

Policy Analysis

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Help Passenger Rail by Privatizing Amtrak

by Joseph Vranich and Edward L. Hudgins

Executive Summary

The airport shutdowns and fear of flying that followed the September 11 terrorist attacks gave Amtrak a boost in ridership. But the government-owned and government-operated passenger railroad, established by Congress three decades ago, will not likely be able to take advantage of a public demand for alternatives to air travel. Since its creation Amtrak has received nearly \$25 billion in taxpayer funding, and there is no prospect that it will ever break even. Unfortunately, Congress is now proposing to throw billions of dollars in new subsidies at Amtrak.

In the Amtrak Reform and Accountability Act of 1997 Congress mandated that if Amtrak is not financially self-sufficient by December 2002 it must be restructured and liquidated. Secretary of Transportation Norman Mineta recently said that Amtrak would not meet that deadline.

Amtrak has failed to secure an increasing portion of America's growing transportation market. It carries only about three-tenths of 1 percent of

all intercity passengers. Its on-time performance on most routes is terrible, and it covers up this fact by measuring punctuality at a limited number of stops and building in lots of extra time before those stops.

Many of Amtrak's trains run much more slowly today than did trains on the same routes earlier this century. Moreover, Amtrak uses creative accounting to disguise its financial problems. For example, Amtrak receives many subsidies from government agencies and has recently abandoned standard accounting practices to hide operating expenses as capital costs.

Congress established an Amtrak Reform Council to monitor Amtrak's financial performance and decide whether the railroad can meet its deadline for becoming operationally self-sufficient. Amtrak clearly will not meet that goal. It is time for the council to make this finding official and begin the mandated process of restructuring and liquidation.

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Amtrak and the Aftermath of the September 11 Terrorist Attacks

In the immediate aftermath of the terrorist attacks of September 11, 2001, and the subsequent shutdown of commercial air travel, Amtrak reported that it carried twice the usual number of passengers on its trains between Washington and New York and saw increased ridership throughout the country.¹ The temporary closure of Reagan National Airport also put Amtrak in the unique position of being the fastest means of transportation from downtown Washington to New York.² Amtrak also boosted revenues from increased shipments by the U.S. Postal Service and United Parcel Service.

Amtrak crowed about “coming to the rescue of 100,000 passengers nationwide” and being “a viable form of transportation.”³ Yet, despite those public pronouncements, it was later learned that Amtrak’s Beech Grove, Indiana, maintenance facility asked employees to “double their production” and said “the biggest push” was on repairing mail cars and baggage cars, not passenger cars.⁴

The proper objective for Amtrak during such a time of need would have been to repair as many sidetracked passenger cars as possible. So much for Amtrak going the extra mile to move people in a pinch and taking advantage of an opportunity to attract passengers permanently to rail travel.

As more aircraft returned to the skies, reports indicated an easing in the number of sold-out trains. Inquiries to Amtrak about its traffic failed to clarify if the passenger surge was lasting. By September 20, Amtrak’s West Palm Beach traffic was “thinning out and returning to normal.”⁵ One week later the *Los Angeles Times* reported:

The surge of passengers who flocked to Amtrak trains in the days after the terrorist attacks has begun to subside, dimming hopes that the intercity rail service could attract lots of

new passengers amid the airline crisis. . . . Amtrak officials provided few specifics concerning ridership totals following the terrorist attacks. They said, however, that ridership nationwide was up an estimated 17% in the first week On Wednesday [Sept. 26], Amtrak said the increase since the attacks had fallen to somewhere between 10% and 13%. They declined to provide week-by-week or daily breakdowns of ridership. An informal survey conducted Wednesday by Carlson Wagonlit Travel, one of the nation’s biggest travel agency chains, also suggested only a slight switch to riding the rails.⁶

Amtrak Trips Now More Competitive?

The market for passenger train service may have expanded because the added time required for airport security checks—some airports recommend arriving four hours before a flight—makes trains more competitive. That certainly is true on the Boston-New York-Washington route, and may be true for a few more niche markets.

Consider the Chicago-St. Louis rail line. Amtrak allots 3 hours and 17 minutes to travel the Chicago-Springfield segment, a schedule that is not normally competitive with air travel. But when allowing for an extra hour or two at the airport, the schedule on this segment becomes competitive with aviation. The key is to keep expectations realistic—the 5 hours and 40 minute schedule for the entire Chicago-St. Louis route means the train still cannot compete with air travel times. In light of increased airport delays, it is reasonable to assume that trains would be competitive with air travel on routes that are 25 to 60 miles (depending on the speed of the train) longer than routes that were previously considered competitive, provided the territory involved aligns with an air market. And the longer the air delays, the longer the additional distance over which rail would be competitive.

This small Amtrak competitive advantage

ignores the possibility of extra time that may be needed for security checks in train stations. Amtrak now requires passengers to show valid photo identification when buying tickets and checking baggage. Amtrak is working with the FBI to determine if it should institute measures such as screening baggage and checking passengers through metal detectors.⁷ Meanwhile, U.S. Department of Transportation secretary Norman Y. Mineta has questioned the need to require rail customers to pass through metal detectors before boarding Amtrak trains.⁸

Additional experience is needed to determine the degree to which these changing factors will help or hinder Amtrak.

Overreaching in Washington

In a display of political opportunism, Amtrak is requesting \$3.2 billion in “disaster aid” even though no disaster exists at Amtrak.⁹ In fact, Amtrak has profited from travelers’ reluctance to fly. Amtrak’s requested bailout is more excessive than the one the airlines received. Consider that airlines averaged 1.8 million passengers a day and received \$5 billion in grants and \$10 billion in loan guarantees. Amtrak carries fewer passengers—typically 60,000 a day, and up to 80,000 at the peak of the airline diversion—but wants a whopping \$3.2 billion in grants. The disparity should surprise no one because Amtrak has no upper limit to the amount of subsidies it seeks. Amtrak’s current political posture is a low point in Amtrak’s history. As one congressional aide told Reuters, “Amtrak’s agenda, as usual, is capitalizing on [the attacks] in a bogus way.”¹⁰

It must be acknowledged that Amtrak would use a portion of the funds to correct fire and safety problems in the tunnels leading to New York’s Penn Station. But that very lack of repairs is an indictment of Amtrak policies. Amtrak has long known about the needed work; as the first report pointing to the problem was issued in 1978,¹¹ and other reports have been issued since.¹² But Amtrak failed to launch a tunnel improvement project for 23 years while it squandered billions of dollars on lightly used trains elsewhere

and on glamorous projects that yielded a poor rate of return. If given the funding, Amtrak will undertake needed tunnel work. But Amtrak also will waste a good portion of the \$3.2 billion on pork-barrel trains that serve few travelers.

Amtrak also is poised to benefit from three other pieces of legislation.

Under consideration is the \$12 billion High Speed Rail Investment Act of 2001, which would not really bring about high-speed trains (more will be said about this later).

Also being discussed is an ill-advised stimulus package that includes \$37 billion, a good portion of which would expand Amtrak.¹³ Commented one editorial, “A vastly expanded passenger rail system would do little for the nation’s security and, if the system is a white elephant, the short-term economic stimulus would become a long-term economic burden.”¹⁴

One measure, named the Rail Infrastructure Development and Expansion Act for the 21st Century, or RIDE-21, proposes to spend \$71 billion on a broad range of railroad-related projects.¹⁵ Although the bill appears to minimize Amtrak’s participation, the fact remains that Amtrak’s de facto monopoly in intercity passenger service positions the railroad to feed at this additional government trough.

The rush to throw money at Amtrak represents government at its worst. The nation should not stay wedded to the Amtrak paradigm, which has been a colossal failure for 30 years, because terrorists’ acts have boosted train travel. Amtrak is the same mismanaged organization after September 11 that it was before that date. Additional subsidies will do nothing to reverse Amtrak’s high costs and abysmal productivity and are likely to further institutionalize poor Amtrak practices.

Choosing to expand rail service through Amtrak instead of induce the creation of new, more efficient entities reflects more than the usual lack of governmental imagination; it reflects congressional panic and a dedication to a dysfunctional system, both of which are counterproductive to meeting future transport needs.

The giveaway fares appear to be a move to build ridership at any cost. Unfortunately, that cost could be billions of dollars in new taxpayer subsidies.

A string of reports in recent years paints a picture of a railroad that is unable to control expenditures.

Amtrak's New Fares a Clue to Its Troubles

Amtrak's central marketing ploy has long been to offer low fares, one thing that has made federal subsidies per passenger much higher for Amtrak than for any other mode of transportation. But why must Amtrak launch a new round of super-cheap fares after the post-September 11 influx of airline travelers? A September 29 check of Amtrak's Web site reveals travelers can "save up to 70% off regular coach fare." These "exclusive online fares," even with Amtrak limiting the seating, are astonishing. For little more than the price of a roundtrip on Washington's subway, it's possible to ride Amtrak from Indianapolis to Chicago. Generally effective October 9, the one-way fares are

- \$3.40—Indianapolis to Chicago (This fare was \$6.23 in April 1953.)¹⁶
- \$3.90—St. Louis to Bloomington, Ill.
- \$6.60—Chicago to Jeffersonville (Louisville)
- \$11.70—Cleveland to Philadelphia
- \$12.20—Chicago to Harrisburg
- \$13.60—Seattle to Vancouver, B.C.
- \$15.90—Sacramento to Bakersfield
- \$16.00—Philadelphia to Chicago
- \$17.20—Chicago to Detroit (The Amtrak fare in 1971 was \$16.25.)¹⁷
- \$17.40—Chicago to St. Louis (The Amtrak fare in 1971 was \$13.50.)¹⁸

Other oddities: Take, for example, a train that Amtrak repeatedly calls a "success"—the Texas Eagle, which runs between St. Louis and San Antonio. Amtrak offers a discount fare of \$81.60 for exceptionally long periods, for example, from September 25 through December 17, 2001, and from January 7 through June 14, 2002. Cut-rate deals are also available in the busy Washington-Boston Northeast Corridor, where Amtrak says the traffic increase has been most pronounced.¹⁹ Amtrak is still offering a "buy two, get one free" promotion for rides on the Acela Express between Boston and New York.²⁰

As of September 29, attempts to book

space at the super-cheap fares succeeded on a number of days associated with heavy Thanksgiving travel.²¹ Policymakers who control the public's purse strings must question Amtrak's costly practice of instituting giveaway fares during busy travel seasons and while supposedly inundated with airline travelers. The giveaway fares appear to be a move to build ridership at any cost. Unfortunately, that cost could be billions of dollars in new taxpayer subsidies.

Amtrak and Its Future Riders

Will Amtrak's new riders stick with the railroad? History says no. The nation suffered a major shutdown of commercial aviation in 1966 when labor strife caused simultaneous strikes at virtually every U.S. airline for several days. The effect on rail traffic, then operated by private railroads, was electrifying. Passenger trains were full for the first time in years and long lines were seen at ticket windows. Prior to this strike, the passenger train had been in a long downward spiral, and it was typical for traffic to decline by 7 or 8 million passengers from year to year. In 1966, however, the airline strike caused a leveling off in the decline to only 996,000 passengers. But when the airplanes returned to the skies so did the passengers. The 1997 traffic fell by 7.2 million passengers compared to the prior year, rather typical for that era.²² Amtrak will not experience such a sharp loss, because the billions of dollars it receives in taxpayer subsidies enable it to retain riders through pricing schemes. The private railroads that preceded Amtrak had no such access to public subsidies.

A labor strike is different from a widespread fear of flying, but even terrible air crashes have failed to spark a long-term shift to passenger rail. On May 25, 1979, an American Airlines DC-10 crashed after takeoff from Chicago's O'Hare International Airport, resulting in the highest death toll in American aviation history. Amtrak experienced a traffic gain, which quickly dissipated.

Consider the peak of the 1995 summer travel season. New York's three airports were

placed under tightened security because of threats of terrorist attack. Airline passengers endured many delays as security checks intensified. For several weeks, hundreds of flights were delayed. Yet, Amtrak's patronage went down a million from the year before.

Safety fears mounted sharply in 1996, when within two months a ValuJet DC-9 crashed in the Florida Everglades and a TWA Boeing 747 crashed into the Atlantic Ocean off the Long Island coast. In 1997, airline accidents occurred in the Dominican Republic, Peru, Nigeria, Zaire, Brazil, Ethiopia (a hijacking), and Indonesia. India suffered the world's worst midair collision. Still, Amtrak traffic dropped lower in each of those two years than in any year between 1985 and 1995.

Other examples demonstrate that Amtrak traffic surges evaporate when caused by external events. In the 1970s the United States suffered two gasoline shortages. The first resulted from the outbreak of the Arab-Israeli War in October 1973, when OPEC imposed an oil embargo against Western countries; the second resulted from Iran cutting its oil production for six months prior to April 1979. Each time, airline fares and gasoline prices skyrocketed, and lines of cars waited at filling stations. Both times Amtrak ridership surged. A typical headline read "Gasoline Lines and Cost of Flying Leading Many to Try Rail Travel."²³ But in each case, when fuel became more readily available Amtrak ridership declined or stagnated. Nine years went by before Amtrak carried more passengers than it did in 1979.

Amtrak's Future with Airline Passengers

Admittedly, fear of flying is different today than it was in the past. No one knows what travel trends will evolve, but it is known that Amtrak does not enthrall all airline passengers. Anecdotal evidence is building that airline travelers resist traveling by Amtrak. Consider:

- Many business travelers say it's hard to beat jetliners for long trips despite the new safety concerns. . . . "Time is

money,' said Joe McClure, a Los Angeles-area travel agent and owner of Montrose Travel. 'Corporate travelers don't have the time to waste getting from point A to point B.'²⁴ That view was echoed by Kelly Kuhn of Navigant International in Chicago, who said: "We certainly have not seen an increase in selling tickets. Amtrak is not really a viable option."²⁵

- A leisure airline traveler, Kathy Brown of Santa Barbara, says for a long vacation Amtrak is out of the question because "it would take me two or three days to go where I want to go by Amtrak."²⁶
- Amtrak's lack of security measures prompted Danielle Fidler of Alexandria, Virginia, to write: "It is inexcusable for Amtrak to neglect even the most basic safety precautions. Although I am scheduled to take the train to New York soon, I think I would rather fly."²⁷ Lavita Jones of Los Angeles boarded Amtrak's Metroliner, saying: "It's just like it's another day. Anyone could just walk on with anything. I feel safer on an airplane."²⁸ Alfred Benner, a Michigan businessman, said: "The security is even worse on trains than planes. I'll be driving to Boston to see my family over the holidays, thank you very much."²⁹
- Conditions aboard trains leave customers unimpressed, or worse. Passenger Steven Green, planning to return to New Jersey from Florida on Amtrak, wondered, "How bad could it be? By the time he got off the train almost 30 hours later (and more than four hours late) he knew. . . . He was awakened every time the door in the car opened and slammed shut. . . . Then there were the bathrooms, which he says weren't cleaned en route and became filthy. 'I refused to use them,' he says. 'The best thing about the train was getting off.'³⁰

Thus, even in light of the changes in the

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Congress passed the Amtrak Reform and Accountability Act of 1997 in an attempt once and for all to deal with Amtrak's three-decades-old problems.

transportation market that have resulted from the September 11 attacks, the future of Amtrak must be considered in light of its history and current operational problems.

Amtrak's Current Financial Crisis

Aviation crisis or no, Amtrak is doomed to perpetual failure. In recent years Amtrak has received a record level of public subsidies to improve service, boost efficiency, and set the stage to be free of federal operating hand-outs. But the railroad continues to provide inadequate service to many of its passengers, has become less efficient, and shows little sign that it can survive without substantial federal operating funds.

Amtrak's legacy of failure dates back to May 1, 1971, when it was established by Congress as a federally owned and operated passenger railroad. At that time policymakers believed that passenger rail service was important enough to necessitate the government running such a system. Nixon administration correspondence on Amtrak stated, "It is expected that the corporation would experience financial losses for about three years and then become a self-sustaining enterprise."³¹ In fact, since its creation the system has always run at a loss, requiring substantial subsidies to keep it afloat.

Infusions of \$3.91 billion in federal subsidies from 1998 through 2000 provided Amtrak with more taxpayer funding than in any other 3-year period in its 30-year history. But it seems that the more Amtrak receives, the greater its financial difficulties. According to recent congressional testimony by the inspector general of the U.S. Department of Transportation, "Four years into its mandate for operating self-sufficiency, Amtrak should be showing signs of significant improvement, not standing in place or, worse, moving backwards."³²

Amtrak's credibility has suffered as executives have repeatedly issued glowing reports about recent revenue increases.³³ But a string of reports in recent years paints a picture of a

railroad that is unable to control expenditures or generate adequate revenues. Reports from the 1994–99 period are replete with such warnings, including one that said Amtrak was borrowing money to pay for operating expenses, "including those for payroll, fuel, ticket stock, and food."³⁴ In September 2000 the General Accounting Office warned, "While Amtrak has 'spent money to make money,' it has realized little benefit from the expenditures it has made."³⁵ In March 2001 a GAO representative told Congress, "Amtrak has made minimal progress in reducing its budget gap in order to reach operational self-sufficiency."³⁶ But on July 25 the GAO admitted: "It is very unlikely that Amtrak can operate a national intercity passenger rail system as currently structured without substantial federal operating support. The outlook for it achieving operational self-sufficiency is dim."³⁷

The Department of Transportation, Office of the Inspector General, had warned in March 2001: "Amtrak's overall financial results have not improved significantly since 1999. . . . Our assessment of Amtrak's 2000 business plan identified a number of elements that are unlikely to perform as Amtrak had expected. If no corrective action were taken to compensate for them, Amtrak's cash loss would be about \$1.4 billion more than it projected over the four-year period 2001 through 2004."³⁸

A principal problem is that costs are rising faster than revenues, according to congressional testimony given in July by the DOT Inspector General (DOT IG):

Amtrak's fiscal year 2000 operating loss of \$944 million, including depreciation, was \$28 million more than its 1999 loss and the largest in Amtrak's history. . . . The picture remains bleak into 2001, where in the first eight months revenues grew by \$15 million over the same period a year earlier but cash expenses grew by \$53 million. Moreover, as of September 2000, Amtrak's long-

term debt and capital lease obligations totaled \$2.8 billion, an increase of \$1 billion over 1999.³⁹

To cover short-term operating losses until a new federal appropriation becomes available in October, Amtrak mortgaged Penn Station in New York as collateral for a \$300 million loan.⁴⁰ Said Sen. John McCain (R-Ariz.):

I am informed this transaction was out of desperation because Amtrak would become insolvent within the next month without an immediate infusion of cash. . . . I also understand the actual cost to repay the \$300 million dollar loan will be nearly \$600 million over the 16-year life of the loan. How is funding a few months of operating costs over a 16-year period a sound business judgment? It simply isn't.⁴¹

Amtrak's financial condition remains precarious despite the loan. In July 2001 the railroad offered 2,900 employees a voluntary separation through early retirement and other incentives.⁴² Whether that effort will be successful remains to be seen. As GAO notes:

Amtrak attempted to reduce its management staff in 1994 and 1995 by offering employees early retirement and buyouts to leave the company. As a result Amtrak's management staff declined by a total of about 15 percent between 1994 and 1995. But, by 1999, the number of management employees was almost the same as it was in 1994. Union-represented employment declined 7 percent from 1994 through 1996. But union-represented employment has also grown since then, and, in 1999, Amtrak had more union-represented workers than in 1994.⁴³

A report issued by the Working Group on Intercity Passenger Rail in June 1997 found

that Amtrak faces a major liquidity crisis and probable bankruptcy, long-distance trains make more sense as "rolling National Parks," passenger rail service should be opened to competition, Amtrak's monopoly should end, and reforms launched by Amtrak have not paid off.⁴⁴

The Amtrak Reform Council echoed many of these views by stating in March 2001: "Amtrak's performance in FY 2000 was approximately \$100 million short of its goal. Revenues were lower than expected, costs were higher than planned, and productivity improvements did not produce measurable financial gain."⁴⁵

All of these findings should come as no surprise in light of some of GAO's conclusions about Amtrak's chronic problems. For example:

- "Amtrak's expenses were at least two times greater than its revenues for 28 of its 40 routes in fiscal year 1997. In addition, 14 routes lost more than \$100 per passenger carried."⁴⁶
- "During fiscal year 1997, five Amtrak routes each carried more than 1 million passengers, accounting for nearly 60 percent of the railroad's ridership. In contrast, 17 Amtrak routes carried only about 10 percent of Amtrak's total ridership."⁴⁷
- "During fiscal year 1997, fewer than 100 passengers, on average, boarded Amtrak intercity trains and connecting buses per day in 13 states . . . the relatively large number of states with relatively low ridership, along with other financial performance data, is indicative of Amtrak's financial performance problems."⁴⁸

Congress has virtually ignored those findings and, in defiance of all logic, is considering additional funding boosts for Amtrak.

Setting Low Reform Goals

Congress passed the Amtrak Reform and Accountability Act of 1997 in an attempt

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once and for all to deal with Amtrak's three-decades-old problems. But Anthony Haswell, who is sometimes referred to as the "father" of Amtrak and who helped write the 1970 law that created Amtrak, saw the legislation as setting modest goals. He wrote, "In view of Congress's impatience with Amtrak's chronic deficits and underwhelming market performance, the reforms it demanded were relatively few and unobjectionable."⁴⁹ Indeed, the ARAA is a pale shadow next to the imaginative methods foreign nations have used to truly reform their railroads. Consider the significant features of the ARAA:

- Amtrak must be financially self-sufficient by FY 2003, that is, by December 2, 2002. After that it will no longer receive federal operating subsidies, although it will remain eligible for capital subsidies. Amtrak President George Warrington has complained that this requirement is an "artificial political test."⁵⁰
- A new seven-person Reform Board of Directors was to be composed of individuals with "technical qualifications, professional standing, and demonstrated expertise in the fields of transportation or corporate or financial management." But President Clinton appointed mostly politicians with no relevant expertise and reappointed two members from the predecessor board and one who had served earlier in the decade.
- Amtrak was given freedom to change its route system in response to the marketplace, unlike under the congressionally mandated "basic system" of the past. Though Amtrak president Warrington still complains about policies that require the railroad to provide services but fail to provide adequate funding,⁵¹ Amtrak has yet to use its freedom to discontinue a single money-losing service that was in operation the day the law passed.

These modest reforms so far have failed to

change Amtrak's status quo.

Amtrak Squanders an "Income Tax Refund"

In section 977 of the Taxpayer Relief Act of 1997, Congress required that the Internal Revenue Service give Amtrak a \$2.184 billion "income tax refund"—even though Amtrak has never paid federal income taxes.⁵² Amtrak received the funds in two equal installments in fiscal years 1998 and 1999.

Congress meant for the funds to be spent for "the acquisition of equipment, rolling stock, and other capital improvements" and payment of interest and principal on obligations incurred for such purposes.⁵³ At the time, Amtrak argued for the funding by asserting it would "make it less expensive to operate the national passenger rail system."⁵⁴

The ARC had a statutory responsibility to make certain that Amtrak "tax return" expenditures were used wisely. The first Amtrak report describing TRA-financed projects was replete with phraseology stating that Amtrak was making a "wise investment" of its resources and that funds were being committed for "high rate-of-return" projects selected after "rigorous evaluation."⁵⁵

Amtrak was within legal bounds in using the money in part to repay a portion of a \$2.8 billion debt to the private capital markets and in part to invest in high-yield, interest-bearing accounts. But such spending still did not result in a large return on investment, which was what the "income tax refund" was supposed to produce.

The first TRA report suggested Amtrak was still following discredited spending patterns by ignoring high market-growth opportunities. Amtrak's first expenditure of \$360 million was spread across a broad geographic area. Half of that expenditure went to the least profitable routes, where the money produced no return on the investment.⁵⁶ Amtrak threw good money after bad.

When questioned,⁵⁷ Amtrak officials were unable or unwilling to provide sufficient

information to indicate how TRA expenditures would move Amtrak toward balancing its budget or how project rates of return would help reduce losses on individual poor-performing routes. Amtrak asserted it was “not producing the data in that context at this time.”⁵⁸ Yet when I worked in Amtrak headquarters in the 1970s and served on the Passenger Service Committee, we recommended capital expenditures to the board on the basis of just such estimated rates-of-return. The fact that Amtrak’s more advanced accounting systems cannot generate such information today reflects either willful obstruction or gross mismanagement. The ARC’s difficulty in securing information from Amtrak suggests that Amtrak is not serious about reforming its wasteful ways.

The ARC eventually reported significant problems in how TRA funds were used. In 2000, the council stated, “Amtrak has not used a significant portion of the funds for the kinds of high-priority, high-return investments that will help its bottom line.”⁵⁹ Early in 2001 the ARC reported, “Through December 31, 2000, about \$590 million—or 26 percent of total TRA commitments—have in effect been used for expenditures that most companies and generally accepted accounting principles . . . would treat as ordinary operating expenses or required capital expenditures.”⁶⁰

In February 2000, the GAO stated that Amtrak’s quarterly reports to the ARC on the use of TRA funds “do not fully disclose the extent to which Amtrak has used these funds for equipment maintenance. As a result these reports are less useful than they could be in helping the council comply with its responsibility to monitor Amtrak’s use of Taxpayer Relief Act funds.”⁶¹ Again, history was replaying itself as the GAO’s comments echoed the assessment by the Working Group on Intercity Passenger Rail, which found that Amtrak subsidies “are not directed to activities of maximum benefit.”⁶²

Amtrak’s worsening financial losses indicate that the railroad failed to wisely invest its “income tax refund” on “high rate-of-return” projects selected after “rigorous evaluation.”

Amtrak’s Credibility Crises

Amtrak officials have continually assured Congress, the public, and the press that Amtrak is getting its finances in order and improving the quality of its service. When questioned about problems Amtrak officials offer easy answers and rosy predictions. But a close look at the railroad calls its credibility into serious question. That is why Amtrak is beginning to pay the price for incessant hyperbole about “progress” as its bank balances and credibility are diminishing. Many long-term Amtrak observers agree with Senator McCain’s testimony before a Senate hearing in June 2001:

I trust one of the Subcommittee’s goals is to receive an accurate assessment of Amtrak’s current financial situation and not to simply sit through another day of testimony from Amtrak as it spins the “facts,” provides only half-truths, and makes more promises that will go unmet. . . . Isn’t Amtrak under an obligation to provide the Congress with accurate and timely information? Do we need to start swearing in Amtrak witnesses before our hearings begin in order to help ensure we receive honest testimony?⁶³

Disparaging comments regarding Amtrak are frequent because of the railroad’s misrepresentations in 10 areas involving policymaking—and performance.

Credibility Crisis # 1: Acela Express Delays

The media have widely reported that the Acela Express is one year behind schedule. That time delay is technically accurate only if delivery dates for Acela Express trains are compared with the manufacturer’s contract deadlines. In terms of high-speed rail promises that Amtrak made to Congress when requesting funds, Amtrak is two and a half years behind schedule. The inaugural of

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high-speed service was supposed to occur in 1998; Amtrak's Acela Express started in December 2000.

The costs of Amtrak-developed high-speed rail in both delays and money began with the decision concerning equipment design. On February 1, 1993, Amtrak began operating the X2000, a high-speed tilting train used in Europe. Passenger reaction was enthusiastic—one saying “I thought I had walked onto a cloud”—as travelers took in the X2000's luxurious touches including “large plush seats, wheelchair lifts, carpeting, coffee stations in each car, telephones, fax machines, and electronic displays.”⁶⁴ The train's performance was superior to that of all existing Amtrak trains, and the speed capability, at 155 mph, meant the train could shave 15 minutes off the schedule of the fastest New York-Washington Metroliner.⁶⁵ The performance was equivalent to that of the Acela Express. Although the X2000 was tested successfully, the train required modifications to meet American rail safety standards. The train's Swiss-Swedish manufacturers were prepared for that engineering task and promised to build the X2000 in this country.

Had Amtrak opted to purchase such proven technology, it could have had high-speed rail in operation in the Northeast Corridor as early as 1996–97. But Amtrak decided instead to design a new train, a competence it is not known for, and the result is the delay-prone Acela Express and several years worth of diminished revenue-generating capacity.

Consider the chronology:

May 19, 1993. When initiating the high-speed train procurement, Amtrak said that in order to qualify a firm must be able to “deliver two complete train sets by April 1996 and the remainder of the train sets within two years thereafter.”⁶⁶

November 3, 1993. “Amtrak plans to award a contract by the middle of 1994 with the first trains being delivered two years later.”⁶⁷

March 17, 1994. The projected delivery date slipped as Amtrak officials informed Congress: “Two advance versions of the train

sets are expected in early 1997 for testing. The remaining 24 train sets will then go into production, with the final train set arriving in 1999.”⁶⁸

October 6, 1994. Amtrak reiterated the deadlines, adding: “The 26 high-speed trains will attain top speeds of 150 miles per hour. . . . The procurement award is expected in early 1995. . . . It is expected by the year 2000 that more than three million additional passengers will be attracted to the service.” Amtrak also reiterated its promise that New York-Boston travel time would be reduced to “under three hours.”⁶⁹

March 17, 1996. The Associated Press reported that Amtrak had selected a consortium to build the trains that would “go into service by 1999,” a two-year slip from the 1997 start date.⁷⁰

March 11, 1998. Amtrak representatives testified before a House committee that “five train sets will be delivered in late 1999, with the remaining 13 by July 2000.”⁷¹

December 11, 2000. The first Acela trains began running on this date.

As delays increased, Amtrak changed the name of the trains from “Metroliners” in the early 1990s, to the “American Flyer” when the equipment order was placed in the mid-1990s, and to the “Acela Express” to create a “brand image” beginning in March 1999.⁷²

After promising a New York-Boston trip in “under three hours,” Amtrak has now delivered a three-and-a-half-hour run. In 1950 the New Haven Railroad's Merchants Limited linked New York and Boston in four hours without the benefits of full electrification, tilt-train technology, and advanced signaling systems. For the Acela Express to run only about 30 minutes faster after Amtrak has spent billions of dollars on the project is an example of Amtrak's inability to bring high-speed rail service that is truly competitive with air travel to America.

The slow pace reflects the fact that Acela Express operates at 150 miles per hour between New York and Boston on only 18 of the route's 231 miles.⁷³ By contrast, Japan's first Bullet Trains, which are now in museums, offered faster trip times in the 1960s

than the Acela Express offers in 2001.

Design Flaws and Delays. When the Acela Express was delivered for testing, design flaws delayed production and deployment. Early in 1999, the news media revealed that the trains were built four inches too wide to allow full use of the tilt mechanisms, and the trains would be unable to take the numerous curves between Boston and New York as fast as planned.⁷⁴ Amtrak and rail equipment suppliers Bombardier of Quebec and Britain's GEC Alsthom, have bickered over the cause of the design flaw, most likely because the contract includes late-delivery penalties.⁷⁵ Next, during test runs, the trains suffered from excessive wheel wear.⁷⁶ By June 2000 Amtrak halted Acela Express test runs because of cracked or missing bolts in the wheel assemblies.⁷⁷ Another halt came a month later when broken bolts were found on components that help steady the ride of the passenger cars.⁷⁸

With testing completed, the trains went into commercial service on December 11, 2000. The Acela Express was sidelined the next day because of damage to its pantograph, the device that connects the train to overhead electrical wires, and a second Acela Express held in reserve was also found to be inoperable, so passengers were put on an older Metroliner, which ran late.⁷⁹ Acela Express trains have broken down in Stamford, Connecticut,⁸⁰ and near Philadelphia; in the latter case, passengers were delayed several hours and treated poorly. One passenger wrote: "Once in Philadelphia, we were told to go into the station where someone would be waiting to help us. There was no one there even remotely aware of our plight. In the end, we had to argue with the agents to honor our tickets and get us on the next train to Washington."⁸¹ Passengers have reported similar experiences in other Amtrak stations.

It is uncertain what effect the Acela Express will have on Amtrak revenue. In one instance, DOT IG Kenneth Mead has questioned the reasonableness of Amtrak's 2000–2004 revenue estimate of \$4.1 billion for the Northeast Corridor, instead projecting that revenues will

be \$304 million lower.⁸² He said, "We are concerned that Amtrak's projections for Acela Express ridership assume a higher-than-likely diversion of passengers from air and automobile, and an underestimation of ridership on the slightly slower, but significantly less expensive Acela Regional service."⁸³ But in a July 2001 statement, he said, "Our initial findings in our current annual assessment indicate that given the level of airline delays, Amtrak's projections for Acela revenue when fully ramped up may now, in fact, be somewhat conservative."⁸⁴

The question arises, What is high speed and at what price? Amtrak hopes that the faster Acela Express trains will allow it to better compete with airlines in the Northeast Corridor, but the degree of success is an open question.

Between Washington and New York passengers currently have three price options (weekday rates, one way): The Acela Express at \$144, the Metroliner at \$125 (to be phased out and replaced by the Acela Express), and the Acela Regional at \$69. It is open to question how many travelers will opt for the Acela Express over the Acela Regional, since the latter is generally only 42 minutes slower than the Acela Express but costs \$75 less.

A similar situation exists between New York and Boston. The current Acela Express time of 3 hours and 30 minutes, which Amtrak says will be speedier in the future, is 25 to 35 minutes faster than that of the Acela Regional trains. Whether that time difference will justify a ticket price of \$120 (versus \$58 for the slower train) is open to question.

Prior to the airline hijackings and the altered transportation landscape in the Northeast Corridor, Amtrak asserted that the Acela Express would reduce aviation congestion. But if aviation conditions return to normal in the Northeast, the evidence suggests Amtrak's best train will have only a minimal effect. If Amtrak is to attract airline travelers, it must be able to run trains that are not only faster but more reliable than planes. The Acela Express record so far has been mixed. For example, during the week of July 1, only 26 percent of Acela Express trains in

Acela Express operates at 150 miles per hour between New York and Boston on only 18 of the route's 231 miles.

Amtrak suffered a record financial loss, because train tickets are seriously underpriced considering Amtrak's high cost structure.

and out of Boston showed up at or before scheduled arrivals.⁸⁵ Also by August 2001, the Acela Express was "falling short of projections in ridership and revenue. Reimbursement requests from dissatisfied customers are three times higher than Amtrak's goal [and] a nonstop Washington-to-New York service—Amtrak's silver bullet in its race with air shuttles—has been suspended due to low ridership."⁸⁶

When some sense of normalcy returns to the aviation system, it is reasonable to expect aggressive airline competition against the Acela Express. The airlines weren't standing still prior to the September 11 tragedies. Moreover, aviation competitors are not standing still. In the past two years, U.S. Airways Shuttle added new Washington-New York departures using newer Airbus A320 aircraft.⁸⁷ The Delta Shuttle set passenger boarding records during the Thanksgiving weekend of 2000, including its busiest day ever at Washington's Reagan National Airport, attributing its success in part to the positive customer reception for its new Boeing 737-800 aircraft.⁸⁸ Also, Amtrak's Acela will do nothing to hamper what will likely be a regrowth of fairly new Northeast Corridor airline routes, such as Southwest Airlines between Providence and Baltimore-Washington International, because of the distance involved. Growth is occurring elsewhere, such as between Islip Airport on Long Island and BWI, or the Atlantic Coast Airlines service between Dulles International Airport near Washington and Newark. Amtrak goes nowhere near Islip and Dulles airports and holds little allure for the growing number of travelers in nearby communities.

Airport expansion plans in the Northeast are progressing despite the current drop in traffic. Various expansion plans are moving forward at Newark International Airport, Philadelphia International Airport, BWI, and Dulles International Airport.⁸⁹

The Acela Express, despite its shaky start, is an attractive train that holds promise for the Northeast. It will likely make a contribution to mobility during these difficult

times. But considering Amtrak's record of delays and the intensity of airline competition, the promise of the Acela Express easing aviation congestion during normal periods in the Northeast Corridor is false.

Credibility Crisis # 2: National Passenger Traffic

More passengers ride trains today than 30 years ago when Amtrak was created, and Amtrak boasts that its fiscal year 2000 ridership of 22.5 million passengers set a new record. Amtrak vice chairman Michael Dukakis stated in the *New York Times* that "in July [2001] Amtrak recorded its highest monthly ridership in 22 years."⁹⁰ But Amtrak exaggerates ridership gains. According to the ARC, "During a decade when the American economy and most of its transportation system have expanded in an unprecedented manner, Amtrak's ridership has remained virtually unchanged."⁹¹

Amtrak's level of usage is an indictment of its market-insensitive network for the following reasons:

- Year 2000 ridership was only a half-million passengers higher than in 1990 and 1991, hardly an impressive feat considering that the decade saw an all-time record growth in domestic travel.
- The record came in the same year Amtrak suffered a record financial loss, because train tickets are seriously underpriced considering Amtrak's high cost structure.
- Passenger-miles are a more credible index for quantifying the volume of business. On that basis the quantity of Amtrak's passenger-miles was lower in 2000 than at its peak, from 1988 through 1994 (see Table 1).

For perspective, on Memorial Day weekend 2000, domestic aviation served well over 12 million passengers. In just one holiday weekend airlines carried more than half the traffic Amtrak moves in an entire year. The gap has been growing despite aviation con-

Table 1
Amtrak versus Aviation Ridership

| Year | U.S. Census Population Estimate (millions) | Airline Revenue Passengers (millions) | Amtrak Passengers (millions) | Amtrak Passenger-Miles (billions) |
|------|--|---------------------------------------|------------------------------|-----------------------------------|
| 1972 | 209.9 | 191.3 | 16.6 | 3.0 |
| 1973 | 211.9 | 202.2 | 16.9 | 3.8 |
| 1974 | 213.9 | 207.5 | 18.7 | 4.5 |
| 1975 | 216.0 | 205.1 | 17.4 | 3.9 |
| 1976 | 218.0 | 223.3 | 18.2 | 4.2 |
| 1977 | 220.2 | 240.3 | 19.2 | 4.3 |
| 1978 | 222.6 | 274.7 | 18.9 | 4.0 |
| 1979 | 225.0 | 316.9 | 21.4 | 4.9 |
| 1980 | 227.2 | 296.9 | 21.2 | 4.6 |
| 1981 | 229.5 | 286.0 | 20.6 | 4.8 |
| 1982 | 231.7 | 294.1 | 19.0 | 4.2 |
| 1983 | 233.8 | 318.6 | 19.0 | 4.2 |
| 1984 | 235.8 | 344.7 | 19.9 | 4.6 |
| 1985 | 237.9 | 382.0 | 20.8 | 4.8 |
| 1986 | 240.1 | 418.9 | 20.3 | 5.0 |
| 1987 | 242.3 | 447.7 | 20.4 | 5.2 |
| 1988 | 244.5 | 454.6 | 21.5 | 5.7 |
| 1989 | 246.8 | 453.7 | 21.4 | 5.9 |
| 1990 | 249.5 | 465.6 | 22.2 | 6.1 |
| 1991 | 252.2 | 452.3 | 22.0 | 6.3 |
| 1992 | 255.0 | 475.1 | 21.3 | 6.1 |
| 1993 | 257.8 | 488.5 | 22.1 | 6.2 |
| 1994 | 260.3 | 528.8 | 21.8 | 5.9 |
| 1995 | 262.8 | 547.8 | 20.7 | 5.5 |
| 1996 | 265.2 | 581.2 | 19.7 | 5.0 |
| 1997 | 267.8 | 594.7 | 20.2 | 5.2 |
| 1998 | 270.2 | 612.9 | 21.1 | 5.3 |
| 1999 | 272.7 | 635.4 | 21.5 | 5.3 |
| 2000 | 284.9 | 665.5 | 22.5 | 5.5 |

Source: Airline statistics from the Bureau of Transportation Statistics, U.S. Department of Transportation. Amtrak statistics from Background on Amtrak, GAO studies, and Amtrak annual reports.

gestion. In Amtrak’s first full year of operation in 1972, it carried an average of 45,500 passengers a day. In 2000, more than a quarter-century later, Amtrak ridership stood at only 61,643 daily. Meanwhile, airline traffic reached 665.5 million in 2000,⁹² and the number of airline passenger trips has more than tripled, from 524,100 daily in 1972 to

1,823,287 daily in 2000.

Amtrak’s inability to adapt to market demands is why its share of the intercity travel market is lower than ever—only about three-tenths of 1 percent of intercity passenger trips in the United States. Even private aircraft, at six-tenths of 1 percent, serve double the number of passengers.⁹³

Amtrak’s share of the intercity travel market is only about three-tenths of 1 percent of intercity passenger trips in the United States.

Amtrak is able to report its trains as being more punctual than they in fact are on virtually every route.

**Table 2
How Amtrak Measures Late Arrivals as “On Time”**

| | Station | | | | |
|--------------------------------|---------|-----------|-----------|-------------|-----------|
| | A | B | C | D | E |
| Scheduled depart/arrival time | Noon | 1:30 p.m. | 3:00 p.m. | 6:00 p.m. | 9:00 p.m. |
| Actual arrival time | Noon | 2:15 p.m. | 4:00 p.m. | 7:15 p.m. | 9:15 p.m. |
| Difference scheduled v. actual | 0 hrs. | 45 min. | 1 hr. | 1hr. 15min. | 15 min. |

Notes. Amtrak measures on-time performance at Stop E. The scheduled trip time is 9 hours exactly, and the actual trip time is 9 hours 15 minutes. The train is technically on time, even though it is late for three of four stops.

Amtrak projections of future ridership increases have been wrong for years. A GAO study noted that in 1974 Amtrak had told Congress it anticipated ridership in 1979 would be a stunning 37 million;⁹⁴ it turned out to be 21.4 million passengers. More recently, Amtrak asserted that it would boost ridership by 4.4 million passengers in FY 2002, a 21 percent gain from FY 1998 traffic.⁹⁵ Although more modest than previous statements, it is nonetheless a projection that Amtrak will fail to reach.

Credibility Crisis # 3: On-Time Performance

Amtrak acknowledged in a 1994 statement that the “largest single area of complaint” by passengers is late trains, and “improving and sustaining Amtrak’s on-time performance is a top priority.”⁹⁶ Since, then Amtrak has issued statements suggesting that punctuality has improved. In 1998, Amtrak touted the best January on-time performance since 1981;⁹⁷ in 1999, Amtrak boasted in a letter to the ARC that its 80 percent record is “still ahead” of airline perfor-

mance.⁹⁸ A press release this year touted good on-time performance for the Acela Express.⁹⁹

Unfortunately, Amtrak’s method of calculating late trains fails to reflect actual performance. Amtrak is able to report its trains as being more punctual than they in fact are on virtually every route outside of the Northeast Corridor. That is because Amtrak has larded schedules with extra time (railroaders refer to this as “padding” or “fat”) at the end of a line. Amtrak inserts the extra time just before checkpoints where on-time performance is calculated. Across most of the nation, if measurements were taken at a station before an official checkpoint, Amtrak’s record would be much worse than official reports indicate. The schedule padding, combined with the absence of Amtrak on-time calculations at intermediate stations, means many passengers arrive late at their destinations even though they were aboard “on time” trains.

For example, a train starts at station A at noon and, after stopping at stations B, C, and D, is scheduled to arrive at station E nine hours later. In the example in Table 2, the train is 45 minutes late arriving at station B,

one hour late arriving at station C and one hour and 15 minutes late arriving at station D. Passengers traveling to or from any of these stations suffer. Yet between station D and station E, which happens to be an on-time checkpoint, extra time or “fat” is built in. It might be that at normal speeds it would take an hour and a half to travel between those stations. By instead scheduling three hours between those stations, Amtrak permits late trains to make up time and arrive only 15 minutes late. Since “on-time” is measured at point E, an Amtrak train that is late for three of four arrivals is officially “on-time.” A long-distance train is listed as “late” only if it is 30 minutes or more behind schedule, and for short distance trains the allowance is 10 minutes.

Some critics might ask whether congestion in metropolitan areas or other factors mean that trains need more time entering major cities or stations. In fact, it takes more time for a train to accelerate when leaving a major station than to brake when entering one, resulting in a difference of less than five minutes. Finally, any speed limits imposed on trains traveling through congested metropolitan areas will slow trains going in both directions.

How Amtrak applies this practice of building in “fat” is outlined in Table 3. The information reveals the contrast between the running time of trains leaving checkpoints where on-time measurements *will not* be calculated (and trains are scheduled to move fairly quickly) and trains entering the same checkpoints where on-time performance *will be* calculated (and the schedules contain excessive “fat”).

The first train in the table, Amtrak’s eastbound Sunset Limited, routinely takes 45 minutes when running from Los Angeles to Pomona, California, a distance of only 32 miles. No on-time calculation is made in this direction. On the westbound schedule from Pomona to Los Angeles—a checkpoint where on-time performance is calculated on incoming trains—it takes 1 hour and 57 minutes. Hence, the westbound time is more than twice as long as the eastbound time. Passengers

often are inconvenienced waiting for late westbound Sunset Limited trains in one community after another, but official reports may show their particular train as being “on time.”

Amtrak’s already poor on-time record of 56 percent for long-distance trains in FY 2000¹⁰⁰ is not credible. The figure represents performance at a few dozen checkpoints, which means trains serving hundreds of non-checkpoint stations are running significantly behind schedule yet are never officially registered as “late.”

Credibility Crisis # 4: Freight and Express Program

Amtrak, which was set up as a passenger railroad, established a new line of business in 1997 as it started to carry freight and express in boxcars or in special highway trailers attached to passenger trains. The railroad said the effort was designed to help it “reach its financial goals,”¹⁰¹ become “profitable,”¹⁰² and “improve the financial performance of passenger trains and help preserve and expand our network.”¹⁰³

Amtrak strained credibility from the program’s inception by claiming it was moving “freight/express” and “specialty commodities—computer chips, for example.”¹⁰⁴ When the news media revealed that Amtrak was carrying boxcar loads of beer, steel, and other commodities, Amtrak responded by claiming such moves were “occasional and experimental.”¹⁰⁵ Eventually, Amtrak conceded it was moving shipments that traditionally have been considered freight.

By 1998, traffic was below projections and approximately half of the freight/express fleet was sitting idle.¹⁰⁶ In that fiscal year, Amtrak said it would not discuss profitability until that year’s scorecard was in,¹⁰⁷ and it never has. Even now, three years later, Amtrak has yet to go on the record about whether freight/express adds to or takes away from its bottom line.

Revenues generated from the new program along with revenues from Amtrak’s mail-handling operation are below projections. The DOT IG, in examining Amtrak’s

**What is modern?
The definition
certainly does
not mean inaugu-
rating trains that
are slower than
trains were
decades ago.**

Table 3
Schedule “Fat” Permits Misleading On-Time Reports

| Amtrak Train | Segment under Review | Miles | Time When On-Time Statistics Are NOT Calculated (outbound) (1997–2000) | Times Are Slower When On-Time Statistics ARE Calculated (inbound) | Amtrak’s “Fat” in Schedules |
|-------------------------|---------------------------------|--------------|---|--|------------------------------------|
| Sunset Limited | Pomona, Ca.–Los Angeles | 32 | 45 min. | 1 hr. 57 min. | 1 hr. 12 min. |
| Sunset Limited | Schriver, La.–New Orleans | 55 | 1 hr 25 min. | 2 hr. 30.min. | 1 hr. 05 min. |
| Southwest Chief | Naperville, Ill.–Chicago | 28 | 36 min. | 1 hr. 36 min. | 1 hr. 00 min. |
| Texas Eagle | San Marcos, Tex.–San Antonio | 54 | 1 hr. 40 min. | 2 hr. 39 min. | 59 min. |
| City of New Orleans | Hammond, La.–New Orleans | 52 | 1 hr. 03 min. | 2 hr. | 57 min. |
| Three Rivers | Hammond, Ind.–Chicago | 16 | 29 min. | 1 hr. 25 min. | 56 min. |
| San Francisco Zephyr | Naperville, Ill.–Chicago | 28 | 34 min. | 1 hr. 29 min. | 55 min. |
| San Francisco Zephyr | Martinez–Emeryville, Calif. | 25 | 11 min. | 1 hr. 05 min. | 54 min. |
| Capitol Limited | Hammond, Ind.–Chicago | 16 | 30 min. | 1 hr. 23 min. | 53 min. |
| Pennsylvanian | Hammond, Ind.–Chicago | 16 | 29 min. | 1 hr. 19 min. | 50 min. |
| Southern Crescent | Slidell, La.–New Orleans | 37 | 53 min. | 1 hr. 35 min. | 42 min. |
| Empire Builder | Edmonds, Wash.–Seattle | 18 | 32 min. | 1 hr. 12 min. | 40 min. |
| Sunset Limited Bay | St. Louis, Miss.–New Orleans | 57 | 1 hr. 12 min. | 2 hr. 51 min. | 39 min. |
| Ann Rutledge | Alton, Ill.–St. Louis | 27 | 40 min. | 1 hr. 18 min. | 38 min. |
| Lake Shore Limited | Hammond, Ind.–Chicago | 16 | 32 min. | 1 hr. 09 min. | 37 min. |
| Cardinal | Dyer, Ind.–Chicago | 29 | 1 hr. 12 min. | 1 hr. 48 min. | 36 min. |
| Empire Builder | Red Wing–Minneapolis | 46 | 1 hr. 04 min. | 1 hr. 39 min. | 35 min. |
| Southwest Chief | Fullerton–Los Angeles | 26 | 40 min. | 1 hr. 14 min. | 34 min. |
| International | Lapeer–Port Huron, Mich. | 45 | 48 min. | 1 hr. 19 min. | 31 min. |
| Coast Starlight | Tacoma–Seattle | 40 | 56 min. | 1 hr. 25 min. | 29 min. |
| Coast Starlight | Glendale–Los Angeles | 5 | 18 min. | 45 min. | 27 min. |
| Wolverine | Hammond, Ind.–Chicago | 16 | 27 min. | 54 min. | 27 min. |
| Lake Shore Limited | Back Bay–South Station, Boston | 1 | 5 min. | 32 min. | 27 min. |
| Illini | Homewood–Chicago | 24 | 1 hr. 10 min. | 1 hr. 36 min. | 26 min. |
| Illini | Du Quoin–Carbondale, Ill. | 20 | 14 min. | 40 min. | 26 min. |
| Empire Builder | Glenview–Chicago | 18 | 24 min. | 50 min. | 26 min. |
| Heartland Flyer | Gainesville–Fort Worth | 68 | 1 hr. 20 | 1 hr. 46 min. | 26 min. |
| Texas Eagle | Alton, Ill.–St. Louis | 27 | 44 min. | 1 hr. 09 min. | 25 min. |
| Cascades | Seattle–Edmonds | 18 | 51 min. | 27 min. | 24 min. |
| San Joaquins | Wasco–Bakersfield | 26 | 27 min. | 51 min. | 24 min. |
| Pacific Surfliner | Grover Beach–San Luis Obispo | 9 | 21 min. | 45 min. | 24 min. |
| Heartland Flyer | Norman–Oklahoma City | 20 | 25 min. | 49 min. | 24 min. |
| Cardinal | Manassas, Va.–Washington | 32 | 54 min. | 1 hr. 18 min. | 24 min. |
| Empire Builder | Vancouver, Wash.–Portland, Ore. | 10 | 27 min. | 50 min. | 23 min. |
| City of New Orleans | Homewood–Chicago | 24 | 45 min. | 1 hr. 08 min. | 23 min. |
| Empire Service-2 trains | Buffalo–Niagara Falls, NY | 23 | 35 min. | 58 min. | 23 min. |
| Ann Rutledge | Joliet–Chicago | 37 | 50 min. | 1 hr. 12 min. | 22 min. |
| Illinois Zephyr | Naperville–Chicago | 28 | 35 min. | 57 min. | 22 min. |
| Silver Meteor | Hollywood–Miami | 13 | 24 min. | 46 min. | 22 min. |
| Ethan Allen Express | Fair Haven–Rutland, Vt. | 14 | 22 min. | 44 min. | 22 min. |
| Northeast Direct | Worcester–Boston | 44 | 59 min. | 1 hr. 20 min. | 21 min. |

Table 3 *continued*

| Amtrak Train | Segment under Review | Miles | Time When On-Time Statistics Are NOT Calculated (outbound) (1997–2000) | Times Are Slower When On-Time Statistics ARE Calculated (inbound) | Amtrak’s “Fat” in Schedules |
|-----------------------------|---------------------------------|--------------|---|--|------------------------------------|
| Capitol Limited | Rockville, Md.–Washington | 17 | 22 min. | 42 min. | 20 min. |
| Silver Palm | Hollywood–Miami | 13 | 24 min. | 43 min. | 19 min. |
| Illinois Zephyr | Macomb–Quincy | 56 | 48 min. | 1 hr. 06 min. | 18 min. |
| State | House Alton, Ill.–St. Louis | 27 | 45 min. | 1 hr. 03 min. | 18 min. |
| Capitols-#729 & 733 | Santa Clara–San Jose | 7 | 12 min. | 29 | 17 min. |
| Cascades | Albany, Ore.–Eugene | 43 | 43 min. | 59 min. | 16 min. |
| Silver Star | Hollywood–Miami | 13 | 28 min. | 44 min. | 16 min. |
| Piedmont | Cary–Raleigh | 9 | 13 min. | 28 min. | 15 min. |
| Vermontes Essex | Jct.–St. Albans, Vt. | 4 | 30 min. | 45 min. | 15 min. |
| Maple Leaf | Yonkers–New York | 14 | 24 min. | 38 min. | 14 min. |
| Capitols-#727 & 731 | Emeryville–Oakland | 5 | 10 min. | 24 min. | 14 min. |
| Capitols-5 trains | Davis–Sacramento | 13 | 19 min. | 33 min. | 14 min. |
| Adirondack | St. Lambert–Montreal | 4 | 13 min. | 26 min. | 13 min. |
| Pere Marquette | Hammond, Ind.–Chicago | 16 | 27 min. | 40 min. | 13 min. |
| Piedmont | Kannapolis–Charlotte | 27 | 28 min. | 40 min. | 12 min. |
| State House | Joliet–Chicago | 37 | 50 min. | 1 hr. 02 min. | 12 min. |
| Capitols-#723 & 725 | Santa Clara–San Jose | 7 | 12 min. | 24 | 12 min. |
| Ann Rutledge & K.C. Mule | Independence–Kansas City | 10 | 19 min. | 29 min. | 10 min. |
| Cascades-3 trains | Tacoma–Seattle | 40 | 58 min. | 48 min. | 10 min. |
| Cascades-3 trains | Vancouver, Wash.–Portland, Ore. | 10 | 18 min. | 28 min. | 10 min. |
| Pacific Surfliner-11 trains | Solana Beach–San Diego | 26 | 33 min. | 34 min.-49 min. | 16 min.-1 min. |
| Hiawatha Service-5 trains | Glenview–Chicago | 18 | 22 min. | 28 min.-32 min. | 10 min.-6 min. |

Note: Where ranges are given, “fat” varies from train to train. Information is given only for trains that run five days or more per week for which schedules have been padded with 10 minutes or more.

2001 business plan, was skeptical about projections that revenue will reach \$402 million by 2003, stating: “We have disagreed with Amtrak on how quickly the mail and express service revenues are likely to ramp up. For instance, in 2000, Amtrak projected revenues of \$176 million, but its actual revenues totaled only \$122 million. We understand that Amtrak is in the process of revising its projections and we will look closely at those numbers during our ongoing assessment.”¹⁰⁸

Amtrak asserted that carrying freight and express would not interfere with passenger operations. Yet, a comparison of 2001 train schedules with 1997 schedules shows time

added to schedules to accommodate freight/express shipments. In Chicago, for example, riders are delayed aboard motionless trains in rail yards while pokey locomotives shunt boxcars on and off the trains. It is difficult to see how the freight/express program can be construed as a legitimate business to enter when doing so slows passenger train schedules, and passengers are supposed to be Amtrak’s core business.

Credibility Crisis # 5: Nonpassenger Revenues

Amtrak routinely issues glowing public statements about its growth in passenger rev-

“Amtrak’s desperate financial situation suggests that its weaker routes should be discontinued.”

***The Economist* recently editorialized in favor of those who believe that “giving Amtrak control over something like \$12 billion in capital spending is insane.”**

enues while skirting the fact that nonpassenger revenues have grown and are a significant source of revenues. Such revenues in FY 2000 totaled \$886 million and accounted for more than 43 percent of Amtrak’s total revenues.¹⁰⁹ Amtrak also leases portions of right-of-way along tracks to telecommunications companies, owns and operates parking garages, and sells souvenirs.¹¹⁰ Such activities raise questions of equity. Is it good public policy to expand Amtrak’s subsidized freight and express program, while it competes with three major taxpaying motor carriers—Consolidated Freightways, Roadway Express, and Yellow Freight? Amtrak’s nonpassenger ventures are a growing source of unfair competition with private enterprises.

Credibility Crisis # 6: Network Growth Strategy

In October 1998, the Amtrak Board of Directors initiated a comprehensive assessment of its route system with what it called a Market Based Network Analysis. Later, with great fanfare, Amtrak described the MBNA as a mechanism to find opportunities to “reduce costs and increase revenue” and “match consumer demand with an efficient operation.”¹¹¹ Amtrak also said the MBNA would drive expansion and equipment acquisition to accommodate the “best and most profitable passenger rail service.”¹¹² The effort also was designed to “increase our profitability.”¹¹³

Amtrak later unveiled a Network Growth Strategy based on the MBNA, which in part called for service changes on 14 routes.¹¹⁴ Amtrak claimed: “When our Network Growth Strategy is fully implemented, it will add \$255 million in revenue by 2003 and expand Amtrak service in 21 states. . . . As part of that strategy, we launched the Lake Country Limited service between Chicago and Janesville [Wisconsin].”¹¹⁵

Regardless of Amtrak’s phraseology, evidence does not indicate that added trains justified by the MBNA are meeting consumer demand, contributing to lower costs, or increasing profitability. In fact, Amtrak’s new trains are

so substandard they violate Amtrak’s charter, which mandates that it provide modern rail passenger service.¹¹⁶ What is modern? The definition certainly does not mean inaugurating trains that are slower than trains were decades ago, which is what Amtrak is doing and is why its prospects for success are bleak. Consider the following:

- The MBNA was referenced to justify starting Amtrak’s Kentucky Cardinal from Jeffersonville, Indiana (near Louisville), to Chicago on a schedule of 12 hours, 45 minutes.¹¹⁷ In 1925, however, the Pennsylvania Railroad from Jeffersonville reached Chicago in 8 hours, 40 minutes¹¹⁸—4 hours and 5 minutes faster than Amtrak’s new train. Our great-grandparents 76 years ago could ride a “milk run,” pulled by a steam locomotive, stopping at 16 towns along the way, and get there faster than Amtrak, which serves only five intermediate stops. This could be one of the slowest passenger trains in the world, a “Conestoga wagon with lights.”
- The MBNA was cited to justify the April 2000 start of Amtrak’s Lake Country Limited, which links Janesville, Wisconsin, with Chicago in 2 hours and 30 minutes.¹¹⁹ In 1952, a Chicago and North Western train from Janesville reached Chicago in 1 hour, 52 minutes¹²⁰—38 minutes faster than Amtrak’s new train. It is not surprising that in the first three months of operation an average of only 10 passengers per day rode Amtrak’s train in each direction, a figure dismissed by an Amtrak spokesman who said, “it takes a while to ramp things up,” and traffic is “going in the right direction.”¹²¹ Those added passengers were nowhere to be found when an NBC News *Fleeing of America* segment this year showed that only one passenger was aboard a train with about 70 seats.¹²² Because of the adverse publicity, Amtrak has since announced discontinuance of the train effective September 21, 2001.¹²³

By Amtrak's own data, this train lost \$512 per passenger.¹²⁴

- Finally, the MBNA reportedly justified the startup of Amtrak service between Milwaukee and Fond du Lac, Wisconsin, and between Chicago and Des Moines. In September of this year Amtrak dropped plans for the Fond du Lac train because Amtrak found "the mail and express business isn't there to support it."¹²⁵ A month earlier, Amtrak cancelled plans for the Des Moines train as "customers never developed for the mail and express service that would have formed the line's financial foundation."¹²⁶

Amtrak said of the MBNA process in a report to Congress, "Amtrak can only grow by servicing markets where research—hard facts and data, not hunches, nostalgia, or historical precedent—indicates a strong chance for success."¹²⁷ But Amtrak is ignoring hard facts to promote unjustifiable expansion plans. What "market-based analysis" could justify adding trains on slower schedules than were in effect many decades ago? What "research" predicted that mail and express customers could be found for two new routes where customers were nonexistent?

The FY 2000 Transportation Appropriations Act and the FY 1999 Omnibus Appropriations Act require the Amtrak Reform Council to identify any Amtrak routes that might be candidates for closure or realignment. In November 1999 the council requested from Amtrak "comparisons and analysis of MBNA reports with Amtrak's normal general ledger accounting system and Route Profitability System reports [and] MBNA reports and analyses that are being used to prepare Amtrak's Strategic Business Plan."¹²⁸

But in its latest annual report the ARC said, "Until the data underlying Amtrak's MBNA analysis are made available to the Council for analysis . . . the Council will not be in a position to evaluate potential Amtrak route closures or realignments."¹²⁹ Later the same report said, "The Council has not yet had the opportunity to examine the MBNA

nor Amtrak's [Network Growth Strategy] analysis and detailed, underlying marketing and traffic flow data because such information had not been made available to the Council until very recently, and the data recently provided may not be available in sufficient detail to permit the kind of comprehensive analysis that is necessary before route changes are suggested."¹³⁰

Anthony Haswell, an advocate for modern passenger train service, filed suit against Amtrak in the U.S. District Court in Washington on July 30, 2001, under the federal Freedom of Information Act to force it to disclose financial information on its individual train routes and services. He requested this information from Amtrak in April 2000 under FOIA, and Amtrak has refused to comply. Haswell said:

Amtrak's desperate financial situation suggests that its weaker routes should be discontinued and available resources concentrated on services with long-term potential. In order for the government and the public to make informed decisions on the future of Amtrak and intercity rail passenger service, the information I have asked for is essential. Amtrak is spending many millions of federal tax dollars each year subsidizing the operation of trains which are slower than those of 60 years ago and which do not run on time. This expensive charade must end.¹³¹

The MBNA process is a failure. Evidence is growing that the MBNA is a fig leaf to justify adding trains through more congressional districts in a blatant attempt to distribute more pork-barrel expenditures, a concern reinforced by Amtrak's uncooperative responses to MBNA inquiries.

Credibility Crisis # 7: High-Speed Rail Bond Proposals

Two federal initiatives have been proposed to bring about intercity "high-speed" trains to

Indications are that Amtrak's high-speed train plans will draw only an infinitesimal number of passengers from other modes of transportation.

Amtrak misleads the public by saying its subsidies are “low” compared to government expenditures for other modes of transportation.

America: the High Speed Rail Investment Act of 2001 and the Rail Infrastructure Development and Expansion Act for the 21st Century, or RIDE-21, a \$71 billion legislative package for various rail projects. But neither proposal would likely succeed outside of the Northeast Corridor where Amtrak’s Acela Express program is underway.

The High Speed Rail Investment Act of 2001. This legislation would allow Amtrak to float \$12 billion in bonds to raise capital over a 10-year period to establish high-speed rail programs. Bondholders would receive tax credits rather than interest payments. Amtrak would be required to pay back only the principal on those bonds and participating states would furnish at least 20 percent in matching funds to support a project.

While Amtrak dangles promises of “Bullet Trains” to an unsuspecting public, the act would permit Amtrak to spend billions of dollars on trains that will remain rather ordinary. In cases where an Amtrak train ambles along at 40 mph, it will be able to use bond funds to bring the speed up to 50 mph. The result of this “high-speed” rail program in many cases would be yet more Amtrak trains running no faster than those run by private railroads decades ago. Billions of dollars would be wasted. It is little wonder that *The Economist* recently editorialized in favor of those who believe that “giving Amtrak control over something like \$12 billion in capital spending is insane.”¹³²

Quite questionable is the claim by Amtrak vice chairman Michael S. Dukakis that future Amtrak “high-speed” trains will ease aviation congestion, or “winglock.”¹³³ What is considered “high-speed” on Amtrak does not qualify for that label in other parts of the world. Even the Acela Express is hardly high-speed by international standards.¹³⁴

The legislation has many other problems:

- Amtrak maintains that the tax credit will cost the U.S. Treasury only \$3.3 billion over 10 years.¹³⁵ But the GAO estimates the cost to be between \$16.6 billion and \$19.1 billion (in nominal dollars)

over 30 years. This is because the bonds are for 20 years and if Amtrak issues bonds at the end of the 10-year period, the period of revenue losses would be 30 years. Also disagreeing with Amtrak is the Congressional Budget Office, which found “the tax-credit funding mechanism would essentially be a new and more expensive way for the federal government to assist Amtrak.”¹³⁶

- The \$12 billion would cover only a fraction of the cost of 10 federally designated high-speed routes, warned the GAO. The total cost would be closer to \$100 billion.¹³⁷ The ARC said funding of this magnitude “should not logically be under the control of Amtrak as it exists today.”¹³⁸
- The DOT IG stated that potential costs far exceed funds proposed: “If the bond bill or a similar funding instrument were to be adopted, it should be clear to all parties that the \$12 billion provided to Amtrak would just be the proverbial ‘drop in the bucket.’ . . . The cost for developing a high-speed rail program in each of the 10 designated corridors would run into the tens of billions of dollars. Careful consideration should be given to where the remaining funding would come from, as well as the likely return on investment, as a precursor to Amtrak investing in any of these corridors. Absent such analysis, it is plausible that the country could find itself with 10 partially built corridors that, in addition to the Northeast Corridor, will each boast a multibillion dollar price-tag for completion.”¹³⁹

By incorporating tax-credit costs on Treasury Department ledgers, the \$12 billion in bonds creates massive subsidies that will be off the books for Amtrak. Such deception frees Amtrak to again claim financial “success” despite the continuing drain on taxpayers. On a related point, the GAO estimates that “The cost of the tax credits to the U.S.

Treasury under the bond approach would be at least \$400 million greater and could be more than \$3 billion greater (in present value terms) than providing annual appropriations of an equivalent amount.”¹⁴⁰ In other words, it would be less costly to simply give Amtrak the money than to use the bond approach.

- As the GAO observed, the \$12 billion legislation neither directs Amtrak to “segregate bond proceeds from other funds” nor prohibits “the possibility that bond proceeds would be available to Amtrak for other purposes, including prior debt.”¹⁴¹ Amtrak is still a candidate for bankruptcy, thus concerns about Amtrak’s stability and use of additional funds should not be taken lightly.
- Amtrak will likely exploit the liability for bond repayments by claiming the cost is an obligation that should be paid by the federal government in a liquidation. Thus the program gives Amtrak leverage with which to argue against liquidation, which in turn would perpetuate the operation of slow long-distance trains, the antithesis of what the legislation is supposedly designed to accomplish.
- The railroad cannot be entrusted to exercise proper due diligence in fund expenditures or project completion, and considering its flirtation with bankruptcy a logical conclusion is that the bill sets the stage for another multi-billion-dollar federal Amtrak bailout.

From a transportation perspective, the Amtrak program grossly exaggerates the benefits of its high-speed trains. Consider:

- Only a small portion of the \$12 billion bond proceeds may finance construction of any significant high-speed rail infrastructure. Amtrak has politicized high-speed rail by endorsing proposals to run those trains where virtually no market exists, such as from Texarkana, Arkansas, to Dallas. Such “pet projects”

would spend bond funds to meet the pork-barrel needs of members of Congress.

- Amtrak may spend funds on routes that are excessively long, such as Washington to New Orleans, where, at 1,152 miles, no train, no matter how fast, can compete with air travel. That fact applies in even the most train-dependent cultures in the world.
- Bond funds are likely to be spent on thinly populated routes, such as Chicago to Omaha. Most of the route goes through Iowa, but that state’s entire population of 2.9 million is nowhere near the intense concentrations of people found in European cities—the Paris area alone has 10 million—or Japanese cities. Routes like the “high-speed” Chicago-Omaha are destined to be failures before the first spike is driven.
- Indications are that Amtrak’s high-speed train plans will draw only an infinitesimal number of passengers from other modes of transportation. In particular, it stretches credibility to believe that Amtrak will divert more than a small number of air travelers to trains: it is doubtful a single flight would be removed anywhere in the nation’s crowded aviation system.
- Amtrak’s record disqualifies it from participation in planning high-speed rail projects. Consider Michigan, where Amtrak spent \$23 million in a joint federal-state program to install new signals on part of the Chicago-Detroit route¹⁴² and an additional \$3.3 million in TRA funding for communications, track, and bridge work. In April 2001, Amtrak activated the “high-speed” signals, put souped-up locomotives on the line, and indeed cut 15 minutes from schedules. Despite that, most Detroit trains remain *slower* than when the initial funds were granted six years ago.

The \$71 Billion Rail Legislation. A group of House legislators led by Rep. Don Young (R-Alaska)

Amtrak’s disappearance would be insignificant outside of the Northeast Corridor and a few other lines.

Excluded from Amtrak's annual reports and congressional testimony are expenditures from numerous publicly funded programs that assist in financing Amtrak.

wants \$71 billion over a 10-year period to build high-speed rail lines through a \$36 billion tax-exempt bond provision and \$35 billion in direct loans or loan guarantees for freight and commuter rail lines. Even sponsors of this lavish spending recognize the futility of giving additional subsidies to Amtrak and instead would send money to states. "The legislation would in effect separate the future of high-speed rail service from the future of Amtrak. . . . Amtrak would not be eligible to apply for any of the funding, although it could compete to be the operator of any new train service. Some lawmakers have made clear that they will oppose high-speed rail funding that is put in Amtrak's control."¹⁴³

These proponents also promise bullet trains to justify the \$71 billion, but such trains will not result from what is another Washington pork-barrel program. Consider:

- Up to \$7 billion would be set aside for "short lines." These railroads are generally only a few miles long, are located in rural areas, and carry a small portion of the nation's freight. Passenger service is limited to historic trains, sometimes pulled by steam locomotives, which offer excursions and entertainment. On that basis, spending billions on those rail lines will do nothing to relieve airport and urban highway congestion as sponsors claim.
- The bill would not fund the construction of new corridors dedicated exclusively to high-speed passenger trains, such as those in Japan and France. The result will be trains too slow to relieve air traffic congestion anywhere outside of the Northeast Corridor.
- While the overall cost of the \$71 billion legislation has yet to be calculated by an objective party, costs would certainly be higher than the \$12 billion package and even then might be understated due to similar misrepresentations.
- It is unclear how the states will finance rail bonds and loans. Because many eligible projects will lack a positive rate of

return, it is likely that state taxpayers will be liable for guaranteeing loan principle and incurring significant obligations to loan issuers and bond holders.

Overall, the legislation illustrates that Amtrak and its allies have no upper limit for subsidies. Even \$71 billion leaves Amtrak proponents unsatisfied as revealed by ARC Chairman Gilbert Carmichael, who said, "It's not as big as it ought to be, but it's good."¹⁴⁴ He has urged federal spending of as much as \$200 billion.¹⁴⁵

Regardless of the details, both bills are premature as are Amtrak's request for \$3.2 billion in "emergency" funding and the \$37 billion stimulus package. Amtrak is under a mandate to prove it can operate without federal operating subsidies. As Amtrak faces the self-sufficiency deadline, DOT IG Mead said of the High Speed Rail Act, "Deciding on the bond bill (now) puts the cart before the horse."¹⁴⁶ The same is true for the \$71 billion package.

No such legislation should move in Congress until the Amtrak Reform Council pulls the sunset trigger to initiate Amtrak's liquidation or restructuring.

Credibility Crisis # 8: The Known Cost of Amtrak

Since 1970 Washington has provided Amtrak with \$25.3 billion in subsidies (see Table 4.) Amtrak misleads the public by saying its subsidies are "low" compared to government expenditures for other modes of transportation. For example, Amtrak vice chairman Dukakis wrote that Congress this year will spend "\$33 billion on highways, \$14 billion on airports, and only \$521 million on rail."¹⁴⁷ But user fees in the form of gasoline taxes and airline ticket taxes finance a significant amount of spending on highway and airport systems.

Amtrak's subsidy/revenue ratio is excessive. A 1998 GAO study found that "Amtrak spends almost \$2 for every dollar of revenue it earns in providing intercity passenger service. . . . Three Amtrak routes spent more than \$3 for every dollar of revenue, and 14 routes lost more than \$100 per passenger in fiscal year 1997."¹⁴⁸ These ratios are stratospheric.

Such Amtrak subsidies are persistent and legendary. In 1982, the Congressional Budget Office put a value on aid to Amtrak: "The comparison showed that on a passenger-mile basis, Amtrak passengers were subsidized at a level more than one hundred times the next closest alternative means of passenger travel. Each Amtrak passenger was subsidized at the rate of 23.6 cents per passenger-mile, while commercial airline passengers received two-tenths of one cent and private auto passengers about one-tenth of one cent."¹⁴⁹

Amtrak offers misleading subsidy comparisons. Specifically, it counts as "subsidies" receipts from government-mandated "user fees," paid by air travelers in the form of a ticket tax for air travel infrastructure and by motorists in the form of a gasoline tax for roads. But in these cases it is the users, not all taxpayers, who are footing some of the bill for the infrastructure they use. Furthermore, even if we were to accept Amtrak's flawed reasoning, the railroad still receives a significantly higher level of subsidies considering its low level of use. The hard fact is that so many people use the aviation and highway systems that on a relative basis the subsidies, if any, are much lower per passenger-mile than Amtrak's. Hundreds of millions of users regularly rely on aviation and highways; about 1.8 million passengers fly on commercial airlines daily and a greater (incalculable) number rely on streets and highways. Hence, subsidies for air and auto travelers at least go to systems enjoying an astonishing level of use. America cannot survive without its aviation and highway systems, while Amtrak's disappearance would be insignificant outside of the Northeast Corridor and a few other lines. Thus, on a quantitative basis, Amtrak subsidies are excessive.

Upcoming Funds. Amtrak has requested an appropriation of \$521 million for FY 2002 as well as authority to issue \$12 billion in bonds.

Credibility Crisis # 9: Amtrak's Stealth Subsidies

As bad as the subsidies discussed above might seem, they do not tell the full story.

Amtrak receives handouts from other government agencies that should be added to the subsidy total. A comprehensive accounting of Amtrak's true cost to taxpayers has never been made, which is regrettable because Amtrak's financial reporting system fails to fairly represent the level of subsidies Amtrak receives. Sen. Wayne Allard (R-Colo.) said on July 20, 2000: "I have grown increasingly skeptical about what is going on with Amtrak. It seems they found a way to pick up government subsidies all over the place. . . . We found that we even have the Federal Transit Administration subsidizing Amtrak."¹⁵⁰ The criticism is justified—Amtrak has lowered costs and deficits in its accounts by placing many expenditures on the ledgers of other public agencies. Excluded from Amtrak's annual reports and congressional testimony are expenditures from numerous publicly funded programs that assist in financing Amtrak. They include the following:

Income Tax Return. As mentioned earlier, Amtrak is benefiting from a taxpayer-sponsored windfall that is unprecedented in U.S. history. Although Amtrak has never paid income taxes, Congress, in the Taxpayer Relief Act of 1997, ordered the Internal Revenue Service to give Amtrak a \$2.2 billion "tax refund." This balance-sheet sweetener of monumental proportions had nothing to do with Amtrak activity as a railroad. The GAO testified that Amtrak recorded a portion of its taxpayer-financed "income-tax refund" as "revenues."¹⁵¹

Federal Railroad Administration Grants. Amtrak benefits from high-speed rail studies and technology development grants under the Swift Rail Development Act of 1994, and grants for train stations, historic building restorations and grade crossing improvements.

Federal Transit Administration Grants. Two examples are a grant of \$18.7 million to the state of Pennsylvania to purchase coaches for Amtrak¹⁵² and \$3.5 million to Vermont to inaugurate new train service to Rutland.¹⁵³ FTA grants also help finance Amtrak improvements at stations ranging in size from Chicago Union Station to the Elizabethtown, Pennsylvania, station near Harrisburg.¹⁵⁴

When Amtrak calculates subsidies it generally fails to discuss government-guaranteed loan subsidies.

Amtrak is using several unconventional accounting practices regarding maintenance and depreciation in an attempt to change the standards under which “self-sufficiency” will be evaluated.

DOT Direct Credit Assistance. The Transportation Equity Act for the 21st Century established the Transportation Infrastructure Finance and Innovation Act, which provides credit assistance to surface transportation projects.¹⁵⁵ Amtrak is seeking a \$29 million loan to finance part of a plan to rehabilitate locomotives.

Housing and Urban Development. The loan guarantee provision of the Community Development Block Grant program, HUD section 108, has benefited Amtrak in at least one instance—helping to finance the relocation of a reservations call center from Ft. Washington (Pa.) to Philadelphia.¹⁵⁶

Loan Default. When Amtrak calculates subsidies it generally fails to discuss government-guaranteed loan subsidies. In the 1970s, Congress provided Amtrak with guarantee loan authority to borrow nearly \$1 billion. The administration and Amtrak concluded in 1983 that Amtrak would likely never repay the debt, and arranged that the Federal Financing Bank of the U.S. Treasury be repaid through a special appropriation.¹⁵⁷ The 1983 Amtrak annual report states: “On September 30, 1983, Amtrak had borrowed under notes payable to the Federal Financing Bank up to its maximum Federal guaranteed loan authority of \$880 million. On October 5, 1983, this obligation, plus \$239 million in accrued interest, was paid on Amtrak’s behalf by the Federal Railroad Administration, and a new note in the amount of some \$1.12 billion was executed as of that date between Amtrak and the U.S. Government. The note matures on November 1, 2082, and will be renewed for successive 99-year terms. Interest is payable only in the event of prepayment or acceleration of the principal.”¹⁵⁸ Because the Federal Railroad Administration paid the \$1.1 billion obligation, it does not show up in Amtrak financial summaries the way it does in Table 4 in this report.

Congestion Mitigation and Air Quality Improvement. This Federal Highway Administration program has partially funded facilities that Amtrak uses now or will use in the future. Examples include renovation of the Worcester,

Massachusetts, Union Station,¹⁵⁹ initiation of a Los Angeles-Las Vegas train,¹⁶⁰ and construction of a new passenger station in Sturtevant, Wisconsin.¹⁶¹ Amtrak is hopeful that those projects will establish a precedent for future CMAQ funding of Amtrak plans “located outside of non-attainment and maintenance areas which have heretofore been generally ineligible.”¹⁶²

Federally Imposed Local Tax Exemptions. This is a case of lowering Amtrak’s tax bill at the cost of increasing someone else’s. The ARAA exempted Amtrak from the local property tax levied in Beech Grove, Indiana, where a major Amtrak maintenance facility is located. The elimination of revenue from the maintenance facility meant the loss of about \$10 million in the city’s assessed valuation. As a result of Amtrak’s exemption, there is more of a burden placed on taxpayers.¹⁶³ The law also exempts “Amtrak’s passengers and other customers from most state and local taxes, fees, and charges.”¹⁶⁴ Again, hardly the kind of treatment that most “commercial enterprises” receive.

Credibility Crisis # 10: Standards for Measuring Amtrak Self-Sufficiency

Despite all of the public funding and support from other agencies, Amtrak still finds it necessary to reduce expenses by redefining them. Amtrak is using several unconventional accounting practices regarding maintenance and depreciation in an attempt to change the standards under which “self-sufficiency” will be evaluated.

Amtrak admits to using capital grants for “maintenance generally, which includes, and is even broader than, progressive [equipment] overhauls.”¹⁶⁵ The amount could total \$800 million in 1998–2002 to underwrite maintenance expenses that traditionally have been treated as operating expenses.¹⁶⁶ Such diversion of capital funds permits Amtrak to appear to reduce operating losses. Proponents justify Amtrak’s action since public transit agencies perform the same bookkeeping practice. However, Amtrak does not compete with public transit. It competes with intercity bus and air carriers, which receive no public funds for equipment repair

Table 4
History of Federal Subsidies, Grants, and Loans to Amtrak (in millions of dollars)

| Fiscal Year | Operating Funds | Excess R.R. Retirement | General Capital | Bos-Wash Capital | Lump Sum | IRS "Tax Refund" | Total |
|-------------------|--------------------|------------------------|----------------------|------------------|----------|------------------|----------|
| 1971–72 | 40.0 | | | | | | 40.0 |
| 1973 | 170.0 | | | | | | 170.0 |
| 1974 | 146.6 | | 2.5 | | | | 149.1 |
| 1975 | 276.5 | | | | | | 276.5 |
| 1976 | 357.0 | | 114.2 | | | | 471.2 |
| TQ ^a | 105.0 | | 25.0 | 50.0 | | | 180.0 |
| 1977 | 482.6 | | 93.1 | 225.0 | | | 800.7 |
| 1978 | 561.0 ^b | | 130.0 | 425.0 | | | 1,116.0 |
| 1979 | 625.0 ^b | | 130.0 | 479.0 | | | 1,234.0 |
| 1980 | 670.4 | | 191.0 | 362.0 | | | 1,223.4 |
| 1981 | 709.2 | | 187.1 | 350.0 | | | 1,246.3 |
| 1982 | 522.4 | 36.0 | 176.6 | 170.0 | | | 905.0 |
| 1983 | 561.5 | 44.0 | 94.5 | 115.0 | | | 815.0 |
| 1984 | 562.1 | 56.0 | 98.3 | 100.0 | | | 816.4 |
| 1985 | 551.7 | 76.0 | 52.3 | 27.6 | | | 707.6 |
| 1986 | 500.7 | 88.0 | 2.0 | 12.0 | | | 602.7 |
| 1987 | 468.5 | 112.0 | 26.5 | 11.5 | | | 618.5 |
| 1988 | 413.6 | 121.0 | 46.2 | 27.5 | | | 608.3 |
| 1989 | 410.6 | 144.0 | 29.4 | 19.6 | | | 603.6 |
| 1990 | 388.1 | 133.0 | 83.6 | 24.4 | | | 629.1 |
| 1991 | 343.1 | 144.8 | 132.0 | 179.0 | | | 798.9 |
| 1992 | 331.0 | 150.2 | 175.0 | 205.0 | | | 861.2 |
| 1993 | 351.0 | 146.0 | 190.0 | 204.1 | | | 891.1 |
| 1994 | 351.7 | 150.5 | 195.0 | 225.0 | | | 922.2 |
| 1995 | 392.0 | 150.0 | 230.0 | 200.0 | | | 972.0 |
| 1996 | 285.0 | 120.0 | 230.0 | 115.0 | | | 750.0 |
| 1997 | 222.5 | 142.0 | 303.0 | 175.0 | | | 842.5 |
| 1998 ^c | 245.0 | 142.0 | 250.0 | | | 1,091.8 | 1,728.8 |
| 1999 | | | | | 571.0 | 1,091.8 | 1,662.8 |
| 2000 | | | | | 521.0 | | 521.0 |
| 2001 | | | | | 521.0 | | 521.0 |
| 2002 | | | | | 521.0 | | 521.0 |
| Loans | | | 1,119.6 ^d | | | | 1,119.6 |
| Totals | 11,043.8 | 1,955.5 | 4,306.9 | 3,701.7 | 2,134.0 | 2,183.6 | 25,325.5 |

Sources: *Background on Amtrak*, Amtrak Annual Reports, Amtrak Finance Department, General Accounting Office, DOT Inspector General, Amtrak Reform Council.

^a Transition quarter. Start of federal fiscal year changed from July 1 to Oct. 1.

^b Includes appropriations of \$25 million in 1978 and 1979 for partial repayments of government-guaranteed loans.

^c Amtrak combined Boston-Washington capital request with general capital.

^d In the 1970s, Congress gave Amtrak guarantee authority to borrow \$880 million in a government-guarantee loan program. Amtrak stated in 1983 that it would not ever be likely to repay the debt, and \$880 million in debt plus \$239.6 million in interest owed to the U.S. Treasury's Federal Financing Bank was repaid through an appropriation to DOT of \$1,119,635,000.

It is clear that Amtrak has not changed three decades of mismanagement, poor planning, and hidden expenses.

and maintenance and which consider such costs operating expenses, consistent with generally accepted accounting principles.

The DOT IG has said:

Congress approved using the capital appropriation for both maintenance of equipment and maintenance of infrastructure in this fiscal year. This funding approach does not change the definition of what constitutes operating costs under generally accepted accounting principles. We have stated and Amtrak agrees that, after 2002, Amtrak must fund directly all expenses for maintenance of equipment and infrastructure without using any Federal appropriations.¹⁶⁷

Joining with the DOT IG was the GAO, reporting:

Amtrak disagreed with our inclusion of expenses for progressive overhauls in our discussion of Amtrak's progress in achieving operational self-sufficiency. . . . As discussed in our report, generally accepted accounting principles consider progressive overhaul expenses to be operating expenses. As a result, we have not revised how these costs are categorized.¹⁶⁸

Amtrak also wants to exclude depreciation from operating expenses, an act tantamount to pushing aside GAAP standards for the purpose of measuring operating self-sufficiency. But such a practice is contrary to the requirements of the ARAA, as stated by the ARC: "The Council believes that the accounting standard specifically referred to in the Council's statutory mandate, GAAP, is, both logically and under current law, the method it must use to measure Amtrak's financial performance."¹⁶⁹The ARC elaborated in congressional testimony:

The Council believes that the ARAA specifically establishes the standard that the Council is required to use generally accepted accounting prin-

cles. . . . Section 203(g) of the ARAA specifically requires that in making its evaluation and recommendations with respect to Amtrak's performance, the Council "shall consider all relevant performance factors, including . . . appropriate methods for adoption of uniform cost and accounting procedures throughout the Amtrak system, *based on generally accepted accounting principles*. . . . The ARAA provides no standard other than generally accepted accounting principles by which the Council is to measure Amtrak's financial performances. Further, the Council believes that GAAP is the appropriate standard to use to measure Amtrak's financial performance under the provisions of the ARAA." [emphasis added]¹⁷⁰

Moreover, GAAP is used throughout the accounting and financial communities to evaluate the financial condition of a for-profit corporation, which is Amtrak's status under its federal charter.¹⁷¹

In short, Amtrak is attempting to lower the bar after the game has started. If Amtrak's contentions are accepted, no legitimate standard would be in place to evaluate "self-sufficiency," and taxpayers will continue to subsidize Amtrak operations during and after FY 2003.

The Routes to an Amtrak Alternative

It is clear that Amtrak has not changed three decades of mismanagement, poor planning, and hidden expenses that cost taxpayers nearly a billion dollars a year. Amtrak is irrelevant in much of the nation, is hopelessly dedicated to operating costly passenger trains that are a throwback to another era, has failed to boost productivity in a significant way, and is in the midst of a credibility crisis of its own making. The route created by

Congress to deal with Amtrak's chronic problems is through the Amtrak Reform Council.

Time for Sunset Trigger

If the ARC makes a finding that Amtrak will fail to reach self-sufficiency by FY 2003, a "sunset trigger" will be implemented. Within 90 days of such a finding, the ARC must submit to Congress "an action plan for a restructured and rationalized intercity rail passenger system," and Amtrak must submit a plan for its "complete liquidation."¹⁷² Congress then would be responsible for deciding which route to take. The ARC has yet to make such a finding.

But Transportation secretary Norman Y. Mineta essentially made such a finding in June when he said: "It's obvious that by 2003 they are not going to be self-sufficient. Despite repeated promises that profits are only a little further down the road, they haven't been. They come back to Congress every year with their tin cup."¹⁷³

The transportation secretary is indeed correct, and the time has come for the council to pull the sunset trigger, to officially find that Amtrak will not become operationally self-sufficient by late next year.

The Amtrak Reform Council: A Weakened Entity

The ARC has stopped short of grappling with fundamental Amtrak problems regarding its national system and has lacked the courage to do its job. The result could be billions of additional dollars in subsidies to perpetuate an Amtrak system the time for which has long passed.

The ARC has made some positive contributions to the dialogue on Amtrak, most notably in urging caution regarding the current high-speed rail bond legislation. The council is troubled by provisions that reinforce Amtrak's de facto monopoly and harm Amtrak's possible competitors. The council is also concerned about lack of objective criteria to evaluate proposals for bond funding and points to the need for adequate project

evaluation by an impartial government body.¹⁷⁴ The council warned that Northeast Corridor profits are not likely to be sufficient to cross-subsidize long-distance trains. It recommended creation of a separate rail infrastructure authority to assume ownership of Amtrak's Northeast Corridor line, and it published a critique describing how proposed Amtrak accounting methods violate generally accepted accounting principles.

The ARC made a recommendation that Amtrak split into two divisions, one to manage the passenger rail operations and the other to oversee property and infrastructure. Amtrak agreed.¹⁷⁵ This move could provide more visibility into Amtrak's often hidden costs and inefficiencies. But the move could also be used by the ARC as an excuse not to pull the sunset trigger.

Amtrak is certain to require federal operating subsidies in the future, even if those subsidies are disguised as capital subsidies, but the ARC has so far failed in its responsibility to set the sunset trigger in motion. The council's reluctance follows a three-and-a-half-year pattern of weak oversight. The ARC has not been as aggressive as the GAO and DOT IG regarding Amtrak's financial crisis, has not publicly objected to Amtrak's refusal to provide information that the ARC is required by statute to evaluate, has gone overboard in highlighting unsupportable Amtrak opinions in reports, and has yet to identify "routes which are candidates for closure or realignment."¹⁷⁶

The council's public meetings seem designed to bolster support for Amtrak rather than explore alternatives to the failed Amtrak paradigm. The council has solicited testimony from interests sympathetic to Amtrak without giving adequate attention to the pros and cons of rail privatizations in Japan, Australia, and Great Britain. Nor has the ARC invited presentations by Guilford Rail or Railway Services Corporation, which offered several years ago to purchase Amtrak's Northeast Corridor lines, to learn about their difficulties in attempting to bring certain Amtrak services closer to pri-

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Virgin Rail has taken over lines from British Rail, sparking a traffic boom far surpassing anything in Amtrak's history, and has placed a \$3 billion order for new trains, the largest-ever train order in Britain's history.

vate-sector operations. Finally, not one taxpayer-advocate organization has been invited to speak about Amtrak subsidies from the taxpayers' perspective.

One reason for the ARC's indecisive behavior is that rail labor organizations, although represented on the council, have worked diligently to neutralize its effectiveness. Their activities include urging Congress to terminate funding and disband the ARC.¹⁷⁷ Subsequent congressional challenges to the council's budget have generated some understandable caution on the part of the council.

ARC Chairman Carmichael also has proposed increasing taxes "two cents on the motor fuel tax—one penny at the federal level and a second penny from the states" in part to support Amtrak.¹⁷⁸ But this approach does not seem to be the one envisioned by Congress when it mandated that Amtrak run without operating subsidies from the federal government. Nor did this seem to be what then-Senate majority leader Trent Lott had in mind when appointing Carmichael to the council: "The ARC will ensure that Amtrak spends the taxpayers' money wisely. The Council's first loyalty will be to the American taxpayer—not to the nostalgic sound of passenger trains going down the tracks."¹⁷⁹

Congress has pressured the ARC not to follow its own legal mandate. In a February 23, 2000, hearing, Sens. Kay Bailey Hutchison (R-Tex.) and John F. Kerry (D-Mass.) instructed Chairman Carmichael to abandon GAAP and permit Amtrak to include depreciation and progressive overhauls as operating expenses eligible for capital subsidies. These senators seemed so reluctant to curb Amtrak's financial losses that they would rather "legislate by edict" in a committee hearing.

Their demand defied statutory language requiring that the Council evaluate Amtrak "based on generally accepted accounting principles."¹⁸⁰ Even though tax-paying private enterprises throughout the nation follow stringent GAAP rules, the senators would permit *tax-absorbing* Amtrak to follow looser rules.

Carmichael agreed to lower the accounting bar, thus facilitating Amtrak's ability to camouflage some operating losses as capital costs. That charade will permit Amtrak to claim it is "doing well" while it shifts billions of dollars from its operating account to its capital account. Congress then might rely on such misleading assertions to increase Amtrak subsidies by billions of dollars. No provision in the ARAA gave the chairman or any council member the prerogative to join in such a scheme. By agreeing with the two senators, the chairman improperly and summarily reversed language regarding GAAP approved in a full council vote and published a month earlier in the council's first annual report to Congress.¹⁸¹ The chairman's proper response should have been to state that the law must be amended if the council is to ignore GAAP standards.

An Amtrak "Base-Closing" Commission Proposal

Should the ARC fail to properly exercise its responsibilities, policymakers could establish an entity patterned after the military base closing commission.

The details of such a plan were established in the proposed Amtrak Route Closure and Realignment Act, as introduced by Rep. Frank R. Wolf (R-Va.) on March 20, 1997. The bill would create an 11-member commission. Eight commissioners would be required to have "expertise in rail finance, economic analysis, legal issues, and other relevant areas." The president would appoint three others, including the secretary of transportation, a representative of rail management, and a representative of rail labor organizations.¹⁸² If patterned after the military base-closing commission, the new Amtrak commission would be able to terminate hopeless Amtrak routes and preserve and nurture promising ones.

Liquidation Issues

The GAO examined a possible Amtrak bankruptcy or liquidation in a 1998 study, "Issues Associated with a Possible Amtrak

Liquidation.” The report focused on uncertainties in estimating the costs associated with liquidation, possible financial impacts on creditors, the railroad retirement and unemployment systems, and other rail services. The study said Amtrak estimated that the net liquidation cost could be \$10 billion to \$14 billion over a six-year period.¹⁸³

Since 1985, the GAO has stated that legitimate differences of opinion exist concerning the rights and obligations of the United States in the event of an Amtrak bankruptcy.¹⁸⁴ While pointing to uncertainties in estimating Amtrak’s potential liquidation costs, the GAO stated: “In our opinion, the United States would not be legally liable for secured or unsecured creditors’ claims in the event of an Amtrak liquidation. Therefore, any losses experienced by Amtrak’s secured and unsecured creditors would be borne in full by the creditors themselves or their insurers. Nevertheless, we recognize that creditors could attempt to recover losses from the United States.”¹⁸⁵

Although liquidation appears to be a measure of last resort, it has major appeal: Liquidation would be the least expensive option, even if Amtrak’s estimated costs are accurate, because the cost would be substantially less than the \$100 billion the GAO estimates may be needed for future Amtrak trains—trains that in most cases will lose money.

Alternatives to Amtrak

Advocates of increased Amtrak funding would have the public believe that almost everywhere else in the world nations spend from a bottomless pit of public funding to operate and maintain national rail passenger systems. The ARC found a different situation:

To the contrary, financial pressures have caused governments to implement various programs of reform, restructuring, and privatization of the national railroads of Germany, Sweden, the Netherlands, Italy, and the United Kingdom. The effect of

these reforms has been significant. In some cases, higher efficiency and quality have actually permitted a reduction of public support. In other cases, support has increased because the clearer contractual relationships under the new regimes have given governments higher confidence that budgeted funds would be spent effectively and for the purposes intended.¹⁸⁶

Virgin Rail has taken over lines from British Rail, sparking a traffic boom far surpassing anything in Amtrak’s history, and has placed a \$3 billion order for new trains, the largest-ever train order in Britain’s history.¹⁸⁷ In Japan, privatization has reinvigorated development efforts, and the new railways have designed more experimental trains using more advanced technology than the old national railway would have done. Productivity improvements have made Japanese railways nine times more productive than Amtrak.

The productivity of other sectors is also far more impressive than Amtrak’s. For example, in 2000 Amtrak had 26,000 workers producing 5.5 billion passenger miles of output, or 213,000 miles per worker. Southwest Airlines produced 42 billion passenger miles with its 30,000 employees, seven times Amtrak’s productivity.¹⁸⁸

Around the world, no fewer than 40 nations are replacing Amtrak-style railways with franchised private operators, by selling publicly owned rail assets to private interests, inducing private funds in new rail facilities, and devolving rail service to more efficient regional or provincial public authorities.¹⁸⁹

Amtrak supporters are fond of saying that no other national passenger railway in the world has been able to make a profit. The ARC found otherwise:

After the restructuring of the old Japanese National Railway, the largest new railways, East Japan, West Japan and Central Japan have

Around the world, no fewer than 40 nations are replacing Amtrak-style railways with franchised private operators.

**Most Amtrak
trains outside of a
few high-density,
short-distance
corridors are a
throwback to days
gone by.**

been steadily profitable, and a majority of their shares have been sold to private investors. In many countries, profitable companies provide rail passenger services under contracts, franchises or concessions awarded and supported by public agencies. . . . Long-haul passenger trains in Australia and the franchised passenger operators in the U.K. operate profitably, including contracted-for public support and after paying track access fees; and all suburban passenger services and the Metros in Buenos Aires and Rio de Janeiro are operated by concessionaires who competed for the right to operate trains and receive minimum public support.¹⁹⁰

Precedents exist in the United States where publicly owned railroads have been privatized or moved from federal to regional authority.

Consider Conrail, formerly a major freight line in the East and Midwest. With about \$7 billion in federal aid, Conrail revitalized the lines of six bankrupt railroads including those of Penn Central. The federal government owned 85 percent of Conrail, prior to privatizing it under the 1981 Northeast Rail Services Act. When Conrail was sold for \$1.6 billion on March 26, 1987, it was at that time the largest initial public stock offering in the nation's history.¹⁹¹ Conrail's value continually increased, and by 1997 CSX and Norfolk Southern made competing \$10.3 billion merger offers to Conrail shareholders, the result of which was a buy-out and split of Conrail with about half going to each bidding railroad.

The Alaska Railroad was regionalized through the Alaska Railroad Transfer Act of 1982, in which Congress surrendered federal control.¹⁹² The railroad routinely carries more than a half a million passengers annually.¹⁹³ Comparisons with the most recent GAO calculations of Amtrak traffic by route, issued in 1998, show that more passengers traveled on

this one highly seasonal Alaska railroad than rode 35 of Amtrak's 43 routes.¹⁹⁴

In 1988 the President's Commission on Privatization, a bipartisan panel including representatives from labor and management, concluded unanimously that the privatization of Amtrak would be best for taxpayers and for the future of the railroad.¹⁹⁵

The most promising method for privatizing American passenger service would be to allow competitive contracting for regional rail service. Building on domestic and foreign experience, the United States could establish a process for awarding passenger rail franchises. Doing so would create competition, a key factor in developing better performance. Franchising would also foster good management because the cost of a service is highly visible in the price of a contract, whereas the cost of a government-operated service is usually obscured. But regardless of whether Amtrak assets are sold, leased, or franchised, private operators would do a better job of developing routes with true market potential.

The most significant ridership increases on Amtrak often come from new services or major service improvements initiated and financed by states or groups of states. This was true of Seattle-Portland, where, had it not been for state involvement beginning in 1994, Amtrak traffic would have remained at the stagnant level it experienced from 1971 through 1993. California has spurred ridership increases on short-distance routes into Sacramento and San Diego. The localization process sets the stage for non-Amtrak operation of state-subsidized trains. Dallas selected Burlington Northern Santa Fe Railroad and Herzog Transit Services over Amtrak for commuter rail services, and Amtrak lost a Los Angeles commuter car maintenance contract to Bombardier.

Private companies have innovated specialized trains that appeal to the tourist market, namely the American Orient Express with coast-to-coast trips and the Napa Valley Wine Train, with a focus on a particularly alluring section of California. Holland America Westours and Princess Tours cater

to the leisure market by running special coaches on the Alaska Railroad, helping that rail line outperform most Amtrak routes in the lower forty-eight.

Regrettably, America's policymakers have been pro-Amtrak and anti-private sector, wasting billions of dollars in subsidies. Nevertheless, glimmers of interest from the private sector have emerged. Massachusetts-based Guilford Rail System several years ago offered to purchase or lease Amtrak's Northeast Corridor line and to operate private passenger service as a "responsible approach to the inevitable failure of Amtrak."¹⁹⁶ A Philadelphia-based private company, Railway Services Corporation, offered to take over Amtrak service between Harrisburg and Philadelphia.¹⁹⁷ But the Clinton administration stonewalled the first proposal, and Amtrak blocked the second. Quite recently, New Jersey Transit's board voted to take over operation of Amtrak's Clocker service during the next five years on the Northeast Corridor line.¹⁹⁸ A recent report by the New York State Senate Standing Committee on Transportation urged the state to take control of the two East River tunnels that are used exclusively by the Long Island Rail Road to reach Penn Station in New York. "The Metropolitan Transportation Authority, the state agency that runs the commuter railroad, has been rebuffed by Amtrak in previous attempts to gain control of the tunnels."¹⁹⁹

The fact that Amtrak is now splitting into two divisions, one to run the trains and the other to manage the properties, should make any sell-off or franchising system easier to implement.

Although little known, private companies are monitoring prospects for private operation of rail passenger service in the United States. *Travel Agent* reported that the companies known to be examining Amtrak include "U.K.-based Virgin Management Group, Boston-based Guilford Rail, and St. Joseph, Missouri-based Herzog Transit Services, according to spokespersons from each company."²⁰⁰

Conclusion

A government-owned Amtrak will never be solvent. If the government required Amtrak to live by the same accounting standards used by private industry, Amtrak would never be profitable. Amtrak is a severely bleeding patient, and Congress is a doctor who simply keeps pumping in more blood. This particular doctor has yet to learn that he needs to treat the disease that causes Amtrak's hemorrhaging, not the symptoms.

The Amtrak Reform Council has a duty to make the finding that Amtrak cannot run without operating subsidies. The ARC should pull the sunset trigger, beginning the 90-day period for determining Amtrak's future. There are a number of ways to dispose of Amtrak. It can be privatized as a whole, or its potentially profitable routes can be sold off piecemeal to private companies. It is important that we start this process rather than throw more good money after bad in the form of subsidies, or new bond authority, or "emergency" bail-out money.

Intercity rail passenger service has a future in the United States, particularly on short-distance routes where high population densities are found. Even some of the long-distance routes might survive as a "land cruise" aimed at vacationers and tourists who are willing to pay the price for a unique travel experience.

But most Amtrak trains outside of a few high-density, short-distance corridors are a throwback to days gone by. The railroad does not now contribute much to America's mobility, and its future plans, although expensive, spell more of the same. History is clear that increasing subsidies to Amtrak will not solve Amtrak's problems. The nation must create a public-private rail franchise program and eliminate disincentives to private companies that may be interested in taking over promising Amtrak routes.

The federal government does not run a national airline. It does not operate a national bus company. The justification for a national passenger railroad has evaporated.

A government-owned Amtrak will never be solvent.

If ever there was a time for a true reform of rail passenger service, the time is now.

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