Order Code IB10147

CRS Issue Brief for Congress
Received through the CRS Web

Amtrak: Budget and Reauthorization

Updated May 2, 2006

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SUMMARY

Amtrak was created by Congress in 1970 to provide intercity passenger railroad service. It operates approximately 44 routes over 22,000 miles of track, 97% of which is owned by freight rail companies. It runs a deficit each year, and requires federal assistance to cover operating losses and capital investment. Without a yearly federal grant to cover operating losses, Amtrak would not survive as presently configured. The crux of the public policy issue facing Congress has been succinctly stated by Kenneth Mead, the Department of Transportation Inspector General (DOT IG): "The mismatch between the public resources made available to fund intercity passenger rail service, the total cost of maintaining the system that Amtrak continues to operate, and proposals to restructure the system comprise the dysfunction that must be resolved in the reauthorization process of the nation's intercity passenger rail system."

During the 107th and 108th Congresses, Amtrak policy was stalemated and no consensus could be reached on what kind of passenger rail system to fund. Congress failed to endorse Amtrak's strategy of maintaining its full current network while restoring its infrastructure to a state of good repair. In the 109th Congress, the Administration and Amtrak have presented proposals for "reform."

Appropriations. For FY2006, Congress appropriated $1.315 billion for Amtrak. This amount is $135 million less than the Senate-passed version of H.R. 3058 and $139 million more than the House-passed version of H.R. 3058. The Administration had requested no funding for Amtrak for FY2006 in the absence of significant reform and had issued a veto threat against the Senate- and House-passed versions of the bill for providing Amtrak funding without significant reform. Congress divided the $1.315 billion appropriation into three separate accounts: $495 million for operating subsidy grants, $780 million for capital and debt service grants ($280 million of this $780 million is for debt service), and $40 million for efficiency incentive grants.

Reauthorization. Amtrak's authorization expired in December 2002. Reauthorization issues in the 109th Congress include Amtrak's funding level, the size of its network, the introduction of competition for routes, and Amtrak restructuring. On April 14, 2005, the Bush Administration sent its Amtrak restructuring proposal, the Passenger Rail Investment Reform Act (introduced as H.R. 1713), to Congress. On November 8, 2005, the House Committee on Transportation and Infrastructure reported out of committee an Amtrak reauthorization bill (H.R. 1630) that provides $2 billion a year to Amtrak for FY2006-FY2008. That bill does not include provisions to restructure Amtrak.

On October 18, 2005, the Senate Committee on Commerce, Science, and Transportation reported S. 1516 to authorize Amtrak for FY2006-FY2011. The bill would provide an average of $1.9 billion annually. It would not restructure Amtrak, but would impose standards for performance. The bill would also authorize the issuance of $13 billion in bonds for Amtrak capital improvements.

Most Recent Developments

For FY2007, the President requested $900 million for Amtrak which is about $400 million less than Congress appropriated last fiscal year. This amount includes $500 million in capital grants and $400 million in efficiency incentive grants. The budget proposal states that Amtrak should move aggressively to:

- Phase out costly overnight trains and restructuring its train schedules to emphasize regular short trips;
- Overhaul money-losing food and dining services;
- Consider opportunities for competition, such as contracting with non-Amtrak operators; and
- Address the imbalance of Amtrak's labor costs exceeding its ticket revenues.

Amtrak has requested $1.598 billion for FY2007, which is $698 million more than the President requested and $283 million more than Congress appropriated last year.[1] This amount includes $730 million for capital grants, $498 million in operating grants, $295 million for debt service, and $75 million for a working capital fund. Amtrak's FY2007 budget proposal states that "development and services around corridor services should fundamentally be a state responsibility" and that Amtrak proposes "to begin transitioning state funding for all corridor services to full operating cost recovery plus an equipment charge over four years starting in FY2008," provided that a federal capital matching program of 80%-20% federal-state funding is in place. Amtrak's budget proposal also states that it is currently conducting a "clean slate" review of its long distance routes to identify a route and service structure that "makes sense," and will make known the results of its review later this year.

On November 3, 2005, the GAO released a report that was highly critical of Amtrak's management and performance.[2] On November 9, 2005, Amtrak's President and CEO since May 2002, David Gunn, was fired by Amtrak's Board of Directors. Gunn was opposed to some of the more far reaching restructuring proposals sought by the Administration and the Amtrak Board, such as splitting the infrastructure component and the operating component on the Northeast Corridor (NEC) into two separate entities.

Background and Analysis

Amtrak — officially, the National Railroad Passenger Corporation — is the nation's only provider of intercity passenger rail service. Amtrak is structured as a private company, but virtually all its shares are held by the United States Department of Transportation (DOT). Amtrak was created by Congress in 1970 to maintain a minimum level of intercity passenger rail service, while relieving the railroad companies of the financial burden of providing that

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[1] See *FY07 Grant and Legislative Request*, March 2006, available on Amtrak's website: [http://www.amtrak.com].

[2] GAO, *Amtrak Management: Systemic Problems Require Actions to Improve Efficiency, Effectiveness, and Accountability*, GAO-06-145, October 2005.

money-losing service. Although created as a for-profit corporation, Amtrak, like intercity passenger rail operators in other countries, has not been able to make a profit. During the last 35 years, federal assistance to Amtrak has amounted to approximately $29 billion.[3]

Amtrak's approximately 20,000 employees operate trains and maintain its infrastructure. The company operates approximately 44 routes over 22,000 miles of track. More than 97% of that track is owned by freight rail companies; Amtrak owns about 730 route miles of track.[4] The section it owns — the Northeast Corridor (NEC) — includes some of the most heavily used segments of track in the nation. Amtrak "is distinctly a minority user on certain portions of the NEC. By far, the greatest volume of NEC traffic is represented by" commuter and freight trains.[5] Amtrak operates corridor routes (covering distances under 400 miles) and long-distance routes (over 400 miles in length). Some of Amtrak's corridor routes are supported in part by assistance from the states they serve. Amtrak also operates commuter service under contract with state and local commuter authorities in various parts of the country.

The Amtrak Reform and Accountability Act of 1997 (P.L. 105-134; 111 Stat. 2570) authorized Amtrak for the period December 1997 through December 2002. It required that Amtrak operate without federal operating assistance after 2002; this was not accomplished. During the period leading up to this operational self-sufficiency deadline, Amtrak's then-president, George Warrington, repeatedly assured Congress that Amtrak was on a 'glide-path' to profitability. However, in FY2002 Amtrak proved to be in worse financial shape than in 1997, and Amtrak's debt increased from $1.7 billion in 1997 to $4.8 billion in 2002. Warrington resigned in April 2002.

In May 2002, David Gunn took over as Amtrak's new president. In June 2002, Mr. Gunn and the Amtrak Board announced that Amtrak's was in danger of running out of money and that the railroad faced an imminent shutdown if Amtrak did not receive $200 million to keep the company operating through September 2002. After tense negotiations, the Department of Transportation provided a $100 million loan and Congress approved a $100 million grant to Amtrak.[6]

Although Amtrak's FY2005-FY2009 Strategic Plan calls for more than $8 billion in federal assistance over five years, Congress has thus far declined to provide the requested funding. Amtrak's annual appropriation has been $1.2 billion since FY2003, enough to keep the system operating, but not enough to prevent the deferral of some significant maintenance projects. Although short of the funding required to accomplish Amtrak's strategic vision, Amtrak has resisted reorganizing the system and, according to the DOT IG, "it appears that

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[3] Executive Office of the President. *Budget of the Unites States Government, FY2006*. Washington, DC: U.S. GPO, 2005. p. 242.

[4] Amtrak. Testimony of David L. Gunn before Senate Commerce Subcommittee on Surface Transportation and Merchant Marine. July 10, 2002.

[5] Amtrak. *Annual Report to Congress*. February 17, 2005. p. 3.

[6] Rogers, David. "House Approves Treasury Bill That Eases Tourist Trips to Cuba," *Wall Street Journal*, July 25, 2002. p. A4.

Amtrak's management plans to continue operating the status quo system."[7] The DOT IG has stated that a new federal intercity passenger rail strategy is needed.[8] More fundamentally, the DOT IG characterizes the public policy conundrum in the following way: "The mismatch between the public resources made available to fund intercity passenger rail service, the total cost of maintaining the system that Amtrak continues to operate, and proposals to restructure the system comprise the dysfunction that must be resolved in the reauthorization process of the nation's intercity passenger rail system."[9]

The President's FY2006 budget proposal requested no money for Amtrak. The Administration did request $360 million for the Surface Transportation Board to support commuter rail services that depend on Amtrak, in the event that Amtrak ceases operations during FY2006: "With no subsidies, Amtrak would quickly enter bankruptcy, which would likely lead to the elimination of inefficient operations and the reorganization of the railroad through bankruptcy proceedings."[10] It is not at all clear what the outcome of an Amtrak bankruptcy proceeding would be, except that the outcome would be determined by the courts rather than by Congress or the Administration.[11] While the Administration had issued veto threats against the FY2006 DOT appropriations bills that provided funds for Amtrak without significant reforms to Amtrak's structure and operations, the President signed a $1.315 billion appropriation for Amtrak (H.R. 3058; P.L. 109-115).

The Administration's decision not to request funding for Amtrak for FY2006 received bipartisan criticism in both the House and the Senate. The DOT IG has testified that "the bankruptcy option would be an extraordinarily complex and risky undertaking — ... one not to be relied upon if the objective is to promote a more rational and reliable national passenger rail system."[12]

In the 2005 Annual Report to Congress, David Laney, chairman of the Amtrak board of directors, noted that

> Prospects for America's intercity passenger rail service have reached a critical crossroads. At current funding levels, existing operations and capital investment will have to be severely curtailed or discontinued beyond FY2005; conversely, without meaningful reform Amtrak cannot reasonably expect to attract levels of funding from any combination of federal, state, local, or private sources at levels adequate and predictable enough to sustain passenger rail service in this country.[13]

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[7] DOT. Office of the Inspector General. *Assessment Report on Amtrak's 2003 and 2004 Financial Performance and Requirements*. CR-2005-013. November 18, 2004. p. 2.

[8] Ibid., pp. 1-2.

[9] Ibid., p. 5.

[10] *Budget of the United States, FY2006*. p. 243.

[11] CRS Report RL31550, *Railroad Reorganization Under the U.S. Bankruptcy Code: Implications of a Filing by Amtrak*, by Robin Jeweler.

[12] Mead testimony, April 21, 2005. p. 1.

[13] Laney, David M. *Testimony*. Senate Committee on Commerce, Science, and Transportation, (continued...)

In April 2005, Mr. Laney again warned that Amtrak "cannot continue to operate at Amtrak's current funding level of $1.2 billion significantly, if at all, beyond FY2005."[14] That testimony came less than a week after Amtrak removed its Acela trains from service due to cracked brake disks.

While the train's manufacturer (Bombardier) and subcontractors, Amtrak, and the FRA sought the cause of the cracking and a solution to the problem, Amtrak replaced most of the scheduled Acela service in the Washington D.C. to New York segment with other trains; however, the number of routes offered between New York and Boston was significantly reduced. Between reduced ridership and lower fares on the replacement trains, Amtrak says it lost $1 million a week in revenue attributable to the absence of the Acela trains.[15] The Acela trains were returned to service, with a redesigned brake rotor, by the end of September 2005.

In May 2005, Secretary of Transportation Norman Mineta wrote to Amtrak President David Gunn "strongly" recommending that Amtrak "begin to implement cost-cutting measures ... in a manner that does not jeopardize safety."[16] Mineta also objected to Gunn's characterization of Amtrak's financial situation in testimony before a Senate Appropriations Subcommittee. Gunn had testified that Amtrak would end FY2005 with about $20 million in cash on hand. Mineta noted that Gunn's estimate assumed the transfer to Amtrak of $60 million which, pursuant to Congressional direction in P.L. 108-447 (the FY2005 Consolidated Appropriations Act), was being held in reserve by the DOT lest Amtrak cease operations during FY2005.[17]

Federal Oversight of Amtrak

In response to Amtrak's inaccurate descriptions of its financial condition between 1998 and 2002, Congress has included provisions in Amtrak's recent appropriations, beginning in FY2003 (P.L. 108-7; 117 STAT 11), intended to bring greater transparency to Amtrak's finances and to increase DOT's control over Amtrak's use of its appropriation. Amtrak is required to submit a Strategic Plan to Congress, updated annually, and is prohibited from making expenditures not programmed in the Strategic Plan without advance notice to Congress. Amtrak is also required to submit a monthly financial statement to Congress. Also, Congress changed the way Amtrak receives its funding; the funding no longer goes directly to Amtrak, but is allocated to the Secretary of Transportation, who makes quarterly grants to Amtrak. Amtrak is required to submit grant applications to DOT for each route to receive this funding.

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[13] (...continued)
Subcommittee on Surface Transportation and Merchant Marine. April 21, 2005. p. 1.

[14] Ibid., p. 9.

[15] Robert Cohen, "High-speed Train Woes Put Amtrak in a Bind," New Jersey Star-Ledger, June 29, 2005.

[16] Norman Y. Mineta, Secretary, Department of Transportation, Letter to David L. Gunn, President, National Railroad Passenger Corporation [Amtrak], May 25, 2005.

[17] 118 Stat. 3220.

Finances

Amtrak runs a deficit of over a billion dollars each year. Since 2001, Amtrak's annual operating losses have exceeded $1 billion and annual cash losses have exceeded $600 million.[18] Capital depreciation (not a cash loss, but the estimated cost of repairing the wear and tear to equipment and infrastructure) expenses amount to approximately $600 million annually, most of which is incurred on the Northeast Corridor. A third significant expense is debt service (principal and interest payments on Amtrak's accumulated debt is forecast to be $278 million in 2006), which will amount to nearly $300 million annually for the foreseeable future.[19]

Virtually all of Amtrak's 44 or so routes lose money.[20] According to the DOT IG, "in 2004, long-distance trains cumulatively incurred operating losses of more than $600 million (excluding interest and depreciation)."[21] By his calculation, eliminating long-distance service will reduce operating losses by about $300 million, far too little to make Amtrak profitable. In congressional testimony, the DOT IG stated that long distance trains accounted for only 15% of total intercity rail ridership and that 77% of long-distance train passengers traveled along only portions of the routes, not end-to-end trips. Trips mostly ranged from 500-700 miles, slightly longer than corridor trips.[22] In a recent report, the IG estimated that Amtrak could realize "annual operating savings of between $75 million and $158 million, and an additional $79 million in planned annual capital expenditures that could be avoided" by eliminating the highly-subsidized sleeper class service from its long-distance trains.[23] Sleeper class service includes a sleeping room and prepaid meals in the train's dining car; coach class passengers on long-distance trains sleep in their seats on overnight trips, and usually buy food in the train's lounge car.

In addition to its annual deficit, Amtrak has major liabilities due to deferred maintenance and accumulated debt. Lacking money to complete all its capital repair and maintenance projects, Amtrak has deferred many maintenance projects. This has led the DOT IG to observe that Amtrak's continued deferral of maintenance increases the risk of a major failure on its system. Amtrak has an estimated $6 billion in backlogged capital

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[18] Mead. *Congressional Testimony*. April 21, 2005. p. 3. The DOT IG attributes growing cash losses primarily to rising interest expense. GAO. *Amtrak Management: Systemic Problems Require Action to Improve Efficiency, Effectiveness, and Accountability*. GAO-06-145. GAO states operating losses "are projected to increase by about 40 percent over the next four years." p. 87.

[19] Ibid.

[20] Only Amtrak's signature 'high-speed' service on the Northeast Corridor, the Acela, and its companion Metroliner service, consistently earn more than their operating costs. However, the annual maintenance cost of the Northeast Corridor dwarfs the operating profit generated by Acela and Metroliner service.

[21] Ibid., p. 6.

[22] Ibid.

[23] DOT IG. *Analysis of Cost Savings on Amtrak's Long-Distance Services.* CR-2005-068. July 22, 2005. p. 2, 9.

maintenance needs.[24] These include replacement of aging bridges, signal equipment, and catenary (the power source for the Northeast Corridor trains), improvements to tunnels and track, repair of wrecked equipment, and overhaul of aging equipment. The IG's report criticizes some of the capital spending choices Amtrak has made, such as refurbishing sleeper cars instead of replacing aging bridges. Amtrak's then president, David Gunn, in a October 4, 2004 letter to the DOT IG, wrote: "Management agrees with a number of conclusions reached in your report.... Deferred capital investment has reached critical levels and continued deferral brings Amtrak closer to a major failure somewhere in the system. We are playing Russian roulette."[25]

The Amtrak Reform Council and the DOT IG have both estimated that Amtrak requires around $1.5 - $2 billion in federal operating and capital support annually.[26] This is a higher level of federal funding than Amtrak has ever consistently received. In FY1998 and FY1999 Amtrak received around $1.7 billion annually in federal assistance, through a combination of appropriations and an exceptional one-time funding provision of $2.3 billion (divided equally between FY1998 and FY1999) in the Taxpayers Relief Act of 1997.[27]

In recent years Amtrak has stopped borrowing, trimmed its workforce, and cut its expenses, while at the same time achieving increases in ridership. However, the cuts in expenses have been small relative to Amtrak's annual deficit, and increases in ridership have been relatively modest as well. In this context, the DOT IG has observed that Amtrak cannot "save its way to financial health."[28]

Amtrak's internal options for significantly reducing its annual deficit in the short term are limited. As noted, its two major cost categories are the operating losses of the long-distance trains and maintenance costs of the Northeast Corridor. Reducing the size of its system could, in the long run, significantly reduce Amtrak's deficit and the long-run cost to the Federal Government, although Amtrak would still run a short-term deficit even if it eliminated all its long-distance trains, because of severance payments to employees. Additionally, the costs of maintaining the Northeast Corridor would remain, whatever the fate of long-distance service. Amtrak interprets 49 U.S.C. 24701 to require it to provide service nationwide, which it takes to mean service that spans the nation, rather than service in different parts of the nation. Thus, Amtrak is unlikely to eliminate or restructure long-

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[24] Testimony of DOT Inspector General Kenneth M. Mead, before the Senate Committee on Commerce, Science, and Transportation, *The Future of Intercity Passenger Rail Service and Amtrak*, 108th Cong., 1st Sess., October 2, 2003, CC-2003-155, 3.

[25] DOT IG. *Assessment Report*, Nov. 2004, Appendix, Management Comments. p. 29.

[26] The Amtrak Reform Council was created by the Amtrak Reform and Accountability Act of 1997 to recommend improvements to Amtrak and to draw up a new policy for intercity passenger rail service. While acknowledging the structural aspects of Amtrak's deficit, both the Reform Council and the DOT IG have also been critical of Amtrak's management, as have the Government Accountability Office and other observers.

[27] CBO. *An Economic Analysis of the Taxpayer Relief Act of 1997*. CBO Paper. April 2000. pp. 2, 10.

[28] DOT IG, *Assessment Report*, Nov. 2004. p. 3.

distance routes without explicit direction from Congress. Many Members of Congress continue to support a nationwide Amtrak network.

Nor can Amtrak increase its revenues enough to eliminate its deficits. Although Amtrak's ridership has grown slightly over the past few years, Amtrak's level of service and on-time performance have declined, due at least in part to the postponement of maintenance work. On-time performance declined each year from 74.1% in FY2003 to 69.8% in FY2005. More significantly, while Amtrak ridership increased from FY2003 to FY2005, its total passenger and non-passenger revenues declined (ridership increased from 24 to 25 million passengers, but revenues decreased by $139 million).[29] Thus, increases in ridership are not guaranteed to increase revenue and, in all likelihood, a sustained rise in the number of Amtrak riders would require a significant increase in Amtrak's level of service and on-time performance, which would require significant increases in funding.

Appropriations

Amtrak was appropriated $1.315 billion in FY2006.[30] This amount is substantially more than the President requested (no funds unless reformed), the House Committee on Appropriations recommended ($550 million), and the House-passed version of H.R. 3058 provided ($1.176 billion). However, it is less than the amount Amtrak requested ($1.82 billion), and the Senate Committee on Appropriations as well as the Senate-passed version of H.R. 3058 provided ($1.45 billion). It is closest to the amount that the DOT IG testified was needed ($1.4 billion). In addition to dividing the funds into three segments as discussed above, Congress placed further restrictions on Amtrak's use of the funds. For instance, after March 1, 2006, no funds can be used to support any route on which Amtrak offers discounted fares of more than 50 percent off. Congress also followed the Senate Committee on Appropriations' recommendation for Amtrak to raise additional revenue by assessing a maintenance fee on the commuter rail operations using the NEC.

Amtrak submitted a request to Congress for $1.82 billion for FY2006. Amtrak's estimated operating and capital needs are $560 million and $787 million, respectively, or $1.347 billion for FY2006. In addition to operating and capital grants, Amtrak also requested $278 million for debt service, $20 million for restructuring (this expense is associated with Amtrak's Strategic Reform Initiatives), and a $175 million one-time infusion of working capital to manage cash flow.

In its report on the FY2006 Budget Resolution, the House Committee on the Budget encouraged the House to continue funding Amtrak.[31] The House Committee on Appropriations recommended $550 million for grants to Amtrak for FY2006 when it marked up H.R. 3058, the FY2006 appropriations bill for the Department of Transportation and other federal agencies. The Committee also established a standard for measuring the performance

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[29] Amtrak. *Monthly Financial Report, September 2005*. pp. A-5.3 and A-6.1; DOT. IG Report. pp. 4, 9-10.

[30] This amount does not include the 1% across-the-board rescission that was passed as part of the FY2006 Department of Defense Appropriations Act (P.L. 109-148).

[31] H.Rept. 109-17, on the FY2006 Budget Resolution (H.Con.Res. 95), p. 30.

of Amtrak's individual routes. Routes with a federal subsidy greater than $30 per passenger, based on fully allocated costs per route, excluding depreciation and interest on debt, would no longer be eligible for federal support. This would have eliminated federal funding for Amtrak's long-distance routes and a few of its corridor routes, terminating service to 23 states.

Amtrak's President, David Gunn, noting that Amtrak would owe its employees $1.4 billion over three years in severance payments if the long-distance trains were eliminated,[32] asserted the Committee's recommended funding would lead to an Amtrak shutdown, because the company could not meet debt service, pay its obligations to the railroad retirement fund and make required payments to the workers it would have to lay off. [33]

In its consideration of H.R. 3058, the House approved two amendments overturning the recommendations of the Committee on Appropriations concerning Amtrak. One amendment, agreed to by voice vote, increased Amtrak's FY2006 appropriation from $550 million to $1.176 billion. This is $31 million less than the $1.207 Amtrak is receiving in FY2005 (after the 0.83% across-the-board rescission), and significantly less than the $1.4 billion the DOT IG testified Amtrak needed in FY2006. But it is $276 million more than the House approved for Amtrak when it passed the FY2005 appropriations bill for transportation (108th Congress: H.R. 5025). The second amendment, approved by the House 269-152, eliminated the provision prohibiting federal assistance for Amtrak routes requiring a per-passenger subsidy of $30 or more.

The Senate Committee on Appropriations recommended $1.45 billion for Amtrak in its markup of H.R. 3058 on July 22, 2005. The Committee also provided that, beginning six months after enactment of the appropriations bill, Amtrak would not be allowed to subsidize the costs of its food and beverage services, or its sleeper car services, and that Amtrak should develop a new accounting system that can identify the average and marginal costs of providing services on Amtrak's routes. The Committee also included provisions allowing Amtrak to raise additional revenue by assessing a passenger service fee on all its tickets and a maintenance fee on the commuter rail operations that use the Northeast Corridor, and a provision prohibiting Amtrak from lobbying Congress.

In its consideration of H.R. 3058, the Senate approved an amendment striking four of the provisions recommended by the Committee on Appropriations: the prohibition on federal subsidies for food and beverage service; the prohibition on subsidies for sleeper service; the permission for Amtrak to assess a maintenance on the commuter rail operations that use the Northeast Corridor; and the prohibition on Amtrak lobbying Congress. The Senate-passed bill would provide $1.45 billion in funding for Amtrak for FY2006. In a Statement of Administration Policy from the White House objecting to various provisions of H.R. 3058, it was stated that the President's senior advisors would recommend that he veto the appropriations bill for providing funding to Amtrak in the absence of reform (several other

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[32] Chris Mondics, "Amtrak Chief says 'Ideologues' Urging Cuts," Philadelphia Inquirer, June 16, 2005, A1.

[33] Matthew L. Wald, "National Briefing Washington: Committee Votes To Cut Amtrak Subsidy," *New York Times*, June 16, 2005, A23.

provisions in the bill drew similar veto threats). However, the President signed the bill without reform provisions on November 30, 2005 (P.L. 109-115; 119 Stat. 2396).

With respect to funding, the DOT IG recommended that the Federal funding levels will need to grow from $1.6 billion in FY2006 to $2 billion per year in FY2010 and beyond. This includes operating and capital subsidies that decline from $570 million in FY2006 to $374 million in FY2010 to an annual grant of $337 million thereafter. Using the DOT IG's budget construct, about $500 million will be available to the states to match for new or improved corridor development when Federal funding levels reach $2 billion; and once a "state-of-good-repair" is attained for the system as a whole, Federal funding for state capital matches will amount to $1.3 billion per year. He has also suggested that a "reasonable" state match for capital projects should range from 15 to 30 percent. To restore the NEC infrastructure to a state-of-good-repair will require a federal commitment of $575 million per year between FY2006-FY2010. The DOT IG has also recommended that policymakers consider paying off Amtrak's legacy debt and restricting Amtrak's ability to incur long-term debt.

On November 18, 2004, the Department of Transportation's Inspector General (DOT IG) issued a report noting that Congress has not bought into Amtrak's strategy of maintaining the current system size, and warning that Amtrak's postponement of needed maintenance increases the risk of a serious accident on its network. On April 21, 2005, the DOT IG reiterated his warning, stating that "the limp-along status quo system comes closer to a major failure, but no one knows where or when such a failure may occur."[34]

Amtrak Reauthorization

Amtrak's previous authorization expired in December 2002. Since then, reauthorization of Amtrak has been stalled by disagreement over the future of U.S. passenger rail policy. Although numerous bills were introduced in the 107th and 108th Congresses and various approaches have been advanced, Congress has thus far been unwilling either to provide Amtrak with the level of funding that it has requested or to require an Amtrak restructuring that would be consistent with the level of funding that it has been willing to provide. Since 2002, Congress has essentially reached a stalemate with respect to Amtrak. During the 107th and 108th Congresses, it was unable to reauthorize Amtrak or to reach a consensus on what kind of passenger rail system it would be willing to fund. It failed to endorse Amtrak's strategy of maintaining its full current network while restoring its infrastructure to a state of good repair or to provide the funding that would have allowed that strategy to be executed by Amtrak.

As Congress once again considers Amtrak reauthorization, the range of options for passenger rail include (1) providing higher levels of funding to support an expanded passenger rail system; (2) providing funding for operating and maintaining the current system; (3) focusing available resources on providing service only to those corridors that can be justified on economic grounds; (4) reducing Amtrak funding and eliminating much of the present passenger rail network; (5) eliminating funding for Amtrak and reorganizing

[34] Mead, Kenneth M. *Reauthorization of Intercity Passenger Rail and Amtrak*. Testimony before the Senate Committee on Commerce, Science, and Transportation, Subcommittee on Surface Transportation and Merchant Marine. April 21, 2005. p. 1.

passenger rail service in the United States. Although various combinations of the above options are possible, the DOT IG has concluded that the 'status quo' option is unsustainable and that federal funding for Amtrak of between $1.4 billion and $1.5 billion would be necessary to prevent cuts in service, but "would not be sufficient to move the system to a state-of-good-repair, let alone permit investment in new corridor development." The DOT IG notes that "Congress and the Administration have a very difficult decision to make in determining the appropriate level of funding for intercity passenger rail."[35] In his own analysis, he suggests that the level of Federal funding necessary for passenger rail service should rise from a suggested level of $1.6 billion in FY2006 to an annual level of $2.0 billion in FY2010 and beyond.[36]

In April 2005, very different reauthorization proposals were put forward by the Bush Administration, Amtrak, the House Committee on Transportation and Infrastructure, and the Senate Committee on Commerce, Science, and Transportation.

On April 27, 2005, the House Transportation and Infrastructure Committee approved a reauthorization bill, the Amtrak Reauthorization Act of 2005 (H.R. 1630), that would provide $2 billion per year for FY2006-FY2008, with funds set aside for retirement and commuter rail obligations. The bill does not propose Amtrak restructuring, but according to Committee Chairman Don Young, it "will allow Amtrak to continue with critical work under its current five-year plan."[37] On November 8, 2005, H.R. 1630 was reported out of committee and placed on the Union Calendar.

The Bush Administration proposal, the Passenger Rail Investment Reform Act (H.R. 1713), would restructure Amtrak, splitting it into three functionally independent entities: (1) a corporate entity that would oversee Amtrak restructuring and manage residual responsibilities, including specifically Amtrak's legal right of access to other railroads; (2) a pure passenger rail operating company; and (3) an infrastructure management company. The bill also provides for the establishment of an interstate compact that will operate the Northeast Corridor. Members of the proposed compact include all of the states and the District of Columbia that constitute the NEC. The proposal also gives states greater decision-making authority with respect to provision of rail service and capital improvements; it also requires a state matching contribution (of 50%) for capital projects that qualify under planning and other criteria for federal assistance. The bill also phases out operating subsidies for long-distance trains, opens routes to competition, and authorizes buyouts for current employees. The Administration bill calls for an annual appropriation of "such sums as necessary" to accomplish the reforms specified in the bill. The Administration proposal (H.R. 1713) has been referred to the Transportation and Infrastructure Committee.

The Amtrak proposal outlines a series of initiatives that would leave Amtrak as a single integrated entity. Unlike the Administration proposal, the Northeast Corridor infrastructure would not be split from operations. Amtrak has also proposed state matching contributions for capital projects, but unlike the Administration's 50/50 match, Amtrak recommends a state

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[35] Mead, *Testimony*, April 21, 2005. p. 11.

[36] Ibid.

[37] *Daily Report for Executives*. "House Panel Rejects Administration Plan, OKs Bill to Fund Amtrak at $2 Billion Yearly," BNA, Inc. April 28, 2005.

match of 20%, with a federal contribution making up the remaining 80%. In terms of long-distance routes, Amtrak "continues to believe that these trains play a valuable role, including [1] serving as a foundation of a future rail development program; [2] forming the basis for, and connections to, emerging state-supported corridors; and [3] providing an important transportation link for many under-served rural communities and regions across the country."[38] To achieve this, Amtrak is requesting continuing "limited" federal operating and equipment support. Amtrak's initiative also includes a pilot project on one state-supported route by 2007. Amtrak has stated that it "would cooperate fully in providing any requested services — but those services would be provided on a full cost basis consistent with any future competitive environment for rail services."[39] Amtrak has also requested "labor flexibility," which would require all intercity passenger rail operators be subject to the same labor law; allow Amtrak's labor contracts to terminate at expiration; and transition all new intercity passenger rail employees out of the Railroad Retirement system into Social Security, with a possible 401(k) option. Amtrak has also requested federal funding for debt service payments or the elimination of Amtrak's debt burden. Amtrak has requested $1.82 billion for FY2006, but has not yet disclosed the amounts that it will seek in future years.

On July 28, 2005, the Senate Committee on Commerce, Science, and Transportation considered and reported S. 1516 to the Senate to reauthorize Amtrak for six years (FY2006-FY2011).[40] The bill would authorize $11.4 billion in appropriations for Amtrak, and would authorize the issuance of $13 billion in federal bonds to finance additional capital improvements. The bill would reduce Amtrak's federal operating support by 40% over the life of the bill, while increasing its level of capital support. Other provisions would require Amtrak to evaluate and improve the performance of its long-distance routes, allow the Surface Transportation Board to levy fines against freight railroads for failing to give Amtrak trains their statutorily-required scheduling priority on freight railroad tracks. On October 18, 2005 the bill was reported out of the committee and placed on the Senate Calendar.

In testimony before the Senate Committee on Commerce, Science, and Transportation Subcommittee on Surface Transportation and Merchant Marine, the DOT IG also addressed the subject of reauthorization. Specifically, he recommended that reauthorization "should focus on improving mobility in short distance corridors around the country — not just in the Northeast Corridor — and in restructuring long-distance services to complement corridor services."[41] He also stated that this will entail creating "new relationships or partnerships between the Federal Government and the states and among the states, Amtrak, and the freight railroads."[42] He concurred with the Administration in recommending that states be given much greater authority and control over intercity passenger rail decisions and recommended that competition in passenger rail service be considered as part of reauthorization. In significant disagreement with the Administration's proposal to split rail operations and the Northeast Corridor infrastructure, the DOT IG also stated that he believes that such a

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[38] Amtrak. *Amtrak Strategic Reform Initiatives and FY06 Grant Request*. April 2005. p. 25.

[39] Ibid., pp. 25-26.

[40] This bill, minus a bonding authority provision, was passed by the full Senate as a part of the "budget reconciliation" bill, S. 1932, but was not included in the conference report.

[41] Mead, *Testimony*, April 21, 2005, p. 1.

[42] Ibid.

proposal is "too premature."[43] As indicated earlier, the Amtrak Board of Directors has decided to split infrastructure and rail operations by creating a new entity within Amtrak responsible for the Northeast Corridor infrastructure.

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[43] Ibid., p. 11.

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