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Before the House Transportation and Infrastructure  
Committee, Subcommittee on Ground Transportation

U.S. House of Representatives

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Testimony from the  
**AMTRAK REFORM COUNCIL**

Statement of  
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**INTRODUCTION**

Mr. Chairman, the Amtrak Reform Council is honored to have the opportunity to testify before this oversight hearing.

When the Council was originally advised of the likely timing of this hearing, it was expected that the ARC's testimony would focus on Amtrak's Strategic Business Plan for FY2000-FY2004. With the Acela Express and consequent Business Plan delays, however, that is not possible. Thus, this testimony will address the following subjects:

- A summary of the Council's activities to date, including the results of its field operations;
- Issues of Amtrak's financial performance to date;
- A commentary on Amtrak's general operational performance;
- The Council's perspective on emerging passenger rail corridors; and
- Some observations about the Council's approach to productivity

**THE COUNCIL'S OPERATIONS**

The ARC is up and running, and pleased to have an appropriation of \$750,000 for FY 2000, which will support a full program of Council operations during this fiscal year.

We have developed an active program of oversight and research incorporating, in addition to the Council's business meetings, the following elements:

- Careful tracking of the financial analyses being carried out by the Department of Transportation's Office of the Inspector General (DOT IG) and the General Accounting Office (GAO);
- A series of outreach hearings across the country to discuss issues currently affecting rail passenger service and those emerging in the near- to mid-term future, particularly regarding the rail passenger corridors designated under ISTEA and TEA-21;
- Independent research and analysis by the ARC staff;
- Occasional seminars to assist the Council in gaining a deeper understanding of issues critical to its deliberations; and
- In-depth discussions of key issues by the Council's committees to lay the groundwork for its downstream deliberations and recommendations.

The Council's outreach hearings and its other efforts are designed to ensure that it understands the lay of the land concerning rail passenger service today. The Council has been in contact with not only Amtrak and the freight railroads over which it operates, but also with state transportation departments, selected commuter rail authorities, regional associations such as the Coalition of Northeastern Governors and the Midwest Regional Rail Initiative, the Standing Committee on Rail Transport of AASHTO, rail equipment manufacturers, rail passenger industry associations, rail union representatives, and international organizations with expertise in high-speed passenger rail operations. The Council has also addressed the annual meetings or conferences of the High Speed Ground Transportation Association, the Standing Committee on Rail Transport, the National Corridors Initiative, and the just-concluded States' Summit on High Speed Rail.

This high level of activity, in addition to its analyses of Amtrak's operations and finances, has allowed the Council to get started on the process of evaluating Amtrak, as called for in the Amtrak Reform and Accountability Act of 1997 (the Act; ARAA). Stemming from this evaluation, the Council can report that it is now formulating its first recommendations for the improvement of Amtrak, and will soon forward them for the consideration of Amtrak's Board and management. The Council will work closely with Amtrak to assess the prospects for the implementation of the recommendations. The Council's annual report will describe the recommendations for improvement that the Council has forwarded to Amtrak as well as any actions Amtrak has taken in response to those recommendations.

With regard to the Council's formal reporting to the Congress, in early January 2000, we will deliver to the Congress the ARC's annual report for 1999. We are confident that it will provide information of substantial value to the Congress as it seeks ways to improve America's national system of intercity rail passenger services.

The Council should emphasize, Mr. Chairman, that its broad responsibilities require it to ask many questions and seek much information. The Council invites Amtrak to all of its meetings and hearings and receives presentations from the corporation's top management and staff. Amtrak has generally accommodated these requests. There have been instances, however, in which information has not been provided in a prompt or effective manner, and we are working to ensure that we identify the needed information and clear up the backlog. No one is happy having an auditor or other outside evaluator, but that is the role that the Congress created the ARC to perform with regard to Amtrak's operations.

## **KEY ISSUES OF AMTRAK'S FY 1999 FINANCIAL PERFORMANCE TO DATE**

Financial statements "subject to audit" for the twelve-month fiscal year ended September 30, 1999, were sent by Amtrak to the Council shortly before written testimony was due. These financial statements, which indicate overall performance approximately \$8 million ahead of its Strategic Business Plan dated October 12, 1998 (the SBP or Plan), were not in the same format as the monthly, quarterly and annual financial statements that Amtrak typically provides, and they contained no analyses of operating performance and explanations of variances from Plan. Accordingly, the Council's testimony today concerning Amtrak's financial performance is based on Amtrak's performance through the eleven months ended August 31, 1999, since such information was available in a format consistent with previous publicly released Amtrak financial information for this fiscal year.

In terms of Amtrak's current financial performance, for the first eleven months of its fiscal year through August 31, 1999, the Council offers the following observations:

- Amtrak was ahead of its Plan by \$5.7 million through eleven months (down from a positive variance of \$10.7 million through the nine months ended June 30, 1999), despite unfavorable performance from its core passenger business operations. Specifically, Amtrak was ahead of its Plan through eleven months due to a \$22.7 million favorable variance in its Commercial Operating Profit. "The NEC (Northeast Corridor) contributed the majority of this favorable Commercial Operating Profit, the result of renegotiated pipe and wire agreements, other real estate transactions and increased flagging protection revenues."<sup>1</sup>

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<sup>1</sup> Page 3, Amtrak: FY 1999 Third Quarter Business and Financial Performance Report indicated a positive variance for the Northeast Corridor of \$19.4 million for nine months through June 30, 1999, which increased to \$23.4 million for eleven months through August 31, 1999, per Amtrak's August 1999 Business and Financial Performance Report prepared on October 7, 1999.

- The Northeast Corridor (NEC) was \$20.9 million better than Plan through eleven months primarily due to the approximately \$23.4 million favorable variance in Commercial Development operating profit in the NEC Business Unit.
- Amtrak Intercity's budget result was \$18.1 million worse than Plan for eleven months primarily due to total Intercity revenues being \$19.6 million below Plan. This revenue shortfall resulted from Intercity passenger-related revenue shortfalls of \$28.8 million (7% under Plan due to a 7.2% ridership shortfall) and Intercity mail and express revenue shortfalls of \$9.3 million, which were partially offset by \$13.2 million of insurance claims recovery revenues recognized during the eleven-month period, \$1.0 million higher than Plan State Support income, \$1.3 million higher Reimbursable revenues, and \$2 million greater Commercial Development revenues.
- Amtrak West's net budget result was \$2.9 million better than Plan, mostly due to better than expected performance in the Commuter business segment.
- Commercial Operating Profits and income from commuter contracts, both of which were better than projected, more than offset profit shortfalls in Amtrak's core business: the intercity transportation of rail passengers. While the variances from Plan, primarily due to shortfalls in passenger revenues, are not large, achievement of Amtrak's financial objectives by 2003 will be even more challenging than anticipated a year ago since Amtrak's core business is behind its performance goals defined in its October 1998 Plan.

With regard to the financial impact of the Acela delay, we believe it unlikely that the savings from liquidated damages, deferral of interest and other financial costs, operating expense savings, and delay in start-up costs will be sufficient to offset the revenue losses due to the delay. We look forward to learning from the new Strategic Business Plan (now scheduled for release in December rather than September, as originally planned) the corrective actions that Amtrak will take to reduce costs and increase revenues. In short, if an earlier start-up of the Acela Express operation would help Amtrak's financial performance, then it would seem hard to escape the conclusion that a delay will hurt it.

The Council would like to make it clear to the Subcommittee that the Council has made every effort to take advantage of the financial analysis performed by both the DOT IG and the GAO. They have actively assisted the Council, and this cooperation has been of great value to the Council.

## **GENERAL PERFORMANCE OF THE CORPORATION**

After almost 30 years since its creation, Amtrak is long past the point where it can ascribe its problems to its legacy from the freight railroads. Nevertheless, Amtrak continues to face major challenges to efficient and effective operation. The Council believes that Amtrak's new management has taken some important steps to improve the Corporation's performance. But management will have to take exceptionally strong measures to correct Amtrak's persistent problems of high costs and, all too often, inadequate service quality. Controlling costs and improving service quality are obviously essential to the Corporation's financial performance, and they are equally crucial to Amtrak's customers, its employees, and, of course, to the federal and state governments that fund its operating deficits.

### *Costs*

During the ARC's outreach hearings, a number of states for which Amtrak provides service have indicated concern at the high level of overhead costs that Amtrak bills to them. In certain instances, total overhead costs billed to states have actually increased with the level of ridership, even without any increase in train service. George Warrington has written the Council about this issue, and the Council will be working with Amtrak and the states to better understand and address this issue. Echoing the theme of concern with Amtrak's high costs, there have been two recent events that indicate strongly that a marketplace of sorts is beginning to work to exert pressure on Amtrak's high cost structure.

The first instance relates to the bidding competition for a contract to maintain the locomotives and passenger coaches for the Massachusetts Bay Transportation Authority's rail commuter services. In that case, four bids were submitted, including Amtrak's bid, which was more than 65 percent higher than the winning bid – \$291 million by Amtrak versus \$176 million by the winner, Bay State Transit. Attached are two charts provided to the Council by the MBTA.

The first chart compares Amtrak's bid price, and MBTA's technical evaluation of Amtrak's bid, to those of the other three bidders. The second chart compares the labor productivity, measured in employees per unit of equipment to be maintained, of Amtrak's MBTA contract, Bay State's prospective MBTA contract, and similar operations in Toronto, Los Angeles, Chicago, Metro North and the Long Island Railroad in New York, and New Jersey. Amtrak's MBTA contract is higher – which means less productive – than any of the other operations. It is interesting to note that even the prospective Bay State operation for MBTA will have a lower productivity than any other similar North American maintenance operation except Metro North in New York. Amtrak was simply not competitive in its bid for the MBTA contract. Amtrak's management is aware of this situation and will undoubtedly be working hard

to adjust its cost structure and bidding practices in order to be more competitive in the future.

The second instance relates to the initiative for development of a network of rail passenger services to serve the designated emerging high-speed rail passenger corridors radiating from the Chicago Hub. Under this plan, termed the Midwest Regional Rail Initiative, which is being developed by a nine-state consortium, a profile has been developed for train services and costs, both operating and capital, that reflects a formula the consortium believes the market will accept and the states can afford. The consortium is planning to negotiate a contract for Amtrak's services at a per-train-mile cost that is substantially less than Amtrak's average cost per train-mile. Amtrak's ability to provide lower-cost service will be in large part due to two factors: (1) a high level of train service that is designed into the basic system of the Initiative, which provides a large base of train-miles over which to spread the overhead costs of the train operating company, thus lowering the unit cost; and (2) positive measures by the consortium to define and control the amount of Amtrak's overhead costs that are applied to the operation.

### *Service Quality*

Thus far on an anecdotal basis, but, nonetheless, very clearly, the Council is beginning to get reports from dissatisfied customers of Amtrak. While it is important to note that these fragmentary reports the Council is receiving do not represent by any definition a representative sample, they are serious enough on their own to warrant a comment and downstream attention by the Council. They speak of poor and sometimes unpleasant service, equipment in poor repair, enroute breakdowns, and major delays in arrival. A significant part of Amtrak's on-time performance problem is due not to Amtrak, but to the freight railroads over which Amtrak operates outside of the Northeast Corridor, particularly in the regions affected by the mergers of the Union Pacific-Southern Pacific and the CSX and Norfolk Southern acquisitions of the Conrail system. Nonetheless, Amtrak's must make further efforts to improve on-time performance within the scope of its own operations, and this applies particularly to its long-haul operations.

A further indication of the problem of customer dissatisfaction with Amtrak's quality of service is information, provided by Amtrak to the Council, indicating that 50 percent of the riders on Amtrak's long-haul intercity trains are first-time riders. Given that the ridership level on these trains has been essentially static for years, this suggests that half of the people who ride these trains never ride them again.

To improve this ridership retention percentage, Amtrak must be effective in implementing the ambitious training program that Mr. Warrington and his management team have developed to improve the quality of Amtrak's customer

service. In addition, Amtrak's management must ensure that proper operational and maintenance procedures and supervisory structures are in place so that equipment maintenance, train provisioning, and on-board services are dramatically improved.

## **THE DEVELOPMENT OF EMERGING PASSENGER RAIL CORRIDORS**

The Council's August 31, 1999, testimony before the Subcommittee made clear its position strongly favoring the effective development of the emerging rail passenger corridors.

The Council has examined the institutional models that have evolved or are evolving in the Pacific Northwest and the Midwest for the planning and financing of the necessary acquisitions of equipment and improvements to infrastructure, and for the conduct of passenger train operations. In the Council's view, they seem well suited to the task. These corridors are being developed in such a way that the states, which are the primary beneficiaries of the resultant services, are the primary developers of the corridors.

The currently developing structure for the implementation of the corridors is important and appropriate for another reason. It is quite consistent with the principal features of the new legislative framework provided in the Amtrak Reform and Accountability Act, under which Amtrak no longer holds a monopoly status, is encouraged through a variety of means to reduce its costs and improve its competitiveness, and under which interstate compacts for rail passenger operations are not only encouraged, but are granted prior federal authorization.

## **THE COUNCIL'S APPROACH TO PRODUCTIVITY**

Productivity is an issue that the Council must deal with under its statutory mandate. The report the Council will submit in January 2000 will, based on the analysis of documentation and information that we have requested from Amtrak, address the issues set forth in the ARAA. A summary of the Council's reporting requirements under the ARAA is attached to this testimony for the convenience of the Subcommittee.

The Council takes a broad view of the so-called productivity issue in its deliberations. This view embraces not only the issue of how well Amtrak's management deals with the productivity of both its agreement and non-agreement employees, but also with the productivity of the capital, energy, and materials that Amtrak uses in equipping, maintaining, and operating its national system of intercity



rail passenger services. The Congress will find that the Council's annual report deals with the productivity issue in this broader context.

## **CONCLUSION**

Mr. Chairman, the Council is pleased to have this opportunity to provide its views to the Subcommittee, and hopes they will assist the Subcommittee in carrying out its oversight responsibilities. As the Council progresses in the definition and formulation of its views, you may be sure that it will keep the Subcommittee apprised.

Thank you.

### **Attachments**

1. MBTA Chart on Mechanical Services Selection Committee Scores
2. MBTA Chart on Maintenance Personnel per Maintenance Units
3. ARC Reporting Requirements