choices. It could (1) require the railroads to pay all or a portion of the established value, (2) require the pass riders to pay the established value for all their travel, or (3) pay for the travel through Federal subsidy. (See p. 30.)

AMTRAK COMMENTS

Amtrak stated that this report clearly presents the historical perspective and issues relating to reimbursement for pass riders.

Amtrak said the 50-percent reimbursement rate it initially proposed that the railroads pay appeared to be reasonable given the restrictions on pass riders. Amtrak concluded that, given a congressional mandate to increase revenues and improve its cost-to-revenue ratios, it should be entitled to reimbursement from the railroads at least equal to the current 25-percent formula established by the Congress, which is a significantly larger discount than is offered the general public. (See app. I.)

GAO did not obtain written comments from the numerous railroads and terminal companies, but their views were considered in preparing the report. The railroads generally regard the pass privileges as little, if any, benefit and the present reimbursement rate as too high. (See p. 31.)

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I Letter dated March 11, 1980, from the
president of Amtrak

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ABBREVIATIONS

Amtrak National Railroad Passenger Corporation

GAO General Accounting Office

ICC Interstate Commerce Commission

CHAPTER 1

INTRODUCTION

The Amtrak Reorganization Act of 1979 (Public Law 96-73) requires us to study the free and reduced rate transportation provided railroad employees by the National Railroad Passenger Corporation (Amtrak) under section 405(f) of the Rail Passenger Service Act. 1/ We are to report the results to the Congress and the Interstate Commerce Commission (ICC) with recommendations for the means to reimburse Amtrak for the cost of providing the transportation, taking into account the service's value. In addition to responding to the act, this report includes data on railroad employees who are not eligible under the Rail Passenger Service Act but have been extended reduced rate travel privileges by Amtrak.

The Rail Passenger Service Act, as amended, gives certain railroad and terminal company employees and retirees, along with their spouses and dependents, the right to free or reduced rate personal travel on Amtrak, if space is available. Widows of certain eligible employees and retirees have also been extended these privileges. The act covers railroad and terminal company employees and retirees (hereafter referred to as railroad employees unless otherwise noted) who had similar privileges on April 30, 1971, the date before Amtrak assumed rail passenger service from the railroads. As of December 26, 1979, about 1 million people were eligible under the act. During 1979 they used Amtrak-issued passes to make about 384,000 trips and travel about 140 million miles. These travelers are referred to as Public Law 92-316 pass riders after the 1972 amendment to the Rail Passenger Service Act that established the benefits.

For the most part, public law pass riders ride free on their home rail lines; that is, the lines of the particular railroad with which they are or were associated. They travel on the rest of Amtrak's system at half fare.

Amtrak also provides, on its own accord, similar reduced rate transportation privileges to employees of the 16 participating railroads and 13 terminal companies 2/ which are not eligible under the Rail Passenger Service Act. These employees and their spouses and dependents can travel at half fare

1/ 45 U.S.C. 565(f)

2/ The railroads and terminal companies with which Amtrak contracts to operate and maintain its trains.

on Amtrak's entire system. They numbered about 171,000 as of December 26, 1979, and are known as non-public-law pass riders when they ride the train. About 87,000 non-public-law pass riders traveled about 21 million miles on Amtrak in 1979. According to Amtrak representatives, these employees were extended reduced rate transportation privileges in 1972 in order to promote ridership, increase revenue, obtain the employees' good will, and meet railroad union requests.

During 1979, public law and non-public-law pass riders totaled 471,000, or about 2.2 percent of Amtrak's ridership. They traveled about 161 million miles.

RAILROAD EMPLOYEES HAVE TRADITIONALLY RIDDEN TRAINS FREE OR AT REDUCED RATES

Railroad employees have been riding passenger trains free or at reduced rates since the 1880s. Before Amtrak took over, the railroads usually allowed all or certain of their employees to travel on their home lines free or at reduced rates. Many railroads also had reciprocal agreements permitting the others' employees to travel at reduced rates, usually half fare. In addition, employees of some freight-only railroads were allowed to ride at reduced rates on passenger service railroads. The terminal companies were also usually included in the pass programs. The railroad pass programs, however, often varied to some extent with regard to eligibility, restrictions, controls, and reciprocal agreements.

The railroads and their employees generally considered pass privileges as a gratuity from employer to employee, and the privileges usually were not required by union agreements. The railroads viewed the costs to provide free or reduced rate transportation as insignificant because seats occupied by pass riders would normally have been empty. They did not reimburse each other for pass riders under the reciprocal agreements. (Amtrak pointed out, however, that it does not receive reciprocal benefits from the railroads because it is the sole intercity passenger railroad.)

MANY RAILROAD EMPLOYEES LOST THEIR PASS PRIVILEGES WHEN AMTRAK BEGAN OPERATING

The Rail Passenger Service Act was enacted in October 1970, creating Amtrak as a for-profit corporation to revive the failing intercity passenger train industry and retain a high-quality rail passenger service for the Nation. Amtrak

began operations on May 1, 1971, and assumed passenger service from all but five railroads. ^{1/} With Amtrak's takeover of passenger service, many railroad employees lost their free and reduced rate transportation privileges.

In early 1972 Amtrak gave free or reduced rate transportation privileges to participating railroad and terminal company employees and retirees. These privileges, however, were subject to change or cancellation by Amtrak, and privileges for many railroad employees and retirees were not restored.

PASS PRIVILEGES REESTABLISHED
BY LEGISLATION

On June 22, 1972, the Rail Passenger Service Act was amended by Public Law 92-316 to restore free or reduced rate transportation to all who had such privileges when Amtrak took over rail passenger service. Specifically, the amendment required Amtrak to assure that, to the maximum extent practicable, railroad and terminal company employees, retirees, and their spouses and dependents eligible for free or reduced rate transportation on April 30, 1971, would be eligible to receive, provided space was available, free or reduced rate transportation on any intercity rail passenger service provided by Amtrak on terms similar to those available to them on that date. Amtrak had the authority to adopt the terms of the various railroads or a single system-wide schedule of terms. Amtrak chose the latter. (See p. 6.)

REIMBURSEMENT TO AMTRAK FOR
THE PASS PROGRAM

The amendment also provided that the railroads were to reimburse Amtrak for the costs incurred in providing the required free and reduced rate travel, including the cost of implementing and administering the program. Within 90 days each railroad was to enter into a reimbursement agreement with Amtrak. If Amtrak and a railroad could not agree on the railroad's payment, ICC was to decide the payment amount within 90 days after referral. Amtrak and the railroads substantially differed on what the reimbursement should be, and referred the matter to ICC for a decision.

^{1/}The Southern; the Denver and Rio Grande Western; the Chicago, Rock Island and Pacific; the Georgia; and the Canadian Pacific railroads declined to join Amtrak.

The ICC reimbursement decision

During the ICC deliberations, Amtrak proposed to charge the railroads 8.6 cents per passenger-mile. 1/ This amount equaled Amtrak's operating expenses per passenger-mile after being reduced by revenues from non-passenger-carrying activities (mail, express, etc.) and from passenger-carrying activities not covered by pass privileges (sleeping cars, etc.).

The railroads estimated that the payment should be 0.867 mill (0.0867 of a cent) per passenger-mile and that this amount should be offset by the reduced rate fares paid by the pass riders. The railroads, however, agreed to pay Amtrak for the pass program's administrative costs.

The railroads contended that Amtrak's costs would be insubstantial. They said that the plain language of the legislation entitles eligible persons to free or reduced rate transportation "provided space is available" after other passengers have been accommodated. The railroads further said that the transportation costs, if any, for which Amtrak was to be reimbursed are only incremental costs, or those added costs incurred solely because of eligible persons occupying available space that otherwise would have been empty, and are to be offset by pass rider-generated revenue. The railroads concluded that Amtrak's proposed rate was ignoring the space available limitation and was charging for pass riders at twice the rate of a regular passenger.

Amtrak stated that the space available criterion could not be used for nonreserved trains, which accounted for about 58 percent of Amtrak's seat-miles. 2/ According to Amtrak, the cost of maintaining control over space would be prohibitive, about \$42 million per year, and these costs would be reimbursable by the railroads as a cost incurred to implement or administer the legislation.

In December 1972 ICC said it had no doubt that, aside from the costs to implement and administer a pass policy, Amtrak would incur some added transportation costs. ICC concluded, however, that Amtrak's passenger services are

1/ A passenger-mile is the term for carrying one passenger one mile.

2/ A seat-mile is the term for moving one train seat one mile.

operated for the benefit of revenue riders; carrying pass riders is incidental. ICC said it could not assume that added services would be provided for the sole benefit of pass riders and that expenses would vary with the addition of an as yet unknown number of pass riders.

ICC approved an interim reimbursement rate of 0.79 mill per passenger-mile to compensate Amtrak for transporting the pass riders in available space. The 0.79 mill was to be offset by any reduced rate fares paid by pass riders.

As a result of the ICC decision, the railroads reimbursed Amtrak solely for the pass program's administrative costs. The railroads paid nothing for incremental operating costs because the 0.79 mill per passenger-mile was always offset by the pass riders' half fares. ICC left the case open so that the rate could be reconsidered at a future date, but Amtrak was unable to identify and document incremental costs that would exceed the pass riders' half fares.

The 1979 Amtrak Reorganization Act

The Reorganization Act, enacted on September 29, 1979, ^{1/} superseded the ICC decision for the 2-year period beginning October 1, 1979, and required the railroads to reimburse Amtrak for public law pass riders at the rate of 25 percent of the systemwide average monthly yield per passenger-mile during the 2 year period. Amtrak has defined the systemwide average yield as its average revenue from all ticket sales (except commuter tickets and free or reduced rate pass rider tickets) on all of Amtrak's system. The 25-percent reimbursement rate is in lieu of any charges to the railroads for costs incurred by Amtrak to provide the free or reduced rate transportation, and it is not to be offset by the pass riders' half fares.

Based on the new rate, Amtrak is charging the railroads about \$820,000 for October, November, and December 1979. This amount was more than the railroads paid Amtrak in all of 1978.

Before the Reorganization Act, the railroads reimbursed Amtrak at the same rate for the public law and non-public-law pass riders. Amtrak and the railroads did not distinguish between the two groups. However, the 25-percent reimbursement rate established by the Reorganization Act applies only

^{1/}The Amtrak Reorganization Act's effective date is Oct. 1, 1979.

to public law pass riders. Amtrak and the railroads have not agreed on how much the railroads will pay for non-public-law pass riders. Amtrak wanted to apply the 25-percent rate to both, but the railroads were unwilling to pay for the non-public-law pass riders. Amtrak has continued the benefits but has not charged the railroads. Both Amtrak and the railroads anticipate difficulties with the railroad unions if the non-public-law privileges are discontinued.

HOW THE PASS PROGRAM WORKS

Railroad employees, retirees, their spouses, and dependents eligible under the Rail Passenger Service Act are entitled to free or half fare coach transportation on all Amtrak intercity trains except the metroliners. Widows of employees who had 19 years or more service on April 30, 1971, or were retired on that date are also eligible. Pass riders can also upgrade to slumbercoach and sleeping accommodations by paying 50 percent of the regular additional charge for these services. Half fare coach tickets are assessed at one-half the standard one-way fare, excluding all discounts other than children's fares.

Pass riders are eligible for travel on a space available basis; that is, pass riders only take a space on the trains if that space would normally go empty. Currently, Amtrak does not allow pass riders to make reservations more than 24 hours before scheduled train departure times, and they cannot ride the metroliners. However, much of Amtrak's space is unreserved. (See ch. 4 for a further discussion of the space availability criteria.)

Amtrak issues plastic, embossed cards to eligible employees, retirees, and widows. These cards also contain the names of their spouses and dependents. Pass riders submit these cards to authorized ticket agents in order to obtain tickets. Tickets must be picked up and signed for in person. The pass rider's signature is also required by the conductor/trainman on the train.

As shown by the following table, pass riders' entitlement to free or reduced rate travel depends on length of service on April 30, 1971, whether or not they are retired, and whether they are traveling on or off home lines.

Schedule of Privileges

	<u>Unlimited free (note a)</u>	<u>Limited free (note b)</u>	<u>Half fare (note c)</u>
<hr/>			
<u>Participating</u> railroad and terminal company <u>employees</u> with 19 or more years of continuous service on April 30, 1971, and their:	X		
Widows	X		
Spouses	X		
Dependents		X	
<hr/>			
<u>Participating</u> railroad and terminal company <u>employees</u> with 9 to 19 years of continuous service on April 30, 1971, and their:	X		
Spouses		X	
Dependents		X	
<hr/>			
<u>Participating</u> railroad and terminal company <u>employees</u> with <u>less than 9 years</u> of continuous service on April 30, 1971, and their:		X	
Spouses			X
Dependents			X
<hr/>			
<u>Retirees</u> who on April 30, 1971, were employed by or retired from a <u>participating</u> railroad or terminal company and their:	X		
Widows	X		
Spouses	X		
Dependents		X	
<hr/>			
<u>Employees</u> and retirees of <u>nonparticipating</u> railroads and terminal companies who on April 30, 1971, were eligible for free or reduced rate transportation under a policy or agreement in effect with any participating railroad and their:			X
Spouses			X
Dependents			X
<hr/>			
<u>Employees</u> who were hired after April 30, 1971, and are currently employed by <u>participating</u> railroads or terminal companies (non-public-law) and their:			X
Spouses			X
Dependents			X

a/Persons indicated are eligible for free transportation, unlimited as to frequency, on Amtrak trains over the lines of the participating railroad with which the employee or retiree is or was associated (home road or designated home road for terminal company employees and retirees) provided space is available. In addition, they are eligible for reduced rate transportation (one-half of the regular coach fare based on the one-way fare, excluding all discount and promotional fares except children's fares) off the home road to the extent that space is available.

b/Persons indicated are eligible for free transportation (as defined above) but limited to 12 free round trips per calendar year. In addition, they are eligible for reduced rate transportation off the home road and on the home road after the 12 free trips, to the extent space is available.

c/Persons indicated are eligible for Amtrak systemwide reduced rate transportation, to the extent space is available.

SCOPE OF STUDY

We examined (1) the history and legislative background of the pass program, (2) Amtrak's pass policies and procedures, (3) eligibility and pass ridership trends, (4) the program's costs and benefits, including who benefits and how and who pays and how much, (5) how the service provided pass riders compares to that provided regular fare-paying passengers, and (6) how much Amtrak should receive for providing the service.

We reviewed Amtrak and ICC records and met with representatives of Amtrak, the Department of Transportation, ICC, the Association of American Railroads, the Air Transport Association, the National Association of Motor Bus Operators, and Greyhound Lines, Inc. We also met with six major railroad companies affected by the new reimbursement rate required by the Amtrak Reorganization Act. These were Consolidated Rail Corporation; Seaboard Coast Line Railroad; Southern Railway System; Burlington Northern, Inc.; Atchison, Topeka and Santa Fe Railroad; and the Chessie System. In addition, we talked to representatives of several railroad employee unions: the United Transportation Union; the Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employees; the International Brotherhood of Electrical Workers; Brotherhood of Locomotive Engineers; Brotherhood of Railroad Signalmen; Railway Labor Executives' Association; and Brotherhood of Maintenance of Way Employees.

We reviewed Amtrak data on pass eligibility, ridership, generated revenues, and costs. We also reviewed ICC's docket file on its 1972 reimbursement rate determination and the legislative history of the statutes establishing the pass program and the recent change in the reimbursement rate. Amtrak's internal audit reports on the effectiveness of its pass controls were also examined. The historical data on pre-Amtrak railroad employee pass privileges was primarily obtained through the recollections of Amtrak, railroad, and union representatives and by review of the ICC docket file.

CHAPTER 2

PASS ELIGIBILITY, RIDERSHIP, AND REVENUE

In December 1979 over 1.2 million people were eligible for public law and non-public-law pass privileges and could ride Amtrak's trains at free or reduced rates. During 1979 they made about 471,000 trips and traveled 161 million miles. Public law pass riders contributed about \$2.5 million in revenue. (Reliable revenue data was not available for non-public-law pass riders.) The number of eligible persons, pass riders, and miles traveled have declined substantially since the beginning of the program in 1972. Revenue has also declined but not as much because fares have increased..

THE NUMBER OF ELIGIBLE PERSONS IS DECLINING

Amendment of the Rail Passenger Service Act in 1972 gave free or reduced rate transportation benefits to about 2.83 million people. There were only 1.05 million eligible in December 1979, a decrease of about 63 percent. The major cause of the decline was employee and retiree deaths. The chart on the next page shows how the number of persons eligible under the Rail Passenger Service Act decreased from December 1977 to December 1979.

Type of passholder	Periods of comparison					
	As of 12-23-77		As of 12-8-78		As of 12-26-79	
	Total persons eligible	Percentage	Total persons eligible	Percentage	Total persons eligible	Percentage
Participating railroad employees:						
Employees with less than 9 yrs. of service on 4-30-71	187,084	16.8	190,671	17.9	179,435	17.2
Employees with 9-19 yrs. of service on 4-30-71	142,753	12.8	144,185	13.6	133,250	12.7
Employees with over 19 years of service on 4-30-71	294,951	26.4	287,463	27.0	239,531	22.9
Widows of the above category employees	227	.1	237	.1	252	.1
Employees on 4-30-71, since retired	106,784	9.6	110,388	10.4	120,140	11.5
Employees retiring on or before 4-30-71	148,232	13.3	107,334	10.0	94,880	9.1
Widows of retirees	53,252	4.8	47,066	4.4	46,876	4.5
Participating terminal company employees	17,177	1.5	16,946	1.6	16,217	1.6
Nonparticipating railroad/terminal company employees	<u>162,757</u>	14.6	<u>160,071</u>	15.0	<u>215,006</u>	20.6
Total	<u>1,113,217</u>	a/ 100.0	<u>1,064,361</u>	100.0	<u>1,045,587</u>	a/ 100.0

a/Totals do not equal 100 percent because of rounding.

The number of eligible persons decreased 6.1 percent during the 2-year period, and the decrease is expected to continue. As shown in the chart, retirees and employees with the longest service on April 30, 1971, dominated the total number of eligible persons. Their number should decrease as people die and their children become adults and lose their "dependent" status.

In December 1979 about 435,000 participating railroad employees, retirees, their spouses, and dependents were eligible for unlimited free transportation on their home lines; about 251,000 were eligible for 12 free round trips

per year; and the other 344,000 had reduced rate travel privileges. (All trips off the home lines and in excess of the 12 free round trips are at reduced rates.) Another 16,000 eligibles are associated with participating terminal companies. Many of these have free or limited-free home line transportation privileges, but Amtrak's statistics did not identify them separately. Eventually all public law eligibles, except those that are or were associated with nonparticipating railroads or terminal companies, will be eligible for at least limited-free transportation on their home lines, but the total number of eligibles will continue to decline.

The following chart shows that the number of non-public-law eligibles has increased 49 percent the last 2 years.

	<u>Number of persons eligible</u>	<u>Cumulative percent increase</u>
12/23/77	114,490	-
12/08/78	141,899	23.9
12/26/79	170,806	49.2

According to Amtrak's pass bureau chief, several possible factors account for the increase:

- The railroads have hired new employees to replace retirees and to meet additional staffing needs.
- Eligible employees have married.
- Family sizes have increased.

The 56,316 increase in non-public-law eligibles, however, has not been enough to offset the 67,630 decline in public law eligibles during the same period. Under present conditions, the total number of pass riders is also expected to continue to decrease.

PASS RIDERSHIP

Railroad pass riders made up about 2.2 percent of Amtrak's total ridership in 1979. Amtrak carried nearly 21.5 million people and over 471,000 were pass riders. Public law pass riders, who accounted for about 81 percent of the 1979 pass ridership, have been declining. Non-public-law ridership has grown rapidly but is still small compared to public law ridership.

In 1979 pass riders traveled about 161 million miles, a decline of about 66 million from 1976. Ridership should

continue to decrease under present conditions, as the number of eligible persons declines.

The following table shows that public law pass ridership dropped substantially--about 37 percent--from 1976 to 1979.

	Public Law Pass Ridership <u>Jan. 1976-Dec. 1979</u>			
	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Number of pass riders	605,933	541,836	455,590	384,080
Passenger-miles traveled (thousands)	215,940	205,876	173,691	140,297
Average trip length-miles (note a)	356	380	381	365

a/ Computed by dividing passenger-miles traveled into number of riders.

Our analysis of Amtrak's ridership statistics indicated a recent substantial growth in the non-public-law program. From 1976 to 1979, the number of non-public-law pass riders more than tripled from 28,413 to 87,238. The passenger-miles traveled almost doubled from 11.3 million to 20.9 million. However, the average trip length declined from 398 miles to 239 miles.

PASS RIDER-CONTRIBUTED REVENUE

In 1979 Amtrak received about \$2.5 million in revenue from public law pass riders. This amount was for reduced rate transportation charges, including upgraded accommodations. (Reliable revenue data for non-public-law pass riders was not available.) This amount was a slight decrease from the \$2.9 million Amtrak collected in both 1978 and 1977. According to Amtrak's manager of passenger accounting, several fare increases probably contributed to a slower revenue decrease than the decrease in pass riders.

Public law pass riders yield substantially less revenue per passenger-mile than other intercity passengers. For example, the 1979 yield from regular passengers was \$0.073 per passenger-mile. The yield for pass riders that year was only \$0.018.

Pass riders pay the same as other passengers when they buy food, beverages, liquor, and tobacco. Amtrak did not separately identify how much pass riders spend for food and beverages and other items.

CONCLUSIONS

Public law pass ridership has declined substantially and is expected to continue to decline as eligible railroad employees/retirees die and their dependents grow up. Under present conditions, pass riders will become a smaller and smaller percentage of Amtrak's total ridership, especially if overall ridership continues to go up. The number of non-public-law pass riders has increased but not as much as public law pass riders have decreased.

CHAPTER 3

COSTS AND BENEFITS

Amtrak, the railroads, and the pass riders all benefit from and/or incur costs for the pass program, but we were unable to determine how much because

- many benefits are intangible or difficult to quantify;
- benefits vary from pass rider to pass rider, from railroad to railroad, and from situation to situation; and
- Amtrak's costs of providing transportation to pass riders are debatable.

AMTRAK COSTS AND BENEFITS OF IMPLEMENTING AND ADMINISTERING THE PASS PROGRAM

Costs

How much it costs Amtrak to carry pass riders is debatable. A widely recognized transportation/economic view is that each passenger--whether a pass rider or not--should be assigned an equal share of the costs of operating a train. In other words, it should make no difference if passengers have first or second priority to board the train because they receive the same basic service on the train. These costs are referred to as fully allocated costs.

Another widely-recognized view is that pass riders travel in a seat or space that would otherwise go empty, and Amtrak incurs only a small additional or incremental cost to transport them. The incremental cost philosophy's basic premise is that providing rail passenger transportation requires large fixed costs, such as the costs for locomotives, cars, and right-of-way, which are incurred whether or not a particular train is full or has empty seats but that some added costs are incurred with each additional passenger. Examples are fuel for the added weight, additional towels, etc., that may be used and wear on the seat, carpet, and so forth.

During the 1972 ICC reimbursement rate case, Amtrak contended that fully allocated costs would be the most appropriate basis for determining what the railroads should reimburse Amtrak. The railroads, however, argued and ICC agreed that only incremental costs should be considered because Amtrak would incur nearly all its costs without the pass

riders. Today, Amtrak and the railroads still differ on what the costs should be.

Fully allocated costs

Although Amtrak has improved its cost/revenue ratio, its costs have substantially exceeded its revenues. Rail passenger service is expensive. In fiscal year 1979 Amtrak's operating costs amounted to about \$998.1 million. Amtrak's fiscal year 1979 operating costs and revenue are shown below.

(000 omitted)

Revenue:		
Transportation	\$321,563	
Food and beverage	26,707	
Mail, express, etc.	12,781	
Other	<u>20,238</u>	<u>\$381,289</u>
Direct expenses:		
Train/engine crews	\$ 97,719	
Train fuel and power	58,215	
Onboard service-labor	60,953	
Onboard service-supplies	24,890	
Other direct	<u>2,061</u>	<u>243,838</u>
Common expenses (note a):		
Station services	\$ 48,628	
Transportation	29,213	
Locomotive maintenance	53,158	
Car maintenance	158,489	
Metroliner maintenance	9,112	
Track-related maintenance	24,521	
Facility-related maintenance	23,817	
Common facilities overhead	111,384	
Other common expenses	<u>97,467</u>	<u>555,789</u>
Other railroad expenses:		
Contract avoidable expense	3,458	
Assumption of liability	1,368	
Allocated performance payments	<u>7,265</u>	<u>12,091</u>
Operating support		44,068
Depreciation, taxes, and insurance		79,664
Corporate general and administrative		15,209
Interest expenses		31,372
Other expenses, including prior period adjustments		<u>16,106</u>
Total expenses		<u>998,137</u>
Net loss		<u>\$616,848</u>

a/Expenses at facilities serving more than one train.

When operating costs are fully allocated to each Amtrak passenger (including pass riders), they amount to about \$46.77 per passenger, or 20.3 cents per passenger-mile traveled, during fiscal 1979. On the same basis, each passenger contributed about \$17.87, or 7.8 cents per passenger-mile. The net loss per passenger was \$28.90, or 12.5 cents per passenger-mile.

Since Amtrak began operations, its costs have substantially exceeded its revenues, and the differences have been made up by Federal subsidies. The Congress and the administration have expressed a desire that Amtrak reduce its need for subsidies. For example, the Amtrak Reorganization Act established an improved ratio of revenues to operating expenses as an Amtrak objective. Specific goals are for Amtrak to cover at least 44 percent of its operating expenses (excluding depreciation) with revenue by the end of fiscal 1982 and 50 percent by fiscal 1985.

Amtrak is responsible for recovering as much of its costs as practicable. Fully allocated costs, however, are probably not a realistic basis to determine how much Amtrak should receive for pass riders. Although costs are an important consideration, Amtrak's fares for regular passengers are largely based on such factors as competition from other transportation modes and the nature of the particular market being served. As shown earlier, full fare passengers have been paying less than half of what it costs to transport them.

Incremental costs

Before Amtrak took over, the railroads used the incremental cost concept to justify allowing their own employees to ride free or at reduced rates and other railroad employees to ride at reduced rates, when space was available. Other transportation companies such as the airlines have also used this justification. The railroads believe these costs to be insubstantial. For example, during the 1972 reimbursement rate case, the railroads estimated that Amtrak's operating costs to provide transportation to pass riders would be less than one-tenth of a cent per passenger-mile and this would be offset by the pass riders' half fares. ICC provided for a smaller reimbursement rate. (See ch. 1.)

Amtrak has considered the ICC-established reimbursement rate to be too low even for incremental costs, but it has not been able to identify and adequately document incremental costs that would not be offset by the pass riders' half fares. The Congress has also expressed concern that the ICC

rate did not adequately reimburse Amtrak. For much of the pass rider travel, Amtrak was not reimbursed at all for the transportation.

If the 0.79 mill rate had been in effect for all of calendar year 1979, the reimbursement would have been about \$120,000. But this amount would have been offset by the \$2.5 million in pass rider half fares. If the rate was updated for inflation, the reimbursement would have been about \$270,000, still substantially less than the offsetting half fares.

The railroads did agree to reimburse Amtrak for the program's administrative costs. For example, in 1978 Amtrak collected \$406,000 from the railroads. At the time the Reorganization Act was passed, Amtrak and the railroads were finalizing an agreement for the railroads to pay \$610,000 in 1979 administrative costs.

Benefits

Amtrak benefits when it receives revenue from the pass program which it ordinarily would not have obtained. This is the case when a pass rider occupies and pays half fare for a seat that otherwise would have been empty. Pass riders also generate revenue when they use other services such as food and beverages, for which they pay the same as a regular passenger. Of course, much of the passenger-miles traveled by public law pass riders are by those that ride free, and very little revenue is generated.

On the other hand, Amtrak would lose revenue if pass riders ride free or at half fare when they would have been willing to pay the regular fare or if Amtrak could have offered a lesser discount and enticed more people to ride the train. Half fare pass riders pay one-half the cost of a one-way fare without any discounts, except for children's fares. These riders may not have paid full fares for their trips if they did not use their passes because discounted fares such as the 75-percent fare for the elderly and group and excursion fares would be available to them.

Amtrak further benefits when pass riders are employees of participating railroads and are involved in operating Amtrak trains. Free or reduced rate travel can promote good will and morale and allow these employees to see first hand the results of their efforts. In addition, Amtrak benefits when pass riders relate good experiences with train travel to others.

RAILROADS

Before the Reorganization Act, the railroads paid very little for the pass program. Their cost was almost totally Amtrak's administrative costs for the program plus a small amount of administrative costs of their own, such as certifying their employees' eligibility for the pass program. The Reorganization Act, however, substantially increased the railroads' costs. For example, if the 25 percent of average monthly systemwide yield rate were in effect for 1978, the railroads would have paid about \$3 million rather than nearly \$406,000 in administrative costs. Amtrak's billings to the railroads for the last 3 months of 1979, under the new rate, totaled about \$820,000. Over half that amount was billed to Conrail, Burlington Northern, and the Santa Fe.

Railroad representatives--including several vice-presidents, attorneys and rail passenger operations officers--generally told us their companies benefit very little, if any, from the pass program. They further told us that pass privileges are not used in recruiting as an inducement for employment. According to the railroads, many employees seldom use their passes, if at all, nor do they value them very highly. The railroad representatives added that many of the public law pass riders no longer work for the railroads, and they feel no obligation to provide these past employees with free or reduced rate transportation on Amtrak.

The railroads do benefit to the extent that their employees value the passes and attribute them to their employers. Further, railroad employee unions also like to have the passes for their members, and the passes may improve the railroad-union relationship. But these intangible benefits are difficult, if not impossible, to quantify.

PASS RIDERS

There is no question that pass riders benefit from the pass program. They ride the trains free or at substantially reduced rates. The passes have certain restrictions, however, that reduce their value. Because of the restrictions and other discounts available, pass riders may at times decide to become regular passengers.

Eligible persons must use their passes to obtain full benefits. However, some may not use their passes but still value them because they have the opportunity to use them when the need arises.

Much of the travel by pass riders is free. In 1979 public law pass riders traveled about 140 million passenger-miles, of which about 66 million were free coach travel. An additional 12 million miles were traveled by pass riders who paid only half the additional charge over coach fare for upgraded accommodations. The base fare was free. Thus, about 56 percent of the passenger-miles traveled by public law pass riders were by those whose passes exempted them from paying the coach fare. Furthermore, some others traveled free for part of their trip, and paid half fare for the remainder. Amtrak records these riders the same as reduced rate pass riders and does not separately identify the free travel. Non-public-law pass riders rode 21 million passenger-miles during 1979 but all paid half fares. On page 21 are two examples of how eligible persons can receive large discounts by using their passes.

Railroad employee union representatives--including several unions' legislative directors and two vice-presidents--told us that the pass privileges under the Rail Passenger Service Act are benefits that the railroads owe their employees. The representatives said the railroads have historically provided the benefits, and the employees earned the privileges by their years of service to the railroads.

CONCLUSIONS

There is no question that pass riders benefit from the pass program. The railroads benefit when their employees have a higher morale and better relationship with their employers because of the passes. Amtrak may benefit, but it is uncertain how much. The major questions are (1) how many pass riders would ride Amtrak as regular passengers and pay full fare if they did not have passes and (2) could other passengers be found who are willing to ride at a lesser discount.

Before the 1979 Amtrak Reorganization Act, the railroads paid Amtrak very little for the pass program, but the act substantially increases their contribution. Amtrak's costs to provide transportation to pass riders vary greatly depending on whether fully allocated or incremental costs are considered. The railroads believe Amtrak should be reimbursed only for minor incremental costs, and Amtrak has been unable to identify and adequately document incremental costs that would exceed the pass riders' half fares. Amtrak's fully allocated costs are much larger than what it has received from the railroads and pass riders for the service but are probably not a realistic basis to determine how much Amtrak should be reimbursed. The fares of regular passengers are

not based on fully allocated costs but on the value of the service provided. Amtrak recovers less than half of its operating costs from its fares.

Examples of How Railroad
Pass riders Receive Substantial
Savings From Free or Reduced
Rate Transportation

Example A

Husband and wife traveling from Chicago, Illinois, to San Francisco, California, and return, with upgrade accommodations to a one-bedroom.

	<u>Total ticket cost</u>	<u>Discount in dollars</u>	<u>Percentage discount</u>
Railroad pass riders:			
Public law (Burlington Northern retiree) and spouse	\$404	\$572	59
Non-public-law employee and spouse (note a)	488	488	50
Regular Amtrak passengers:			
Standard fare	976	-	-
Family plan (note b)	820	156	16
Excursion fare plan (note c)	790	186	19
Elderly fare plan (note d)	820	156	16

Example B

Husband and wife traveling from Washington, D.C., to Miami, Florida, and return, with upgrade accommodations to a one-bedroom.

	<u>Total ticket cost</u>	<u>Discount in dollars</u>	<u>Percentage discount</u>
Railroad pass riders:			
Public law employee (Seaboard Coast Line) and spouse	\$139	\$459	77
Non-public-law employee and spouse	300	298	50
Regular Amtrak Passengers:			
Standard fare	598	-	-
Family plan	504	94	16
Excursion fare plan	486	112	19
Elderly fare plan	504	94	16

a/The non-public-law cost is the same as a public law pass rider traveling off home lines.

b/Under this plan, the husband pays the standard fare and his wife only half fare. Travel dates are restricted on many routes.

c/This fare is good for travel over a 40-day period. Departures are prohibited on certain dates.

d/The elderly fare gives individuals aged 65 or over a straight 25-percent discount (except for accommodation upgrades), if their ticket is priced over \$40.

CHAPTER 4

SPACE AVAILABILITY AND VALUE OF THE SERVICE

The Rail Passenger Service Act specifies that eligible railroad employees are to receive free or reduced rate transportation, provided space is available. Whether space is available and how Amtrak ensures that full fare passengers are accommodated first are the principal limitations on pass riders, and these limitations affect the value of the service they receive.

AMTRAK PASS RESTRICTIONS

Amtrak has the responsibility to select and enforce pass restrictions that assure, to the extent practicable, that pass riders are provided transportation only after full fare passengers are accommodated. These restrictions, which are subject to change at Amtrak's discretion, apply to space availability on both reserved and unreserved accommodations.

On trains with reserved seats or sleeping accommodations, passengers must have advance reservations. For these trains, pass riders are restricted to a 24-hour period prior to train departure time during which they can make advance reservations. (The airlines usually do not allow standby passengers to make reservations.) Amtrak requires no advance reservations and generally does not restrict the pass rider's ability to board unreserved trains, which account for slightly over 50 percent of Amtrak's seat-miles. However, Amtrak policy does require pass riders to give up their seats to full fare passengers if the train fills its seat capacity.

Before a train's departure, there is normally no way to determine how many passengers will actually board the train or if the train will fill beyond its seat capacity. Amtrak's policy is not to oversell reserved seats, but other factors, such as incorrectly written tickets or an equipment change, can lead to more passengers on board than seats for them to occupy. When more passengers board a train than seats are available, the excess passengers are not put off the train, as would happen on the airlines. The passengers ride standing until space becomes available or they reach their destination.

Pass riders are informed that, as a condition of their passes, they may have to give up their seats or accommodations if such conditions arise. Train conductors are responsible for enforcing these regulations on board by instructing pass riders to stand or move out of upgraded

accommodations. Amtrak's ridership and train capacity data indicates the number of standees but does not identify the passengers who had to stand when a train was filled over its seating capacity. Thus, we were unable to determine whether conductors are always enforcing the restriction.

Pass riders also are not put off the train at later points to make room for full fare passengers who may want to board the train. Amtrak's policy is not to bump pass riders because it may place an undue hardship on them. Trains often are not as frequent as air service, and some towns may have train service only once a day or every 2 days. Furthermore, trains often arrive at late hours, and pass riders would be bumped without hotel accommodations. However, conductors are supposed to remove pass riders from sleeping accommodations if full fare passengers want them.

In the past Amtrak has restricted pass riders from certain trains. Presently, they are exempted from the metro-liner service.

The pre-Amtrak railroad employee pass program was also considered to be on a space-available basis, but the controls were not strictly standby. The major means to enforce space availability was to restrict pass riders from the popular and heavily traveled trains. Amtrak estimated in 1972 that controls to ensure that travel is on a space-available basis would cost \$42 million.

Amtrak has expressed concern that pass riders have required additional equipment to carry them and have taken the place of potential full revenue passengers. However, empty seats are usually available. If Amtrak is concerned about the effectiveness of its controls, it could take additional steps. For example, pass riders could be excluded from certain trains, or the 24-hour reservation limitation could be changed. In addition, pass riders could be eliminated from ridership and capacity data used in making decisions on equipment needs. More restrictions may be needed if Amtrak's ridership continues to increase.

SPACE AVAILABILITY

Space availability; or whether pass riders can get seats on the trains they want, is a major factor in how valuable free or reduced rate transportation is to pass riders. Although pass riders may face some inconvenience and uncertainty, space is generally available over Amtrak's entire system.

Routes used by pass riders

Pass riders, including Amtrak employees, comprise about 4 percent of total ridership. They are spread throughout Amtrak's system, but long-distance routes are the most popular in total numbers and percentage of pass riders to total passengers. Short-distance routes are the least popular. For example, in fiscal years 1977 and 1978 the percentages of pass riders to total passengers were as follows:

	<u>1977</u>	<u>1978</u>
	(percent)	
Northeast corridor routes	2.5	2.7
Short-distance routes	4.4	3.7
Long-distance routes	8.1	8.0

For Amtrak's 45 routes nationwide we developed pass ridership data for 6 months (every other month) in fiscal year 1979. Six routes had a 10-percent or higher pass ridership. All six were long-distance routes. Two other long-distance routes, a northeast corridor route, and a short-distance route had a pass ridership of over 8 percent.

The number of pass riders during fiscal years 1977 and 1978 was distributed as follows:

	<u>1977</u>	<u>1978</u>
	(percent)	
Northeast corridor routes	31	35
Short-distance routes	17	16
Long-distance routes	52	49

About half of all pass riders traveled the long-distance routes, and less than one in five rode the short-distance routes. In addition, a small number of routes carry a large percentage of pass riders. During our 6-month sample, we found that 10 routes--6 long-distance and 4 northeast corridor routes--had about 55 percent of all pass riders.

Long-distance trains

Pass riders are in greatest evidence in terms of both numbers and percentages on long-distance routes, and these are the trains with the most pass restrictions. Space on most of these trains is all reserved. Long-distance trains are also scheduled less frequently, with some trains departing only 3 days per week. Even with these limitations, high levels of pass riders were able to get on the trains.

Northeast corridor and short-distance trains

Pass riders have a lesser impact on northeast corridor and short-haul routes. While the number of pass riders using northeast corridor trains is high overall, the number of trains on the corridor is greater and schedules more frequent than on long-distance routes. The few short-distance routes which carried high numbers of pass riders also had a higher number and frequency of trains running each day.

Reservation limitations are fewer on pass riders using northeast corridor and short-distance routes. Most trains on these routes were either totally unreserved or a combination of unreserved and reserved. Advance reservation restrictions do not apply to these trains.

Space is usually available for pass riders

In order to determine whether space is available for pass riders on individual trains, we analyzed the peak load statistics for a total of 72 trains on 18 routes. Many of these routes had high levels of total ridership. We found that long-distance and northeast corridor trains had the highest peak loads and would present the most problem for pass riders wanting to get on the train. However, as shown above, long-distance and northeast corridor routes are the most heavily traveled by pass riders. Pass riders want to ride the trains that other passengers do, and they are usually able to do so.

Amtrak maintains peak passenger load statistics which show ridership, including pass riders, at the most crowded points on train routes. Train capacity and ridership levels are counted at certain key points on the route and the percentage load factors are calculated. Amtrak records the peak or highest load factors on the train's route each day and then calculates the train's monthly average peak load. Since only the highest load points along the route are included in the peak load statistics, an average load factor for all points on the route would probably be lower. Amtrak does not calculate an average load factor for a train's entire run.

From our sample of monthly peak load averages, Amtrak appears to have substantial capacity available, even on routes already carrying high levels of pass riders. Pass riders might encounter difficulty in getting reservations on some all-reserved, long-distance routes which have fewer trains and higher peak loads. Pass riders are entitled to reservations if space is available 24 hours before departure

time. Even though a train may be reserved far in advance, Amtrak may cancel advance reservations if tickets are not picked up within a specified time before departure. Amtrak also may have "no shows" for a particular train, opening more opportunities for pass riders to obtain last minute space on all-reserved trains.

In our sample, several northeast corridor and short-distance trains with unreserved space had high peak loads. High peak loads usually present no barriers to pass riders getting on board unreserved trains, however, only in getting and keeping a seat. Pass riders generally have other less crowded trains on those same routes to choose from, if they want to minimize the possibility of not getting a seat or giving up their seat.

Long-distance trains

Reserved trains with high peak loads present the greatest problems for pass riders wanting to travel by train. In our sample, the all-reserved, long-distance trains came closest to this condition. However, even with high levels of pass riders, we found space was still available on most of the 14 long-distance routes we examined. Our analysis showed that during the sample months, only two long-distance routes had trains running regularly with very high peak load factors. These two routes had trains with several monthly average peak loads over 90 percent and several daily peak loads over capacity. While these statistics show tight space availability at some points on the route, they include pass riders who were already boarded before the peak load point. The pass riders already on board would not be put off the train because it was over capacity.

The other 12 long-distance routes in our sample had only sporadic occurrences of full or overcapacity trains. None of the 34 trains in our 14-route sample had average monthly peak loads over 95 percent of capacity.

Northeast corridor trains

Most routes in the northeast corridor have pass rider percentages of under 3 percent. In terms of volume, however, they have some of the highest numbers of pass riders. High total ridership on corridor trains dilutes the pass rider's impact on route percentages.

In our sample of 20 trains on two corridor routes, we found 8 trains running consistently over capacity at peak load points. However, trains were running at other times on the same route at much lower peak loads. Thus, available

capacity remained on the routes even though certain trains were running over capacity at peak times.

Short-distance trains

The 18 trains in our sample of two short-distance routes generally had lower peak loads than trains in our sample of northeast corridor and long-distance routes. Incidents of overcapacity loads were sporadic and limited to specific trains traveling at peak hours. As in the corridor, however, we found other trains with lower peak loads running next to these high peak load trains. The monthly average peak loads of all 18 short-distance trains in our sample were far below capacity. The highest monthly average peak load was 75 percent, and in many months it was below 50 percent.

VALUE OF THE SERVICE

We believe that the value of the service Amtrak provides pass riders is an important factor in deciding what the reimbursement rate should be. However, we could not arrive at a definitive value of the service. The value of service provided regular passengers may be considered to be the amount they are willing to pay for it; that is, the price of the ticket. The value of the service to pass riders probably would be something less because of the restrictions placed on pass riders and the uncertainty about getting on the train they want. However, how much the value would be reduced could vary from pass rider to pass rider and from situation to situation. For example, many pass riders in the northeast corridor have several unreserved trains and more total trains available to them. Pass riders in other geographic locations may have access to a more limited number of trains. Also, some pass riders may care less about the 24-hour reservation limitation imposed on reserved trains. The availability of other transportation would also be a consideration.

Pass riders are receiving a better service under present restrictions than they would if strict standby controls were enforced. The purpose of the space availability criteria, however, is to ensure that pass riders do not increase costs by replacing full fare passengers or requiring additional equipment. We do not believe the purpose is to control the level of service to the pass rider. Furthermore, additional restrictions that may be needed in the future because of increased ridership would lower the value of the service to pass riders. Increased ridership would also reduce the amount of space on the trains, which would reduce the value of the service.

Although Amtrak and the railroads had not placed a specific value on the service to pass riders, Amtrak now receives half fares from all non-public-law pass riders and from public law riders traveling off their home lines. In addition, Amtrak receives half fares from some pass riders when they travel on their home lines. Before Amtrak took over, the railroads also generally received half fares from other railroads' employees traveling on their lines. If Amtrak had received half fares for all pass rider travel in 1979, it would have received an additional \$2.6 million.

CONCLUSIONS

One measure of the passes' value is the service pass riders receive compared to regular fare passengers. Space availability and the restrictions Amtrak uses to ensure that full fare passengers have priority over pass riders are the major limitations on pass holders' use of the privileges.

On most trains space is available, and pass riders on those trains usually are treated the same as regular full fare passengers. However, Amtrak pass restrictions, such as the 24-hour reservation limitation and prohibition from metroliners, and some uncertainty about getting on desired trains reduce the value of the service to pass riders.

We were unable to quantify how the restrictions and uncertainty affect the value of service pass riders receive compared to full fare passengers. The value would vary by pass rider and by situation. Also, changes in space availability or pass restrictions could change the value. Although no specific value was placed on the service, a half fare has traditionally been the charge for railroad employees traveling off their home lines.

CHAPTER 5

MATTERS FOR CONSIDERATION BY THE CONGRESS

The 1972 amendment to the Rail Passenger Service Act that established the pass program also required the railroads to reimburse Amtrak for its costs to implement and administer the program. Amtrak and the railroads have differed substantially on which costs Amtrak should be reimbursed for ever since the program began, and the issue is still unresolved today.

Before Amtrak began operations, the railroads used the concept of incremental costs to justify providing free or reduced rate transportation to their own employees and reduced rate transportation under reciprocal agreements with other railroads. The railroads considered the incremental costs, or the additional costs to transport pass riders in seats that would otherwise go empty, to be minor. Furthermore, they received revenue from the reduced rate riders. The railroads believe that when the Rail Passenger Service Act required Amtrak to provide free or reduced rate travel to eligible railroad employees as the railroads had done, it also recognized the incremental cost of the service, and Amtrak should be reimbursed accordingly.

Amtrak believes it is responsible for recovering as much of its operating costs as practicable and should receive revenue or reimbursement in line with the value of the service it provides. Amtrak does not believe it is obligated to transport other railroads' employees while being reimbursed only for incremental costs, which are small compared to its fully allocated costs.

Amtrak was also unhappy with ICC's decision to allow incremental costs attributable to pass riders to be offset by other pass riders' half fares. The result was that the railroads generally paid nothing for transportation their employees received, and Amtrak was not reimbursed at all for much of the travel by pass riders. For example, if the 1972 ICC rate of 0.079 cent per passenger-mile had been in effect for all of 1979, Amtrak's incremental costs would have been about \$120,000, and this amount would have been completely offset by the \$2.5 million in half fares paid by those pass riders who traveled off their home lines. On the other hand, Amtrak would have obtained an additional \$2.6 million if it had received an amount equal to half fares for all pass rider travel in 1979.

We could not find adequate analytical evidence to establish whether Amtrak should be reimbursed for the value of the

service it provides pass riders or for the incremental cost of providing the service. That choice is a policy decision that the Congress should make.

If the Congress chooses to have Amtrak reimbursed for the value of the service it provides, that value should probably be something less than the fare charged a regular passenger because pass riders are subject to restrictions and uncertainties that do not apply to full fare passengers. The railroads traditionally received (from the pass riders) one-half the standard fare for other railroads' employees, and Amtrak now receives half fare from all non-public-law pass riders and public law pass riders when they travel off their home lines. Amtrak also receives half fares from some pass riders when they travel on their home lines. However, there is no analytical basis to recommend half fare as the value of the service.

ALTERNATIVES FOR THE CONGRESS

Congressional action will be required to decide the issue of reimbursement. We believe two primary options are available:

- Provide for Amtrak to be reimbursed only for the incremental costs of providing free or reduced rate transportation to eligible persons.
- Provide for Amtrak to be reimbursed for the value of the service it provides.

If the Congress decides that Amtrak should be reimbursed only for its incremental costs, it should require ICC to update its 1972 rate determination to reflect inflation and the additional experience Amtrak has gained with the program. The Congress should also inform ICC whether the revenue from the pass riders' reduced rate fares should offset the incremental costs.

If the Congress decides that Amtrak should be reimbursed for the value of the service it provides, it may wish to establish the traditional half fare as the value to be used or establish some other value. The Congress then would have three choices. It could (1) require the railroads to pay all or a portion of the established value, (2) require pass riders to pay the established value for all their travel, or (3) pay for the travel through Federal subsidy.

AMTRAK COMMENTS AND OUR EVALUATION

Amtrak commented that this report clearly sets forth the historical perspective and issues concerning reimbursement to Amtrak for pass riders. According to Amtrak, a pass rider is like any other passenger using its equipment and facilities, and Amtrak should receive reasonable fare and/or other reimbursement for the service it provides.

Amtrak said there is no doubt that pass privileges represent a valuable fringe benefit to the employees and the railroads and for this reason the incremental cost argument is inappropriate. It acknowledged that the railroads did not reimburse each other for pass riders under their past reciprocal agreements but pointed out that Amtrak does not receive similar reciprocal benefits because it is the only intercity passenger railroad.

Amtrak said the 50-percent reimbursement rate it initially proposed that the railroads pay appeared to be reasonable given the restrictions on pass riders. Amtrak concluded that, given the congressional mandate to increase revenues and to improve its cost-to-revenue ratios, it should be entitled to reimbursement from the railroads at least equivalent to the current 25-percent formula, established by the Congress, which is a significantly larger discount than is offered the general public. (See app. I.)

We did not obtain written comments on our draft report from the numerous railroads and terminal companies, but we did consider their views during our study. As discussed in chapter 3, the railroads generally regard the pass privileges as little, if any, benefit and the present reimbursement rate as too high.

As discussed in this chapter, we did not find adequate analytical evidence to recommend one position over the other. We believe that the Congress should decide the matter.

National Railroad Passenger Corporation, 400 North Capital Street, N.W., Washington, D.C. 20001 Telephone: (202) 393-3000



March 11, 1980

Mr. Henry Eschwege,
Director
Community & Economic Development Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Eschwege:

We have reviewed the GAO report "How Much Should AMTRAK be Reimbursed for Railroad Employees Using Passes to Ride its Trains?" and agree that it clearly sets forth the historical perspective and the issues concerning reimbursement to AMTRAK for pass riders who are employees of railroads and terminals.

Our position on this matter is that AMTRAK is providing a service to employees of the railroads and terminals that benefits the railroads, terminals and the employees of these organizations. From AMTRAK's point of view, a railroad pass rider is another passenger using the equipment and facilities of the Corporation as does every other passenger. As such, AMTRAK should receive reasonable fare and/or other reimbursement for pass riders employed by agencies other than AMTRAK.

We would agree, because of certain restrictions placed on pass holders, that full fare reimbursement is not equitable, for the same reason that we and other transportation modes place restrictions on discount fares.

There is no doubt that pass privileges represent a valuable fringe benefit to the employee and to the railroads. For that reason we believe the incremental cost argument is inappropriate. AMTRAK proposed to the Congress last year that a fair value would be fifty (50) percent of the system-wide yield. This recognized that even with the fare collected from the passenger (fifty (50) percent off home railroad) AMTRAK would collect only fifty (50) percent from the railroads for travel over the pass rider's home road.

AN EQUAL OPPORTUNITY EMPLOYER

Mr. Henry Eschwege
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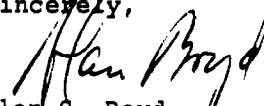
This appeared to be a reasonable discount given the restrictions placed on pass riders.

Because of railroad opposition, the Congress reduced the reimbursement to AMTRAK to twenty-five (25) percent of the systemwide yield. This means that AMTRAK provides a seventy-five (75) percent fare discount for pass riders over home railroads and a twenty-five (25) percent discount for travel over other railroads. This is significantly larger than other fare discounts offered the general public.

The draft report mentions the fact that "railroads did not reimburse each other for pass riders under reciprocal agreements" but it does not mention the fact that AMTRAK does not receive any "reciprocal or interline" benefits from the other railroads since we are the sole intercity passenger railroad.

Given the Congressional mandate to AMTRAK to increase revenues and to improve cost to revenue ratios, we believe that AMTRAK should be entitled to reimbursement from railroads at least equivalent to the current formula established by Congress.

Sincerely,



Alan S. Boyd
President

(343746)



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