Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, DC 20515

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May 17, 2013

SUMMARY OF SUBJECT MATTER

TO:	Members, Subcommittee on Railroads, Pipelines, and Hazardous Materials
FROM:	Staff, Subcommittee on Railroads, Pipelines, and Hazardous Materials
RE:	Subcommittee Hearing on "Understanding the Cost Drivers of Passenger Rail"

PURPOSE

The Subcommittee on Railroads, Pipelines, and Hazardous Materials will meet on Tuesday, May 21, 2013, at 1:00 p.m. in 2167 Rayburn House Office Building to receive testimony related to the major cost drivers of providing intercity passenger rail service. The hearing will cover Amtrak's recent financial performance by service type and overall trends in labor, fuel, and operational costs. The Subcommittee will hear from Joseph H. Boardman, President and CEO of Amtrak; Robert Puentes, Senior Fellow at the Brookings Institution; David Kutrosky, Managing Director of Capital Corridor; and Ross Capon, Executive Director of the National Association of Railroad Passengers.

BACKGROUND

Beginning service on May 1, 1971, Amtrak today serves more than 500 destinations in 46 states and three Canadian provinces on more than 21,200 miles of routes, with the help of more than 19,000 employees. In addition to passengers on 300 daily Amtrak trains, an average of 850,000 people travel over Amtrak infrastructure or on commuter trains operated under contract every weekday.

Originally intended to become self-sufficient, Amtrak has relied on federal subsidies for capital and operating activities since its creation. After nearly going bankrupt in 2002, Amtrak has recently sustained record ridership and revenue. Amtrak's revenues now cover approximately 80 percent of its operating costs, a relatively high level as compared to other mass transit and commuter rail systems. However, federal operating subsidies are still required to cover the operating gap and Amtrak still relies on federal capital grants to maintain its infrastructure and equipment. In Fiscal Year 2013, these subsidies totaled $1.3 billion: $904 million for capital and debt service and $440 million for operating losses.

The Passenger Rail Investment and Improvement Act of 2008 (PRIIA) included a number of provisions to help move Amtrak onto a more sound financial footing. These included new cost allocation frameworks between Amtrak and the states for the Northeast Corridor (NEC) and State-Supported Routes, mandated studies of individual Long Distance Routes, and provisions to realize efficiencies in procurement, planning, and other activities

Since the enactment of PRIIA, Amtrak has made progress in achieving a more stable financial condition, and with full implementation of key PRIIA provisions, the corporation's financials will be further strengthened. However, this overall improvement is highly concentrated within the NEC and State-Supported Routes lines of business; losses on the Long Distance Routes have not been improved, and in some cases, have worsened.

Northeast Corridor

The NEC runs for 457 miles between Washington Union Station and Boston South Station, of which Amtrak itself owns 363 miles. Amtrak operates 153 daily trains on the corridor, including the Northeast Regional and Acela services, alongside 1,800 daily commuter trains and roughly 70 daily freight trains.

In 2012, a record 11.4 million passengers rode Amtrak trains on the NEC, more than any other Amtrak line in the United States. In 2001, Amtrak introduced its Acela Express service, and since then Amtrak has seen its Washington-to-New York air-rail market share soar from 45 percent in 2001 to 76 percent in 2012. Consistent with the ridership trends, Amtrak has seen NEC revenue rise rapidly: from $580 million in 2003 to $1.05 billion in 2012. This is the only portion of the Amtrak system that earns an "above the rails" operating surplus.

PRIIA recognized the unique structure and complexity of the NEC, and sought to improve governance through the creation of the Northeast Corridor Commission. One of the critical tasks with which the Commission is charged is the creation of a standardized framework for allocating costs between commuter and intercity trains. This cost allocation framework is needed to ensure that all corridor users pay their fair share for their use of infrastructure. For the majority of the NEC, commuter railroads will be required to pay access fees to Amtrak, to maintain the NEC infrastructure. The Northeast Corridor Commission is still working with the states and Amtrak to finalize the cost methodology, and significant issues have been raised by the states concerning governance changes they would like to see before paying new access fees.

State-Supported Routes

Amtrak operates 21 State-Supported Routes in 15 states, under which the states contribute funding to Amtrak to provide additional passenger rail services. These corridors of less than 750 miles, primarily located in the Northeast, Midwest, and Pacific Coast, connect major metropolitan areas and have seen substantial ridership growth over the past decade. In 2012, State-Supported Routes served 15.1 million passengers, a record year, and up 2.1 percent from 2011. Revenue totaled $458 million, up 7.3 percent from 2011.

Top 5 State Supported Routes Fiscal Year 2012					
	Revenue	Cost	Loss	Ridership	Loss Per Rider
Pacific Surfliner (CA)	$ 91.1	118.4	$ (27.3)	2,640,342	$ (10.3)
San Joaquin (CA)	$ 69.9	87.2	$ (17.3)	1,144,616	$ (15.1)
Capitol Corridor (CA)	$ 60.3	75.8	$ (15.5)	1,746,397	$ (8.9)
Empire Service (NY)	$ 44.8	66.4	$ (21.6)	1,062,715	$ (20.3)
Keystone (PA)	$ 42.2	47.8	$ (5.6)	1,420,392	$ (3.9)

*All numbers are in millions, except for ridership and loss per rider figures.

Section 209 of PRIIA required Amtrak to work with the states to develop and implement a single, nationwide standardized methodology for establishing and allocating the operating and capital costs of providing intercity rail service on corridors less than 750 miles in length. This section recognized that over time a patchwork of arrangements had developed between Amtrak and the states—some states were contributing funding for additional rail service, while others were not.

Amtrak and the states have agreed to a common methodology, and beginning on October 1, 2013, most will be required to start contributing additional funding to maintain those services. Amtrak has estimated that this will improve its bottom line by approximately $85 million, contingent on all states agreeing to the amounts. Once in place, approximately 88 percent of the cost of State-Supported Routes will be offset by revenue and state payments.

Long Distance Routes

Amtrak operates 15 long distance trains over an 18,500 mile network serving 39 states, utilizing privately-owned freight rail track. These trains, some of which only run once a week, are the worst performers in terms of ridership, cost-recovery, and on-time performance. In FY 2012, long distance routes cumulatively incurred a total loss of $575 million, roughly equal to the total loss in FY 2011.

FY 2012 Long Distance Route Financial Performance

	Revenue	Cost	Loss	Ridership	Percentage of Costs Recovered	Loss Per Passenger
Auto Train	$74.1	$106.5	($32.4)	264,096	69.5%	($122.6)
California Zephyr	$53.2	$121.9	($68.7)	376,459	43.6%	($182.4)
Capitol Limited	$22.6	$46.2	($23.6)	226,884	48.9%	($104.0)
Cardinal	$8.4	$25.3	($16.9)	116,373	33.2%	($145.2)
City of New Orleans	$22.0	$42.6	($20.6)	253,170	51.6%	($81.3)
Coast Starlight	$45.3	$99.1	($53.8)	454,443	45.7%	($118.3)
Crescent	$34.9	$75.5	($40.6)	304,266	46.2%	($133.4)
Empire Builder	$72.2	$128.2	($56.0)	543,072	56.3%	($103.1)
Lake Shore Limited	$35.0	$66.6	($31.6)	403,700	52.5%	($78.2)
Palmetto	$18.4	$29.3	($10.9)	198,260	62.7%	($54.9)
Silver Meteor	$42.6	$79.5	($36.9)	375,164	53.5%	($98.3)
Silver Star	$38.7	$82.8	($44.1)	425,794	46.7%	($103.5)
Southwest Chief	$48.2	$113.3	($65.2)	355,316	42.5%	($183.4)
Sunset Limited East	$13.0	$53.9	($40.9)	101,217	24.1%	($404.0)
Texas Eagle	$28.5	$61.6	($33.1)	337973	46.2%	($97.9)
	$557.1	**$1,132.2**	**($575.1)**	**47,36,187**	**49.2%**	

*All numbers are in millions except ridership, percentage of costs recovered, and loss per passenger

Amtrak's long distance routes have consistently operated at a loss, and Amtrak has repeatedly taken the stance that these services are provided at the direction of Congress. PRIIA included several provisions to try to reduce the costs of these services. PRIIA required Amtrak to annually report the financial results of each line, and develop individual performance improvement plans. The Federal Railroad Administration (FRA) was charged with evaluating these plans and their implementation, and if FRA found Amtrak was not making progress on the plans, the agency could withhold appropriated funds for a route. To date, FRA has not exercised this authority.

Unlike State-Supported Routes and the NEC, the PRIIA provisions for long distance routes did not lead to an improvement in financial performance of long distance services. The Committee will explore options for reducing the costs of long distance routes in the hearing, including seeking efficiencies within the current service structure, and more radical proposals dealing with route changes, cost-sharing, and other alternatives.

Company-Wide Costs

Another way to assess the costs of intercity passenger rail services is at the company-wide level. The chart below shows the top five business expenses (excluding depreciation of assets) reported by Amtrak for Fiscal Year (FY) 2012:

Top 5 Amtrak Business Expenses $ in Millions		
		FY 2012
Salaries, Wages, and Benefits	$	2,030.5
Fuel, Power, and Utilities	$	355.9
Other Expenses	$	347.2
Train Operations	$	245.7
Materials	$	206.2

Labor Costs

Far and away Amtrak's largest business expense is for "Salaries, Wages, and Benefits," which amounted to $2.03 billion in 2012. Amtrak had projected a budget of $1.91 billion for 2012 and was therefore over-budget by $121.8 million due to higher operating agreement headcount, overtime, and increased health costs.

The total Amtrak workforce in FY12 was 19,871, of which about 17,000 were unionized labor, meaning wages and benefits are established through collective bargaining agreements between Amtrak and labor. There are 13 labor unions with 24 labor agreements, depending on craft and class; and, like other railroads, Amtrak's management-labor negotiations are subject to the Railway Labor Act (RLA), which outlines the collective bargaining process for such disputes.

In late 1999, Amtrak and its unions were unable to resolve differences regarding rates of pay, work rules, and work conditions. Pursuant to the RLA, applications for mediation through the National Mediation Board (NMB) were filed by the unions at varying points from April 2000 through December 2006. The parties did not reach a resolution through mediation; and in November 2007, the President issued an executive order establishing a Presidential Emergency Board (PEB) to investigate the dispute and report recommendations to resolve it. The PEB did so, and released its report December 30, 2007, essentially siding with the unions' demands. In January 2008, the unions and Amtrak reached new agreements modeled on the PEB recommendations that included: (1) retroactive pay at Class I freight levels for FYs 2002-2007 (totaling $262 million); (2) wage increases of 4 percent in 2008 ($51.6 million) and 4.5 percent in 2009 ($117.4 million); (3) employee contributions of 15 percent to health benefits plan; and (4) no work rule changes.

Since the expiration of that collective bargaining agreement, Amtrak and the unions have been negotiating new collective bargaining agreements to cover 2010 through 2015. While the majority of the unions have ratified their agreements with Amtrak, including an approximate 15 percent compounded wage increase over the term of the agreement, two unions are still holding out for wage increases similar to the freight railroads' agreements, meaning a 20 percent compounded wage increase over the term of the agreement.

Under the RLA, the NMB would have to release the parties from negotiations before a new PEB would need to be established by the President to resolve the dispute. If the two unions received the 20 percent compounded wage increase, all the other unions have a "me-too provision," meaning those unions who have already ratified their agreements with Amtrak would also receive that increase. In sum, Amtrak's highest expense is its workforce, and depending upon the outcome of its current labor negotiations, that expense will increase by at least 15 percent compounded through 2015.

INVITED WITNESSES

Robert Puentes
Senior Fellow
Brookings Institution

The Honorable Joseph H. Boardman
President and Chief Executive Officer
Amtrak

David Kutrosky
Managing Director
Capital Corridor

Ross Capon
President and Chief Executive Officer
National Association of Railroad Passengers