

TESTIMONY
OF
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BEFORE THE
SUBCOMMITTEE ON RAILROADS, PIPELINES and
HAZARDOUS MATERIALS
“Understanding the Cost Drivers of Passenger Rail”

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Good morning, Mr. Chairman, and thanks for the opportunity to testify today. We appreciate the Committee's interest in this topic. We appreciate the Committee's interest in the question of what drives Amtrak's costs, and I think the best way for us to examine them is through the prism of one of our trains. We've decided to use our *California Zephyr*, which connects Chicago with Denver, Salt Lake City and the San Francisco Bay area. At 2,438 miles, it traverses seven states in the course of a trip that requires 2 days and 2 hours, and it covers the longest distance of any Amtrak train. We want to use it to explain to you not only the nature of our system, but to help you visualize the form our efforts to improve it are taking. I have just returned from a trip across American on the *Zephyr* as part of National Train Day, which was celebrated in 259 communities across the United States.

Over the last decade, we have worked hard to realign Amtrak and transform the company into a modern business. We've made a determined effort to transform Amtrak, addressing the company's culture, strategic plans, and day to day operations in an integrated effort designed to deliver a better financial performance. We've engaged our workforce through programs designed to involve them in the leadership of key safety programs, and shape the culture to build a better integrated team so that our workforce can contribute more effectively to the company's efforts. We've created a strategic plan, and mapped out plans and strategies for fleet replacement, station facilities (accessibility and station master plans), and the construction of projects of national significance, such as the NEC Master Plan, Gateway Project and the NextGen High Speed Rail system. All of these initiatives are designed to address the behaviors and attitudes that cause employees to disengage, and to bolster and encourage employee

engagement. This strategy has implications for every aspect of our work and our culture – for safety, efficiency, and customer service – and it will play a major role in preparing the next generation of employees for leadership roles at Amtrak.

These efforts are designed to help our people realize the natural efficiency opportunities that are inherent in rail transportation. If you look at our basic unit of production (the passenger-mile) and our overall operating costs, you will see that our production of passenger-miles has risen steadily, while overall operating need has fallen (Fig 1). Concurrently, we've pursued debt reduction opportunities that will save the taxpayers tens of millions of dollars on debt service payments in coming years. We've developed technologies like Julie, Amtrak.com, mobile applications, and eTicketing to allow our passengers to purchase their tickets in easier and more cost-effective ways.

Over the longer term, we've pursued investment strategies to build ridership on our existing routes and services. I would note parenthetically, that while rail enjoys natural energy efficiencies, Congress has decided that railroads ought to bear certain additional costs and has created a separate regime that includes FELA, Railroad Retirement, and Railroad Unemployment. When it comes to railroad labor and benefits, the market rate has for decades been determined the Congressionally-mandated processes of the Railway Labor Act. These influence costs significantly.

While we are focused on improving our financial performance, it's important to keep in mind that our goal isn't just cost cutting – it's improving financial performance, which is why we're pursuing strategic initiatives designed to maximize the revenues we can develop from our

existing workforce and asset base – the people, trains and infrastructure that make Amtrak what it is.

So let's take a look at what these improvements translate into, in concrete terms.

To start with, we've set nine ridership records in the last ten years, and the growth in ridership isn't confined to one segment of our business: since 2006, the ridership for the long distance (LD) trains has risen by almost 27%, a higher rate of growth than the Northeast Corridor (NEC) has enjoyed. These improvements in ridership translate into improved revenues that help Amtrak to leverage its Federal investment into an even larger investment in the American economy. To illustrate the magnitude of this "multiplier effect," over the last three fiscal years (FY 10-12), Amtrak took a total of \$4.4 billion in Federal investment and returned more than \$12.6 billion to the American economy in the form of wages and salaries, procurement (99% of which was spent to buy American products), tax payments, and contributions to Railroad Retirement.

Not only are we focusing on what we invest in the Federal economy – we are trying to ensure that we obtain the best value for every dollar the Federal government invests in Amtrak. We've cut our debt to less than half the 2002 level and saved the taxpayers millions of dollars that can be spent on new equipment and infrastructure, rather than servicing debt. System on-time performance reached a record high of 83% last year, and this year we're doing even better. It's still too early to predict our annual results, but our performance exceeded 85% at the end of April, a bit better than last year. All of these qualities have helped us to reduce our need for

Federal operating support by almost half, in constant value terms, and last year we covered 88% of our operating costs with Amtrak-generated revenue.

These are significant achievements – and they should serve as a reminder that Amtrak’s integrated national system is a tremendous asset that allows us to realize economies of scale while connecting the nation. The NEC and the LD trains are fundamentally different businesses, but they are deeply interdependent. Seven of the 15 LD trains use the NEC for some part of their run, and they bring about half a million passengers onto the NEC every year. The LD trains also help feed riders onto our rapidly growing state-supported services. Figure 3 shows a chart of the passenger traffic flows move for those *California Zephyr* passengers who passed through Chicago Union Station, one of the train’s termini. These riders constitute about 36% of the train’s total ridership. You can see that 43% of those riders connected to or from another train at Chicago. We chose the *Zephyr* as an example because it is a good case study in some of the challenges of long distance train service. It has the longest run of any of our trains, covering more than 2,400 miles in a trip – which takes 50 hours. That means we can have up to 6 trains labeled “the *California Zephyr*” out on the railroad simultaneously, which means we need to maintain six complete trains (each with two locomotives and up to ten cars at the peak season) to sustain a daily service. Each train can accommodate 365 passengers at a time (that’s about 7.3 busses or 2.6 Boeing 737s), but the average number of passengers carried per trip in 2012 was 512 – so that while the peak load is considerably lower, we come close to filling each seat twice in the course of a trip. This train is supported by 6 crewbases, 4 of which exist specifically so that the changes of train and engine crews (which are mandated by the Hours of Service Act) can be accomplished reliably – because of limitations imposed by the Hours of Service Law, it takes

27 engineers and conductors to move the train from Chicago to California. It also takes 10 onboard service staff to man each train, making a total of 37 employees who work on that train in the course of its trip. Amtrak needs a total of 140 onboard service employees, divided into 14 crews, to operate this daily service.

These long distance trains are vital, and they represent a vital contribution to mobility, particularly rural mobility. In 23 of the 46 states we serve, the only Amtrak train is a long distance train. Amtrak serves about 40% of America's rural population, and in many places we are best tangible reminder for people of the Federal government's investment in transportation. If the *Auto Train* (which does not serve any intermediate points between its termini at Lorton, Virginia and Sanford, Florida) is excluded, 48% of long distance train riders are traveling to or from a station that is not within the top 100 metropolitan areas; in the case of the *California Zephyr*, this figure is 63%. Although these trains typically link major metropolitan areas, their principal role is not necessarily moving people between cities several thousand miles apart; only about 15% of *California Zephyr* passengers rode the train for the full length of the trip. Their major role is instead the linking of rural areas and smaller communities with major urban areas, which serve as either an endpoint destination or a transfer point to another train.

People appreciate the range of travel alternatives an integrated national system can offer, and these services are well patronized; long distance ridership has risen 27% since 2006, and today the average long distance train has the same peak load factor as Acela; some 43% of our total FY 2012 passenger-miles are generated by long distance services. In addition to the role these trains play in supporting rural communities, they carry substantial numbers of senior

citizens and passengers with disabilities; about 43% of the identified passengers with disabilities who used Amtrak in FY 2012 rode on a long distance train.

Finally, while it is often claimed that these trains are “poster children” for poor financial performance, their financial performance does not vary significantly from the performance of other passenger services. As you can see in Figure 4, our long distance train farebox recovery ratio (48% in 2011, the most recent year for which comparative data is available) is similar to the average American commuter rail operation (52%) and close to our short distance corridor trains (56% farebox recovery), once state support payments are deducted. The revenues generated by our Northeast Corridor trains exceed operating costs, but that calculation excludes the substantial capital need of the NEC, a 363 mile high density railroad with a large state of good repair backlog.

This is not to gainsay the importance of capital investment, because our fleet and infrastructure require it, and Amtrak will have significant capital needs in the coming years if we are to deal with the challenges of an aging fleet and infrastructure. These are capital investments of the kind that every transportation system – and viewed from the perspective of energy efficiency (see Figure 2), it’s clear that our rising ridership and natural efficiencies offer the country a transportation policy solution that addresses fuel costs, congestion, and land use challenges in a single package.

I think the basic vision for the most efficient and effective intercity passenger rail service was realized in the original Rail Passenger Service Act, which created Amtrak 42 years ago. It freed the private sector to concentrate on profit-making freight services, but ensured that private

carriers retained some residual responsibility to the public to move our trains. It integrated almost all of the nation's intercity passenger rail services, so they could be operated more efficiently. It brought numerous advantages to the customer in a unified ticketing, reservation, scheduling and service package – which has allowed us in turn to upgrade those systems in an integrated manner that allowed us to bring innovations like eTicketing to the entire national system within a coordinated and efficient manner. It eliminated a lot of facility duplication, which has saved uncounted taxpayer dollars over the years. All of these structural advantages, combined with a strong focus on the bottom line, have helped Amtrak to improve its efficiency, and to pass those efficiencies on to the American taxpayer.

I want to close with a word of caution. We often find lately that it is increasingly possible for companies to offer rail-related services to passenger carriers – including operating trains – without meeting all of the legislated railroad requirements. Contract operators can undercut us because in many cases, they can set up new companies to run intrastate trains without being deemed “railroads” under Federal law, which allows them to avoid the collective bargaining provisions of the Railway Labor Act, and to avoid paying into the Railroad Retirement and Railroad Unemployment systems. Because they are not organized as railroads, these companies can compete effectively for business on the basis of price. Another trend we are increasingly seeing is the acquisition of rail lines and the operation of commuter services by state agencies, often through private contractors, who claim that their state laws preclude them from entering into or honoring agreements with Amtrak to bear liability risks attributable to their commuter rail services. This provides the appearance of savings, but it effectively transfers risk from the agency to Federal taxpayers.

For all of these reasons, I believe that the national intercity passenger system should continue to be a publicly owned and funded railroad. As I have said, the national system is complex and richly interconnected. It delivers a huge public benefit – and at the end of the day, every penny we make is reinvested in Amtrak, and the overwhelming majority of our revenues and funding are spent in America. We are America’s Railroad, from beginning to end, and while we are working hard to run it economically, you can rest assured that our first concern is provision of safe, economical, and comfortable passenger rail transportation – and not just making a profit.

Appendix – Selected Figures

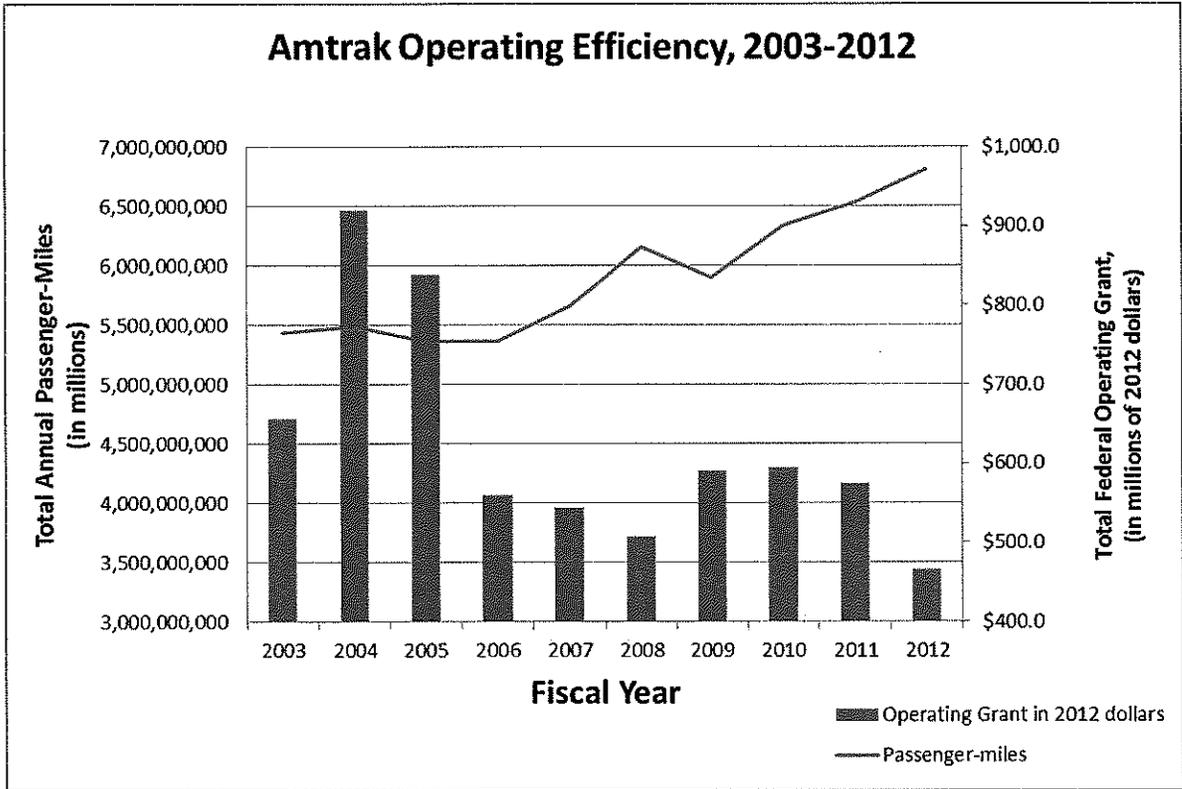
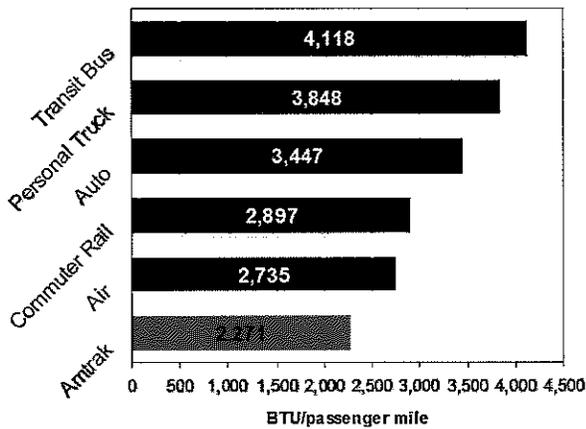


Fig 1. Amtrak operating efficiency, 2003-2012



Rail Service Farebox Recovery, 2011

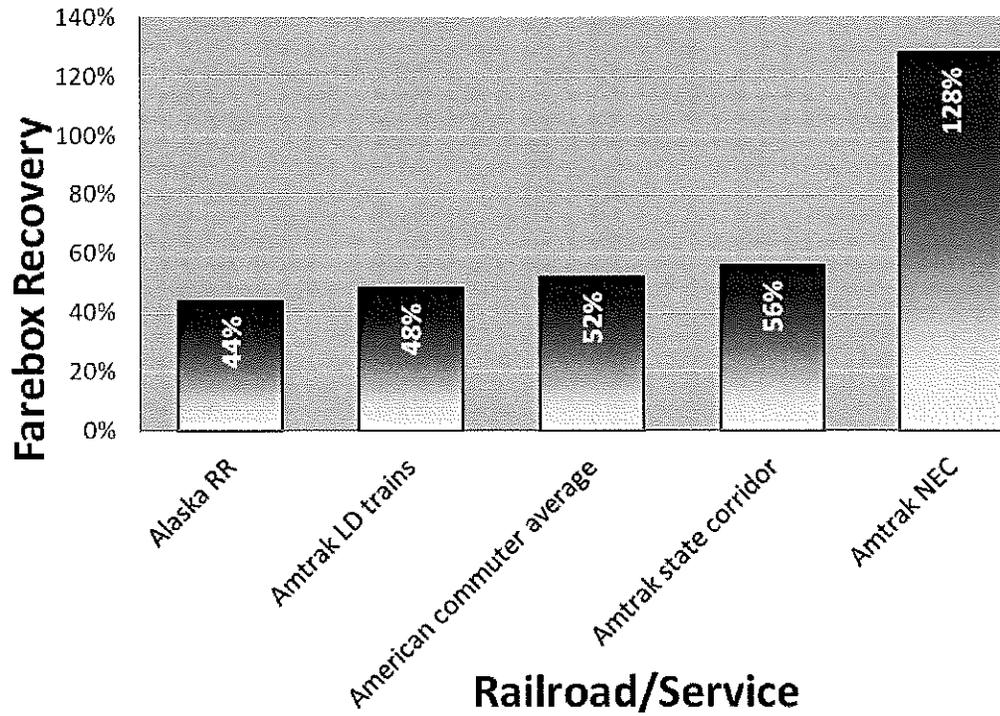


Fig 4. Comparative Farebox Recovery Data, 2011