

# Background

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## Springtime for Amtrak and America

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Spring marks the time in the fiscal calendar when managers of federal programs and those who depend on them openly compete for dollars extracted from taxpayers and borrowed in financial markets. As much as \$2.1 trillion will be at stake in this year's federal budget process. Among the tens of thousands of petitioners seeking a slice of the federal budget pie will be supporters of Amtrak, who hope to receive more than the \$1.2 billion obtained from Congress in 2005.

As has been the case since Amtrak's creation in 1970, the executive branch has offered the least costly bailout proposal. President George W. Bush has offered the railroad \$900 million for fiscal year (FY) 2007, but with tight strings attached to ensure that meaningful reforms are adopted.

By contrast, Amtrak has asked Congress for \$1.6 billion, but—encouragingly—has also promised to begin implementing major reforms similar to those proposed by Transportation Secretary Norman Mineta in May 2005.<sup>1</sup>

Congress, however, leans toward the most costly proposal: the Passenger Rail Investment and Improvement Act of 2005 (S. 1516), sponsored by Senator Trent Lott (R-MS) and reported out by the Senate Commerce, Science, and Transportation Committee on October 18, 2005. In addition to spending \$11.3 billion on Amtrak over the next six years—nearly \$1.8 billion in 2007 alone—S. 1516 would change the federal statutes governing Amtrak's operations and interrupt the management and operational

### 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.

This paper, in its entirety, can be found at:  
[www.heritage.org/research/budget/bg1932.cfm](http://www.heritage.org/research/budget/bg1932.cfm)

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reforms now underway or promised by Amtrak's new management.

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, and this year it should use those powers to the fullest. Firing the former president was a good start, but much more needs to be done—and done quickly—to justify the costly burden that Amtrak imposes on the taxpayers.

### Amtrak's Financial Failings

As Amtrak's most recent annual report (for the year ending September 31, 2005) reveals, the railroad's financial and operational problems continue to worsen, notwithstanding the much ballyhooed leadership of former president David Gunn, whose mediocre performance and resistance to reform led to his firing by the board on November 9, 2005.

- 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.
- Even among the one-half of 1 percent (0.5 percent) of America's intercity travelers who use Amtrak, support seems to be shrinking.
- During FY 2005, passenger revenues (tickets and food service) fell slightly while employee wages increased, marking the second year in a row in which wage and salary costs exceeded ticket sales.
- As a result of these and other cost and revenue deficiencies, Amtrak's loss from continuing operations was \$1.179 billion, down only slightly from the previous year's \$1.214 billion.

The 2005 annual report also reveals that Amtrak incurs two dollars in costs for every dollar of ticket sales, thereby requiring more than \$1 billion in annual federal subsidies to cover the losses and remain solvent.

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,"<sup>2</sup> 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 underestimate the loss: According to the Amtrak Inspector General, Amtrak spends another \$50 million annually to operate and maintain its dining, snack, and lounge cars.

Even Amtrak's management acknowledges the food service losses. Its April 2005 grant request for FY 2006 describes how, "in an effort to significantly reduce annual losses from food service operations that now approach \$100 million, Amtrak is evaluating several options for immediate action."<sup>3</sup> Altogether, financial losses on food service account for about 20 percent of Amtrak's annual federal operating subsidy for that year.

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

1. National Railroad Passenger Corporation, "FY07 Grant and Legislative Request: Rebuilding America's Passenger Rail System," March 2006.
2. 49 U.S. Code § 24305.
3. National Railroad Passenger Corporation, "Amtrak Strategic Reform Initiatives and FY06 Grant Request: Rebuilding America's Passenger Rail System," April 2005, p. 24, at [www.amtrak.com/pdf/strategic06.pdf](http://www.amtrak.com/pdf/strategic06.pdf) (April 26, 2006).

operating savings and \$395 million in avoidable planned capital expenditures over 5 years.<sup>4</sup>

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. Of course, Amtrak service is nowhere near the level (or cost) offered on most scheduled airlines. Any passenger on an Amtrak train can confirm this by asking the conductor for a complimentary coffee or soft drink, or a pillow and blanket.

The inefficiencies and incompetence that cause Amtrak's food service losses are present throughout the system—in the maintenance yards, ticket sales, train operations, stations, signal and track repair, janitorial services, and a host of other services that Amtrak attempts to perform. All of these combine to create huge per passenger losses on some of the routes that Amtrak inherited from a bygone era predating cars and airplanes.

- One of the least efficient routes is the Sunset Limited connecting Los Angeles and Orlando.<sup>5</sup> 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 cash operating losses<sup>6</sup> while carrying only 15 percent of its passengers.

In recent years, Amtrak has attempted to improve service on some long-distance routes in the hope that rising revenues and more passengers will offset costs. Such an effort has been applied to the Empire Builder (Chicago–Seattle/Portland), which passes through some of the nation's most scenic areas. While this effort<sup>7</sup> led to a big increase in ridership (9 percent in 2005 on lower-cost tickets), the route lost \$45 million on ticket revenues of \$46.4 million, requiring taxpayers to provide each Empire Builder passenger a subsidy of \$97. For passengers purchasing units in the sleeping cars, the subsidy was much greater, according to the Amtrak Inspector General.

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 2003 legislative proposal (called the Passenger Rail Investment Reform Act)<sup>8</sup> would address this record of poor performance and large

4. 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/pdffdocs/CR-2005-068.pdf](http://www.oig.dot.gov/StreamFile?file=/data/pdffdocs/CR-2005-068.pdf) (April 26, 2006).
5. 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.
6. Because Amtrak does not allocate depreciation charges (\$560 million) to individual routes, all route loss figures are understated, and the putative profits on select Northeast Corridor routes would turn into substantial losses since Amtrak's largest physical asset is the corridor's roadbed.
7. For a recent description of this effort, see Daniel Machalabra, "Passenger Railroad Improves Service on Long-Haul Trains to Lure Well-Heeled Travelers," *The Wall Street Journal*, March 17, 2006, p. B1.
8. The Administration's bill was reintroduced (by request) in the 109th Congress as H.R. 1713 by Representatives Don Young (R-AK) and James Oberstar (D-MN).

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. Many other countries have struggled with the same problem, and most 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.
- 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 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.

Amtrak users—including passengers on trolleys, buses, and commuter rail—pay no taxes on the services they receive beyond the fare, and because fares cover only a fraction of the costs incurred, their train and trolley trips are subsidized by general tax revenues or by the highway trust fund. In some cases, these subsidies can be substantial. A Heritage Foundation analysis of a commuter rail program in the Washington, D.C., area found that the subsidy per passenger was \$20 per day or \$4,000 per year.<sup>9</sup>

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.<sup>10</sup> 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 worst year: In 1998, its subsidy per passenger per 1,000 miles reached a staggering \$383.82.

**Environmentally Friendly and Energy-Efficient?** Amtrak is also defended on the grounds that it is environmentally friendly and energy-efficient in comparison to other transportation modes. Like the earlier claims about federal subsidy costs, these contentions are without any foundation in fact.

One of the more prominent recent efforts to assert this claim was offered by Friends of the Earth (FOE).<sup>11</sup> Claiming to be presenting the energy efficiency results reported by the Congressional Research Service (CRS), FOE contends that Amtrak is more energy-efficient than domestic air travel and the automobile.<sup>12</sup>

This claim, however, misrepresents the CRS report. The CRS report presented measures of auto-

9. Ronald D. Utt, Ph.D., “Getting Urban Transit Systems Focused on Cost and Service,” Heritage Foundation *WebMemo* No. 717, April 11, 2005, at [www.heritage.org/Research/SmartGrowth/wm717.cfm](http://www.heritage.org/Research/SmartGrowth/wm717.cfm).
10. 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](http://www.bts.gov/programs/federal_subsidies_to_passenger_transportation/pdf/entire.pdf) (April 26, 2006).
11. Friends of the Earth, “Fact Sheet: Amtrak, Energy, and the Environment,” at [www.foe.org/transportation/Amtrak%20Energy%20and%20Environment%20Factsheet.pdf](http://www.foe.org/transportation/Amtrak%20Energy%20and%20Environment%20Factsheet.pdf) (April 26, 2006).
12. Stephen J. Thompson, “Amtrak and Energy Conservation: Background and Selected Public Policy Issues,” Congressional Research Service *Report for Congress* No. 96–22 E, updated January 19, 1999.

mobile efficiency for two types of driving: trips over 75 miles and all trips, which includes mostly short trips and trips around town and to work. The FOE report excludes the CRS auto fuel efficiency measures for longer auto trips. If these data had been included in that estimate, FOE would have been forced to acknowledge that the automobile is slightly more energy-efficient than Amtrak on longer trips that are more comparable to those that Amtrak offers.<sup>13</sup>

The CRS report summarizes:

[One] rationale for federal financial support to Amtrak has been that rail service conserves energy, compared to other forms of intercity passenger transportation. The numbers discussed in this report suggest that the rationale might not be valid with regard to autos and buses.<sup>14</sup>

In addition:

The far greater fuel efficiency of intercity buses compared to Amtrak suggests that federal financial assistance to intercity bus service might conserve more energy than federal financial assistance to Amtrak, even if additional buses caused some increase in congestion.<sup>15</sup>

Table 1 reproduces the actual findings from the CRS study, as updated in 1999.

Of particular note is that, according to the CRS findings reproduced in Table 1, the automobile, not Amtrak, is the more energy-efficient and environmentally friendly mode for travelers heading north from Washington, D.C., to Philadelphia, New York, or Boston, or from Chicago to St. Louis. Intercity buses are almost three times more efficient than Amtrak.

Mode of Transportation	Btu per Passenger/Mile	Btu per Passenger/Mile Compared to Amtrak
Intercity buses	953	36%
Autos, trips over 75 miles	2,625	99%
Amtrak	2,646	100%
Autos, all trips, including local	3,593	136%
Air, certified, domestic	4,482	169%
Air, general aviation	8,582	324%

Source: Stephen J. Thompson, "Amtrak and Energy Conservation: Background and Selected Public Policy Issues," Congressional Research Service Report for Congress No. 96-22 E, updated January 19, 1999.

The CRS report was originally published in 1996, and even the 1999 update relies on fuel consumption data from the early to mid-1990s. Yet much has happened in engine technology, and most engines are cleaner and more fuel-efficient today than they were in the early 1990s. As a result of these technological changes, the relative rankings among modes may have changed as well.

Although the CRS has not updated its earlier findings, similar comparisons can be made using data compiled and published by the Oak Ridge National Laboratory.<sup>16</sup> As Table 2 reveals, the government data show that commercial aviation has significantly closed the energy efficiency gap with autos and, as of 2002, had surpassed Amtrak's effi-

13. The FOE report also includes Acela, which did not enter service until late 2000, thereby further distorting the presentation by comparing pre-1996 measures with those of 2000 and later.

14. Thompson, "Amtrak and Energy Conservation," p. 1.

15. *Ibid.*, p. 3.

16. Stacy C. Davis and Susan W. Diegel, *Transportation Energy Data Book: Edition 24*, ORNL-6973, Oak Ridge National Laboratory, December 2004, at [cta.ornl.gov/data/download24.shtml](http://cta.ornl.gov/data/download24.shtml) (April 26, 2006).

ciency rating as a consequence of the shift to more fuel-efficient jet engines.

Notwithstanding the claims by Amtrak advocates, two studies from two different federal research institutions using different methodologies concluded that Amtrak is not particularly energy-efficient and that it has become less efficient over time. Nonetheless, beliefs that are contrary to these facts have become persistent and popular urban myths among rail advocates.

## 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 micro-management designed to create the impression that spinning wheels represent forward movement.

While a well-crafted top-down approach might have been valid in the past when Amtrak's management truly was incapable of doing the right thing—both of the two Amtrak presidents before David Gunn were fired by disappointed boards that were no more capable of running the system than any of the presidents whom they fired—Amtrak's new board has demonstrated that it has a grip on the problem and is prepared to do the right thing. Firing former president David Gunn was a good start, but much more is needed, and needed fast.

Passenger Travel and Energy Use, 2002	
Mode of Transportation	Btu per Passenger/mile
Automobiles	3,581
Personal Trucks	4,057
Vanpool	1,362
Certificated Airlines	3,703
Amtrak	4,830

Source: Stacy C. Davis and Susan W. Diegel, *Transportation Energy Data Book: Edition 24*, ORNL-6973, Oak Ridge National Laboratory, December 2004, at [cta.ornl.gov/data/download24.shtml](http://cta.ornl.gov/data/download24.shtml) (April 26, 2006).

With a new 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, with 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.

## Conclusion

Many Members of Congress will certainly complain about the route cuts, but their options are limited. Many were angry when Gunn was fired, 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.

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