CONFERENCE SUMMARY, RESEARCH ISSUES, AND CONCLUSIONS

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CONFERENCE SUMMARY

The National Railroad Passenger Corporation (Amtrak), the U.S. passenger rail system, has had a critical need for funding since it was created in 1971. At a time (1997) when the federal role in support of transportation infrastructure is being debated at the national level, Amtrak must provide the rationale for sustained operating and capital support. Such rationale can be determined when several critical questions have been addressed. These questions were raised by a number of participants, starting with defining remarks by Tom Downs, CEO of Amtrak, and reemphasized by Governor Jim Florio. These questions included the following:

- What is meant by passenger rail in the United States?
- What is the role of passenger rail in the United States? Who is it meant to serve?
- Is Amtrak, as structured, the right model of operations?
- Where does intercity passenger rail fit in an intermodal transportation system?
- Who is responsible for the costs of a system?
- How can we formulate and measure results of an intercity rail policy? Why, in fact, do we not have such a policy today?

Passenger rail has always played an important part in U.S. transportation. However, arguably, the enormous investment in highways, together with the growth of the aviation industry, has reduced the role of intercity passenger rail since 1950. Rail passenger service not only became less attractive to the users than its competitors but also became burdensome to its primary operators, the freight railroads. Federal intervention occurred in 1971 to relieve the freight railroads of the burden and prevent bankruptcies and to stave off the total dissolution of passenger rail. That intervention was the creation of Amtrak, but Congress created Amtrak with conflicting or ambiguous objectives that have resulted in the critical budget needs of today. Although created to be responsible as a corporate-type business, Amtrak has seen Congress act as an ad hoc board of directors, through the annual subsidy process and the regulations or constraints that Congress applies with the subsidies. Among the conflicting objectives created by the Amtrak legislation are the following:

- Amtrak would go from needing an operating subsidy to showing a profit in a few years after creation. In fact, it has needed a subsidy every year since it has been established.
- Amtrak will serve as a national passenger network. This, of course implies that Amtrak will offer coast to coast connected service, not just serve a few corridors.
- Amtrak will continue a number of operating agreements, in particular labor agreements that existed at its creation.
- All of these constraints were made even more severe by the fact that Amtrak was created with no vision or strategic plan; instead there was confusion over whether this was to be a "for profit" or "public benefit" corporation. The problems have been exacerbated because there has been no long-term source of capital so necessary for planning, development, and modernization. Tom Downs pointed out that critics tend to look at Amtrak only as a *corporation*, which needs to make a profit, neglecting that Amtrak (passenger rail) is also a *mode of transportation* that has reasons for existence founded in transportation policy.

Passenger Rail Today

The most evident manifestation of the problem facing Amtrak today was noted in a report of the General Accounting Office. (See remarks by Phyllis F. Scheinberg.) Amtrak has never met its financial targets and continues to operate at a deficit. GAO notes that in its 26 years of existence, Amtrak has never escaped a need for subsidy. The corporation is running a deficit on working capital, and its debt will continue to increase; none of these are good signs for a business. GAO also notes that Amtrak suffers from conflicting mandates, unresolved labor issues, and no agreement on the role of passenger rail in the United States. Rather than an indictment of Amtrak, the GAO report underscores the costs to the federal government of operating passenger rail with no long-term plan.

Amtrak's financial crisis has come about at least in part because of congressional reduction of the operating subsidy at too rapid a rate, even as some positive things are happening. For example, Amtrak's operating grant requirement has headed steadily downward from $578 million in FY1994 to a projected $447 million in FY1997.

Amtrak has reorganized to provide better customer service, cut its staff by 10 percent, recapitalized its fleet, embarked on an ambitious program in the NEC to improve service and revenue through electrification and new high-speed trains, and, despite route reductions, has managed to increase passenger revenues.

Amtrak is viable in a number of markets. The strongest market is the Northeast Corridor (NEC), from Boston to Washington. Amtrak shares nearly 50 percent of the air/rail market between New York and Washington. Further, sixty percent of its annual 54-million passengers ride on commuter rail in crowded urban areas. There are other corridors that have demonstrated significant ridership growth, or where financial or operational innovations have been instituted under Amtrak's operation, usually in partnership with one or more states. These corridors include San Diego-Los Angeles, Los Angeles-Fresno-Sacramento-San Francisco, Detroit-Chicago-Milwaukee, St. Louis-Chicago, and the evolving Seattle-Portland route and extension to Vancouver, BC.

To better compete in these and other evolving corridors and to generate new markets, Amtrak is developing high-speed rail (HSR), and is looking to generate revenue through attracting mail services and high-value fast freight. This raises the questions of Amtrak's role: is it mobility? Is it serving corridors? Is it to serve rural areas? Is it to develop as a HSR carrier? Where does it lie on the line bounded by a pure for-profit business on one end, and a national social service on the other?

In responding to these questions, conferees had to address Amtrak as a part of an intermodal system including air and highways, and Amtrak (or passenger rail) as part of U.S. rail systems and its interaction with rail freight carriers. Amtrak was reviewed in terms of national transportation issues, and in terms of its own objectives and performance.

Issues

A number of issues that must be addressed to establish the role of intercity passenger rail were articulated by the conferees. These issues could be classified as follows: governmental and institutional; operations and markets; and costs and other policy issues. The context of the discussion is the definition of intercity passenger rail as a system, the models for operation of such a system, including Amtrak, and the basis for evaluating such a system.

Governmental and Institutional Issues

A primary issue is to define the role of government at every level in the provision of passenger rail. Since 1971 the federal government has played the major role in the system, both as financier and regulator. The model used is the legislation creating and sustaining Amtrak. Although intended to be operating subsidy free four years after its creation, the formal and informal legislative framework has been a major contributor to Amtrak's operating deficits. With congressional mandates Amtrak cannot fully rationalize, but must sustain certain routes; Amtrak must maintain certain labor agreements; and Amtrak must remain in an uncomfortable relationship with freight rail.

U.S. Deputy Secretary of Transportation Mortimer Downey noted that Amtrak is an essential part of a national intermodal transportation system. As such, USDOT is committed to passenger rail and to the development and implementation of HSR. Noting that a continuing source of capital is necessary, Downey stated that the administration's proposal for surface transportation legislation (the National Economic Crossroads Efficiency Act or NEXTEA) would allow great flexibility for local areas to use funds for rail through enlarged program structures of the Surface Transportation Program, and the National Highway System Program. In addition, capital would become available through state infrastructure banks and credit enhancement programs. He stressed that states would have to play larger roles as partners in the development of Amtrak. Views expressed by congressional speakers, Senator Kay Bailey Hutchison and a representative of Senator William Roth, indicated support of Amtrak for both its role in regional mobility and its impact on relief of congestion. However, to reduce costs, they suggested that there be some reform in a number of areas, including labor agreements and liability. All noted the importance of the proposed half cent from the gasoline tax or its equivalent in funding that could be directed to Amtrak's capital needs.

A number of state initiatives illustrated such innovative partnerships. Washington state is taking the initiative to build strong service in a corridor that will eventually go from Vancouver, BC to Portland and Eugene, Oregon. Using a strong market approach, and a strong regional identity for the service, Washington, through staged investments, is moving toward HSR with quality equipment and service. Such service is already showing shifts from air and auto in congested corridors to rail. North Carolina is developing HSR as an economic development tool. Vermont has developed rail to serve both in state mobility and to serve its tourism markets, using ISTEA enhancement funds. Some states share responsibility for commuter rail, a rapidly growing market. New Jersey Transit, for example, operating in the NEC, must have partnerships with Amtrak, the Port Authority of New York/New Jersey, the state, and the Federal Transit Administration. John Robert Smith, the mayor of

Meridian, Mississippi, indicated the need to keep small urban and rural areas part of a national network. He noted that the stimulus to sustain good rail service led to the creation of a Crescent Corridor Coalition to work with Amtrak.

Operations and Markets

The discussion of government issues highlighted the importance of true partnerships: public/private and state/federal. Anne Stubbs, of the Coalition of Northeast Governors, using the NEC as an example, noted that the states were strong partners, meeting market needs of both intercity and commuter travel. However, she noted such corridor strength was linked to the fact that the NEC was also part of a regional network. Important operating standards, signals, communications, ticketing, and safety must be part of national standards, to meet improved service delivery and build consumer satisfaction. Rail is important in the overall eastern U.S. market, reducing congestion in a crowded I-95 corridor, and providing access to economically growing rural areas such as Vermont. The states can address market issues, through information, appropriate rolling stock, new stations, but need federal operating and capital assistance. Peter Stangl, of Bombardier represented private sector firms responsive to passenger rail needs and emphasized how a rolling stock manufacturer works with local and federal agencies. First, they work with states and Amtrak to provide the rolling stock appropriate to the markets. Next, they provide innovative financing and operating arrangements, such as long-term maintenance of rolling stock. He introduced the importance of risk, especially in capital financing, noting that risk influences costs and must be shared between the public and private sectors. The value added to public agencies for sharing risk will be improved regional economies.

Labor is another active and major partner. Sonny Hall, of the Transit Workers Union, gave compelling evidence of the contribution of labor to passenger rail. Passenger rail needs highly skilled, experienced, trained personnel to operate and to maintain a system that is becoming, technologically, increasingly complex. Amtrak must compete for skilled workers with freight railroads and commuter rail operators, both of which generally offer better wages and benefits, following Amtrak's prolonged period of austerity measures. Labor agreements were part of the original Amtrak structure. Some believe parts of the agreements, e.g., 6-year payout requirements, are nonproductive. Itzkoff, Florio, and Hall each stated that eliminating labor protection would not really provide substantial savings and suggested that too much emphasis on this issue could impede reaching agreement on long-term help for Amtrak. However, as labor will remain a partner, it is important for labor and management to negotiate new initiatives that will address both the needs of the railway workers and Amtrak's continuing need to find economies in the operating budget.

The impact of operating practices is seen on the ability to generate new markets. In particular, operating unprofitable but desirable routes can be addressed by state subsidies, or for national routes, through federal subsidy. Both require, however, innovation in labor-management agreements to improve productivity and to reexamine labor practices.

Costs and Other Policy Issues

The fundamental issue of costs has been addressed above. Amtrak needs a long-term, predictable source of capital, relief from regulations, and operating arrangements where Amtrak is reimbursed for fully allocated costs of services it provides. When viewed as public investment, a proper articulation of passenger rail benefits, and external costs must be constructed. A number of speakers, including Gerard McCullough, David Burwell, Fred Kent, and Elmer Johnson, discussed the identification of rail benefits and important externalities, with special attention to quality of life, sustainability, and the environment. Rail has to be measured against the true costs of using motor vehicles and airlines. In fact, many had previously identified rail as a critical component of relieving costly congestion in crowded corridors, both on highways and at large air hubs. The use of rail has the potential to reduce air and noise pollution. In fact, by pricing according to true external costs of competing modes and the efficiencies of passenger rail, rail would gain even more in competition with motor vehicles and air travel.

Importantly, passenger rail was defined as being part of an intermodal system. Matthew Coogan suggested a more appropriate way of evaluating intermodal parts of a transportation system than by the traditional, mode-by-mode approach. In an intermodal context, intercity rail's importance can be evaluated from the view of the systemwide needs of the end user. For example, the French government's decision to make a significant investment to link high-speed rail (TGV) to Charles DeGaulle Airport outside of Paris was based on the recognition of the global transportation system and how rail could be used to expand the market shed for the "national" long-distance airport. In this and similar cases elsewhere in Europe, the goal of national investment in rail was to create intermodal services that would attract international travelers. Similarly, in the U.S., investments in Amtrak need to be viewed for their contributions to the national transportation system.

A complication to the provision of rail passenger service in the U.S. was seen in current relationships between Amtrak and freight railroads. Two views on this issue clearly emerged during the conference. One is that Amtrak has a precious asset—the right to operate over the freight railroads at incremental cost—that should not be lost in any future legislation. On the other side, the freight railroads believe that they are subsidizing Amtrak because incremental costs are less than their full opportunity costs. Increased freight traffic in recent years has made the original agreement much less attractive to the freight railroads. The freight railroads would oppose the transfer of access to their rail lines from Amtrak to other (state) operators, the assignment of any labor costs (e.g., retirement) waived by the federal government to them, and a requirement for them to contribute to any additional federal subsidy (e.g., half cent of gas tax) that might be provided to Amtrak. These and other issues of freight and passenger rail must be addressed in a new rail plan.

New Models for Providing Rail Passenger Service

How can these complex issues be addressed? A number of models now exist to address the issues now facing Amtrak.

- Amtrak is the existing model. Its problems have been defined above. It is a single operator, subsidized by both federal and state governments to provide national, regional, and commuter service.
- European models are providing innovations in private and public cooperation. For example, the British approach to rail service is to separate infrastructure and operations. An infrastructure company will provide well-maintained trackage at a cost to private operating companies. Companies bid on the service to the government and have the right to operate for a negotiated period. It is believed that competition will reduce the levels of government subsidy needed to support passenger rail. Although leading to some service innovations, privatization has also led to more system rationalization, but no reduction of subsidy was possible in the first years of operation. In addition, large legal and administrative costs were incurred as a result of the franchise process. The introduction of HSR has led to new market gains, but was planned before privatization. Questions about the applicability of privatization to the U.S. include whether the size of markets, especially outside the NEC, are sufficient, and how franchises could be controlled.
- State and regional models. State and regional models have been developed to complement Amtrak and take advantage of its operating structure and investments. State models rely on the Amtrak national network, and local subsidies, but are sensitive to local markets by tailoring rolling stock, scheduling, station locations, and operations to serve their needs.

In addressing appropriate models, government and its partners at all levels must define the objectives of passenger rail. Is it a business? Is it mobility? Is it an integral part of a national intermodal system? To answer those questions, objectives must be set defining what is wanted. Alternative models can be structured, evaluated, and cost/benefit analyses carried out. These analyses must include the nature of institutional changes that must be made to provide for success of such a system.

Dunn and Perl, in their paper on "Institutional Challenges", addressed the issue of models through the development of a matrix examining two types of partnerships. These are public/private and federal/state. The five models they suggest are as follows:

- Partnership. Federal funding will be used to leverage joint ventures with other partners (ranging from states to private entrepreneurs in mail and express, station redevelopment, or "cruise trains").
- Positive Privatization. This process might resemble the British experience, or be an analog to the U.S. experience with Conrail. Positive privatization requires up-front capital investment to make the rail assets attractive to private investors and administrative costs for a franchise or regulatory agency, e.g. U.S.R.A. in the case of Conrail.
- Picking up the Pieces. AMTRAK would devolve to corridors and states, gaining state markets, losing a national system.
- For-Profit High-Speed Rail. As in "State and regional models", locally developed high-speed systems, operated on a contract basis (from design through operation).
- Liquidation. Amtrak's assets would be sold.

Liquidation, as evidenced by many of the participants, and particularly those from Congress, is probably not an option. Although rail passenger service enjoys considerable political support, an Amtrak bankruptcy is still possible despite good intentions, and the result, including possible liquidation, is unpredictable. Dunn and Perl pointed out that the current financial crisis, coupled with the need to reauthorize ISTEA, provides a unique opportunity for a long-term financial solution.

RESEARCH ISSUES

During the course of this conference, questions about the future of Amtrak have been raised as well as about ways in which benefits and costs of intercity passenger rail might be defined and measured.

Is intercity passenger rail a necessary component of an effective and efficient multimodal transportation system? This central question is the subject of both policy analysis and economic research. Many of the elements of a research agenda for intercity passenger rail have been discussed, and a possible structure for such an agenda follows.

Defining Intercity Passenger Rail as a Mode

- What data related to intercity passenger rail are needed to allow comparisons with other modes and with operations in other countries?
- What metrics need to be developed to allow such comparisons to be made?

Defining the Role of Intercity Passenger Rail

- Is the role provision of for-profit transportation services or public benefits?
- Is the role best served as a national system?
- What is the role in densely populated corridors? rural areas?

Measuring Externalities

- How can economic, social, and environmental benefits and costs be measured and compared with other modes?
- How can benefits and costs be measured for different types of service (e.g., corridors vs. long distance)?
- What is the complementary relationship of intercity rail with other modes?
- What are measures of performance that can be used to examine rail investments?

Delivery of Intercity Passenger Rail Service: Institutional Questions

- Where does responsibility lie?
- What are the roles of various levels of governmenst: federal, state, regional, local?
- What are the barriers, such as existing legislation, regulation and culture, to changing the current roles of those responsible?

Delivery of Intercity Passenger Rail Service: Role of Partnerships

- What is the role of the private sector to provide entrepreneurship needed to meet or generate market demands?
- What labor-management partnership initiatives are possible and necessary for the successful operations of passenger rail?
- What is the role of intermodal partners, both public and private?

Management and Models for Operations

- Should the existing Amtrak model be maintained?
- Can existing models of European operations and management be translated to the United States? What are the costs and institutional barriers associated with such translation?
- The strengths of state and regional models have complemented the national system: can they be used as models for additional public and private support for portions of the system?

Funding

- For each of the models of operations considered by Dunn and Perl, what are potential innovative funding programs for both capital investment and operating costs? (In particular, funding models that extend from 5 to 20 years.)
- If intercity rail passenger service is viewed as a public benefit, what are the appropriate funding sources to support it?

CONCLUSIONS

Passenger rail has always played an important part in United States transportation. However, there needs to be a vision of what passenger rail in the United States can and should be. A continuing source of predictable capital funding is a fundamental issue, as is the operating and regulatory environment in which passenger rail will exist. The importance of rail is seen not only in the congested NEC but in developing corridors in many other regions of the country. In addition, HSR, using market data from Europe, should generate new riders and help to relieve pressures on other modes. Unlike Europe, rail still has only a small portion of the national passenger market. Federal policy supports passenger rail as an essential part of the national intermodal transportation system. USDOT's stated commitment to passenger rail is an important basis for rail to fulfill its vision and realize its potential as part of that system.