3 September 2020

The Honorable Daniel Lipinski
Chairman
Subcommittee on Railroads, Pipelines, & Hazardous Materials
Committee on Transportation & Infrastructure
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Rick Crawford
Ranking Member
Subcommittee on Railroads, Pipelines, & Hazardous Materials
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Dear Chairman Lipinski, Ranking Member Crawford, and members of the subcommittee:

My name is Randal O'Toole and I am a senior fellow with the Cato Institute and author of *Romance of the Rails: Why the Passenger Trains We Love Are Not the Transportation We Need*, as well as of several policy papers about Amtrak. Thank you for allowing me to submit comments for the September 9, 2020 hearing on Amtrak.

I love passenger trains and ride them whenever I get the opportunity, but I don't think other people should have to subsidize my hobby. Objectively, the COVID-19 pandemic has proven that Amtrak is an insignificant and obsolete part of our transportation system and does not deserve the attention and federal funds given to it by Congress. Even before the pandemic, Amtrak's contribution to transportation was less than a rounding error.

According to table 1-40 of the Bureau of Transportation Statistics' *National Transportation Statistics*, Amtrak carried the average American less than 20 miles in 2018. For comparison, Americans bicycled an average of 26 miles per year and walked an average of more than 100 miles per year. Motor coaches carried more than ten times as many passenger miles as Amtrak; domestic airliners more than 110 times; and automobiles more than 750 times as many passenger miles as Amtrak. Nationally, Amtrak carried just one-tenth of one percent of passenger travel.

Amtrak brags that it carries more people than the airlines in the Northeast Corridor. But it admits that it carries just 6 percent of intercity travel in the corridor, with the airlines carrying 5 percent and the rest going by bus or automobile. While no one keeps an exact record, based on bus schedules and average bus loads, I estimate that intercity buses alone carry about 25 percent more passenger miles in the corridor than Amtrak.
Amtrak's insignificance has been underscored by the current pandemic. In a crisis such as the pandemic, the relative worth of various modes of transportation can be assessed by how much they are affected by the crisis and how quickly they rebound.

By these criteria, Amtrak did not perform well. According to Amtrak's *Monthly Performance Reports*, compared with the same months in 2019, Amtrak lost more than 95 percent of its riders in April, 92 percent in May, 85 percent in June, and 81 percent in July. In contrast, according to the Federal Highway Administration's *Traffic Volume Trends*, the year-over-year decline in driving was 40 percent in April, 26 percent in May, and 13 percent in June. July data are not yet available but traffic monitor INRIX estimates that July 2020 driving was slightly more than in July 2019.

People drove because they needed to both cope with the pandemic and take care of their daily needs. They did not ride Amtrak because intercity passenger trains did not serve those needs.

Further evidence of Amtrak's failure to meet people's transportation needs can be seen in the decline of its fare revenues. For October 2019 through February 2020, Amtrak fares averaged 38 cents per passenger mile. With the pandemic, this quickly declined, with fares falling to 26 cents per passenger mile in April and 22 cents in June.

Amtrak's irrelevance would be unimportant if it were a profit-making company. There are many fields in which small companies can profit and thrive despite having only a tiny share of their markets. But Amtrak is far from profitable, nor will it ever be profitable.

This contradicts Amtrak's claims that its operations lost only $29.8 million in 2019 and that it was on its way to making an operating profit in 2020 if the coronavirus hadn't intervened. Amtrak was able to make these claims only by cooking its books in two different ways.

First, Amtrak counted $235 million in operating subsidies provided by 18 states as "passenger revenues." State subsidies to passenger trains are no more passenger revenues than federal subsidies, yet Amtrak counts only the state subsidies as passenger revenues, not the federal subsidies.

Second, Amtrak ignored the second largest line item in its budget: depreciation, which was $870 million in 2019. Depreciation is included as an operating cost in Amtrak's audited consolidated financial statement for 2019, but Amtrak left it off when it claimed in press releases and other public statements that it lost only $29.8 million. If Amtrak were truly a private company, such omissions would be considered securities fraud.

Deleting the state subsidies from passenger revenues and adding depreciation to operating costs increases Amtrak's actual operating loss to $1.13 billion, which is 38 times as much as Amtrak claimed. Clearly, with such a large operating loss, Amtrak is never going to be profitable.
Amtrak claims that its trains in the Northeast Corridor are profitable, and it is only the long-distance trains that lose a lot of money. It makes this claim without allocating depreciation to individual routes. Amtrak admits that it has developed an accounting system that makes such allocations, but it has never published the results.

Recognizing that most of the infrastructure owned by Amtrak is in the Northeast Corridor, I made a rough calculation of the profits or losses per passenger mile for Amtrak's three groups of trains: the Northeast Corridor, state-supported day trains, and overnight long-distance trains. I found that they all lost about the same amount of money per passenger mile. This will disappoint those who think we might be able to privatize the Northeast Corridor.

Depreciation is more than just an accounting fiction that was imposed on railroads years ago by the Interstate Commerce Commission. It represents the amount of money a railroad needs to spend or set aside to deal with wear-and-tear on its physical plant. Being able to set aside that money is a signal to investors that the railroad is well managed.

Railroads that can't cover depreciation with their operating revenues end up deferring necessary maintenance and capital replacement. Amtrak is in this situation today. Railroad passenger cars are fully amortized and should be replaced after about 25 years. Yet, according to table 1-33 of *National Transportation Statistics*, the average age of Amtrak passenger cars in 2015 was 31 years. Amtrak hasn't replaced many cars since then, so the average age today must be close to 36 years.

The Northeast Corridor, most of which is owned by Amtrak, suffers from a huge state-of-good-repair backlog. According to the Northeast Corridor Master Plan Working Group, the corridor has $52 billion of capital replacement needs. Not all of that is attributable to Amtrak, but most of it is needed if Amtrak is to continue to operate. Amtrak's failure to allocate depreciation to individual routes deceptively ignores this problem.

Federal subsidies, state capital grants, and state operating subsidies to Amtrak in 2019 totaled to nearly $2.5 billion. This works out to 38 cents per passenger mile, the federal share of which is 30 cents. Since ticket revenues averaged just 35 cents per passenger mile, subsidies cover more than half the cost keeping Amtrak running. In contrast, subsidies to flying averaged about a penny per passenger mile in 2017 and subsidies to driving averaged less than a penny per passenger mile in 2018, the latest years for which data are available.

Instead of debating about which Amtrak routes should receive daily service, which should be three days a week, and which should not be served by passenger trains at all, Congress should simply give Amtrak an incentive to operate and let it decide where it is most effective. That means promising Amtrak a fixed subsidy per passenger mile. Whether that subsidy should be a penny, as it is for the airlines and highway, or the 30 cents that Amtrak receives today is a matter for debate, but as much as I personally love passenger trains I don't see that the benefits Amtrak produces justify greater subsidies than other modes of travel.
Responding intelligently to the pandemic means recognizing that some modes of travel are more resilient than others in the face of unexpected events (black swans). Those unexpected events can include terrorist attacks, natural disasters such as hurricanes or wildfires, financial crises, or epidemics.

One mode of travel has proven itself to be most resilient in the face of all of these unexpected events: motor vehicles and highways. Rather than penalizing automobiles, as some advocate, in favor of modes that are less resilient, Congress should recognize the advantages of motor vehicles in a wide range of conditions and end its favoritism towards other modes. Congress does not need to favor motor vehicles as they are the mode of choice for 80 percent of our travel even without such favoritism. Instead, Congress should either ending federal subsidies to all modes of travel or reduce those subsidies to be at parity with one another.

Thank you for your consideration.

Yours truly,

Randal O'Toole
Senior Fellow
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