Backgrounder

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Will the Senate Raid the Treasury for Amtrak?

Ronald D. Utt, Ph.D.[1]

As has been the case every year since Amtrak's creation in 1970, the passenger rail system is once again before Congress seeking a federal subsidy larger than the one it received the previous year: $1.6 billion compared to the $1.3 billion it received for FY 2006. For FY 2007, the House Appropriations Committee has proposed a subsidy of slightly more than $1.2 billion, while the Senate is proposing a record $1.4 billion. In contrast to these billion-dollar-plus proposals, President Bush's budget asks for no more than $900 million for the coming year.

Of the three proposals, the President's $900 million is the best choice. Keeping Amtrak on a tight budget will force its management to take the necessary steps to reduce excessive costs, implement operational efficiencies, and improve the quality of the service provided. Because Amtrak is an independent corporation, its board has broad powers over the operations of the system. This year, it should use those powers to the fullest.

Added to these three predictable choices is a fourth Amtrak funding proposal: Senator Trent Lott's (R–MS) Passenger Rail Investment and Improvement Act of 2005 (S. 1516), reported out by the Senate Commerce, Science, and Transportation Committee last October and now on the floor of the Senate. Introduced as an authorization bill, S.1516 would provide substantial funding for each of the next six years. In addition to spending $11.4 billion on Amtrak over the next six years—nearly $1.8 billion in 2007 alone—S. 1516 would change the federal

Talking Points

- Amtrak's ridership increased by only 1.3 percent in 2005 compared to 3.6 percent for airlines.
- According to a government audit, Amtrak lost $80.4 million selling food and beverages to passengers.
- Another government audit concludes that Amtrak receives a federal subsidy of $210.31 per passenger per 1,000 miles traveled, compared to a "profit" earned from automobiles.
- According to the Congressional Research Service, federal financial support to intercity bus service might conserve more energy than is conserved by federal financial assistance to Amtrak.
- Amtrak's new board and management team should begin to eliminate some of the system's more wasteful routes.
- A good place to begin would be the Sunset Limited and its $433 subsidy per passenger. This should be followed by the Silver Service, with total losses exceeding $100 million in 2005.

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(202) 546-4400 • heritage.org

statutes governing Amtrak's operations and interrupt the management and operational reforms now underway, or promised, by Amtrak's new management. It would also provide the option for the federal government to assume responsibility for Amtrak's considerable debt, and substantially limit the extent to which Amtrak could engage in such promising reforms as competitive contracting, concessions, and public/private partnerships. Given Amtrak's many problems and its recent steps toward important reform, S.1516 would be a major setback and would require the railroad to start over again after a new Senate-confirmed management team was in place.

Amtrak's Financial Failings

As Amtrak's most recent annual report (for the year ending September 30, 2005) reveals, the railroad's financial and operational problems continue to worsen.

- Despite continued economic expansion and the recovery of the travel market from the 9/11 terrorist attacks, Amtrak's ridership increased by only 1.3 percent in 2005, compared to the 3.6 percent gain recorded by the domestic airlines.
- Amtrak's loss from continuing operations was $1.179 billion, down only slightly from the previous year's $1.214 billion.
- For the first eight months of its current fiscal year, Amtrak's ridership is up less than one percent, and what gains it experienced were due entirely to the state-subsidized routes.

Congressional hearings in June 2005 revealed the extent to which Amtrak loses money on virtually every service that it provides, including the sale of beer and hamburgers. Although federal law states that Amtrak "may provide food and beverage service on its trains only if revenues from the services each year at least equal the cost of providing the service,"[2] Amtrak food service operations have racked up huge losses each year.

In 2003, according to the U.S. Government Accountability Office, Amtrak spent $158.8 million on food and drink that it sold to passengers for $78.4 million, thereby incurring a loss of $80.4 million—more than its gross revenues on those sales. Moreover, this estimate may actually understate the loss: According to the Amtrak Inspector General, Amtrak spends another $50 million annually to operate and maintain its dining, snack, and lounge cars.

In a separate report, the U.S. Department of Transportation (DOT) Inspector General concluded:

> Our analysis shows that eliminating sleeper cars, dining cars, entertainment, lounge seating, [and] checked baggage service on Amtrak's long-distance routes could save between $375 million and $790 million in operating savings and $395 million in avoidable planned capital expenditures over 5 years.[3]

How can a company lose so much money selling food and renting clean beds? Paying its food service workers $54,800 per year (plus tips) is part of the problem. Amtrak's shortage of customers also plays a role. On average, its trains are less than half full (48.4 percent load factor in 2005) when they leave the station.

Amtrak also reports significant losses on its long-distance routes, whose ridership is down this fiscal year.

- One of the least efficient routes is the Sunset Limited connecting Los Angeles and Orlando.[4]

1. This paper is a revised and updated version of Ronald D. Utt, "Springtime for Amtrak and America," Heritage Foundation *Backgrounder* No. 1932, May 3, 2006.
2. 49 U.S. Code § 24305.
3. U.S. Department of Transportation, Office of the Inspector General, "Report on the Analysis of Cost Savings on Amtrak's Long-Distance Services," CR–2005–068, July 22, 2005, at *www.oig.dot.gov/StreamFile?file=/data/pdfdocs/CR-2005-068.pdf* (April 26, 2006).
4. The data on cost per train presented in this report are from Amtrak, "Monthly Performance Report for September 2005," November 4, 2005, pp. A2.3 and C1.

Serving only 81,348 passengers in 2005, the route generated annual losses of $35.2 million (compared to $29.3 million in 2004) while earning revenues of only $10.8 million, yielding a loss of $433 for each passenger. Amtrak could save money by shutting down the line and buying each existing passenger an airline ticket.

- The Silver Service connecting New York and Florida lost $105.3 million last year (compared to $87.9 million in 2004) on ticket sales of $60.9 million, yielding a loss per passenger of $146.
- Overall, Amtrak's long-distance trains accounted for 80 percent of its FY 2005 cash operating losses[5] while carrying only 15 percent of its passengers.

In effect, much of Amtrak's federal subsidy is spent on long-distance routes, supporting vacations for families and individuals who are capable of paying for their own recreation and entertainment. Shutting down these routes or requiring passengers to pay the full cost of the service would wipe out most of Amtrak's losses in future years.

Involving States and the Private Sector in the Solution

The President's FY 2007 legislative proposal would address this record of poor performance and large federal subsidies in a number of ways. One key proposal would require the states served by these routes to participate in their financial support, guidance, and operation. As the record indicates, existing Amtrak partnerships with states have yielded significant success in both increased ridership and reduced need for federal subsidies.

At present, there are 41 Amtrak routes, of which 19 are operated in partnership with the states, and these partnership routes carry 35 percent of the entire system's passengers. During 2005, these 19 partnership routes experienced an 8 percent increase in ridership, while the 22 routes operated solely by Amtrak saw ridership fall by a combined 2 percent. Indeed, if not for the state partnership routes, Amtrak would have experienced a decline in ridership during 2005.

In addition to the ridership benefits, the state-supported routes impose smaller burdens on federal taxpayers. Whereas the state routes carry 35 percent of the system's passengers, they account for only 16 percent of its financial losses. Given this extraordinary difference in performance, congressional resistance to the President's proposal is both inexplicable and fiscally irresponsible.

Finally, losses of the size that Amtrak experiences each year are not unique to rail service, but rather stem from the archaic socialist model that Congress imposes on Amtrak. Other countries have struggled with the same problem, and several have turned to some form of privatization to reduce costs and improve service.

- Japan began to privatize its passenger rail system in the mid-1980s when accumulated losses totaled approximately $600 billion. Many routes now earn a profit.
- A decade later, the United Kingdom began to contract out its rail operations. As a result, ridership has surged to its highest level since the late 1940s, and measures of safety have improved from those recorded during the system's public operation.
- In Germany, Deutsche Bahn, the country's intercity passenger service, is now making a profit on its regional and long-distance routes thanks to competition.
- Canada, by contrast, reduced its annual subsidy to VIA Rail Canada, the Canadian version of Amtrak, thereby forcing management to make do more efficiently with what it had. In its most recent income statement (2004), VIA reports receiving a government subsidy of $197 million (Canadian), down from $315 million in 2001.

While Amtrak and its congressional benefactors have successfully thwarted implementation of

5. Because Amtrak does not allocate depreciation charges ($560 million) to individual routes, all route loss figures are understated, and the putative profits on select NEC routes would turn into substantial losses since Amtrak's largest physical asset is the corridor's roadbed.

these kinds of reforms, states and regions that have a choice of who runs their commuter rail service have embraced the competitive model to reduce costs and improve service.

- Over the past few years, Los Angeles, Boston, and California have dumped Amtrak as the operator of their commuter rail services and replaced it with private rail companies that provide better service under competitive contracts at lower costs.
- In both the U.S. and Canada, several private operators have emerged in recent years to provide upscale passenger service on select routes, including one in Alaska, three in the Canadian province of British Columbia, and three in the western United States.

If contracting out and using private operators can produce such gains in service and savings, why are Amtrak and Congress preventing their application to America's bankrupt passenger rail system?

Alibis for Amtrak: Facts and Fantasy

Despite Amtrak's three-and-a-half-decade record of huge losses and worsening service, its many defenders in Congress, the unions that represent its workers, and a nationwide network of train clubs have succeeded in defending and preserving its mediocre performance. In defending its claimed need for generous subsidies, Amtrak and its supporters often make claims that are contrary to the facts.

Amtrak's "Fair" Share of Federal Subsidies. One of the more common justifications for more money is that Amtrak does not receive its fair share of federal transportation subsidies in comparison to highways and aviation. If it did, its defenders argue, train service would be better and ticket prices lower. A variant of this complaint contends that "The federal highway program doesn't make a profit, so why should Amtrak?"

In fact, the federal highway program is expected to make a profit and does so every year. Funded largely by a per-gallon tax on gasoline and diesel fuel, the federal highway trust fund devotes only about 60 percent or less of the revenue that it raises to general-purpose roads; the rest of the money goes to urban mass transit (20 percent to 25 percent) and other diversions, including commuter rail systems that pay Amtrak to run their trains under contract.

Likewise, the Federal Aviation Administration (FAA) aviation trust fund, which finances the air traffic control system, provides grants to small airports, and oversees safety and inspections, is supported by 11 separate taxes levied on passengers, planes, and airlines. The airlines also pay for a substantial share of the Transportation Security Administration's airport screening costs. Although these taxes were expected to cover all of FAA's costs, the decline in air passenger travel in the few years after 9/11 led to losses because of falling tax revenues.

In an effort to set the record straight, the DOT estimated the annual subsidies (or "profits") for 1990 to 2002 for each major mode and expressed them in terms of dollars per passenger per 1,000 miles.[6] According to the DOT report, in 2002, motorists returned a dollar to the federal government for every 1,000 miles driven, while buses returned $1.79 per 1,000 miles. Aviation passengers received a subsidy of $6.18 per 1,000 passenger miles, but this subsidy reflected the reduced number of flights after 9/11. In the several years prior to 2001, commercial aviation earned a profit for the government.

In contrast, each transit passenger received a subsidy of $159.24 per 1,000 miles, the highest ever recorded in the 12-year survey. Given that transit receives up to 25 percent of federal surface transportation spending while carrying only 2 percent of passengers nationwide, this result should not be surprising. As poorly as transit performs, Amtrak does even worse, recording a subsidy of $210.31 per passenger per 1,000 miles for 2002. Unlike transit, however, 2002 was not Amtrak's

6. U.S. Department of Transportation, Bureau of Transportation Statistics, "Federal Subsidies to Passenger Transportation," December 2004, Table 3, at *www.bts.gov/programs/federal_subsidies_to_passenger_transportation/pdf/entire.pdf* (April 26, 2006).

worst year: In 1998, its subsidy per passenger per 1,000 miles reached a staggering $383.82.

How to Improve Amtrak

For the past several decades, articles and reports critical of Amtrak's performance—including many from The Heritage Foundation—have usually offered recommendations to Congress and/or the President on how to improve the rail system and cut its losses. Such recommendations have included various legislative proposals that would make some significant change in Amtrak by forcing it to restructure, economize on its financial resources, and privatize/partner/contract out some or all of its operations. In effect, the thrust of these recommendations has been to urge the federal government to impose some sort of a solution on a reluctant Amtrak that is incapable of reforming itself.

Senator Lott's S. 1516 falls into this category. While short of any real reform proposals, it is replete with directives, alterations, restructurings, subsidies, studies, reports, metrics, five-year plans, transitions, and other forms of top-down micromanagement designed to create the impression that spinning wheels represent forward movement.

With a renewed commitment to cost-effective service, Amtrak's new board and management team should begin to eliminate some of the system's more wasteful routes. A good place to begin would be the Sunset Limited and its $433 subsidy per passenger. This should be followed by the Silver Service, with total losses exceeding $100 million in 2005. Nothing in current law requires that Amtrak operate these routes. The law requires only that Amtrak give four months notice before terminating a route and give the displaced workers generous severance packages, which will cut into the short-run savings from terminating the routes while yielding huge long-term benefits.

Conclusion

Many Members of Congress will certainly complain about the route cuts, but their options are limited. Many were angry when Amtrak's past president was recently fired for resisting reform, but their anger did not last the day, and only 27 Members of the House could be mustered to sign a letter of complaint to Transportation Secretary Norman Mineta. In the end, Congress can really only threaten to cut off or reduce funding for the railroad. If they do, the President will have his "make my day" moment.

—*Ronald D. Utt, Ph.D., is Herbert and Joyce Morgan Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.*