
Intercity Passenger Rail:

**Highlights of GAO Report on
Need for National Policy and Strategies to Maximize
Public Benefits from Federal Expenditures**

**National Surface Transportation
Policy and Revenue Study Commission
January 17, 2007**

**Statement of JayEtta Z. Hecker
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Overview

- Background: Long Term Fiscal Challenges
 - Objectives
 - Scope and Methodology
 - Findings
 - Options for Reform
 - Conclusions
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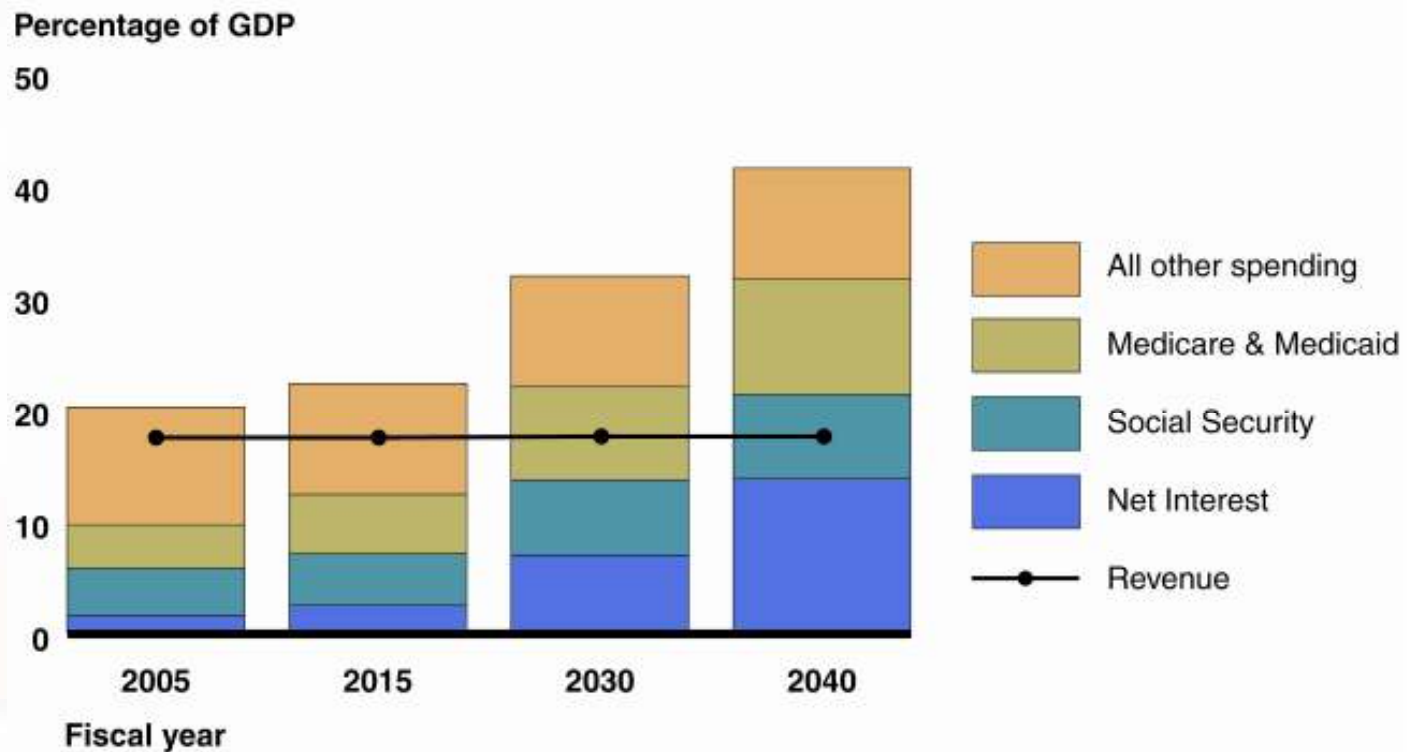
Background: Long Term Fiscal Challenges

- Imprudent and unsustainable fiscal path
- Known demographic trends and rising health care costs
- Unsustainable deficits and debt

Long Term Fiscal Challenges

Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2005 and All Expiring Tax Provisions are Extended



Source: GAO analysis (August 2006).

Reexamining the base

GAO's 21st Century Challenges report

A strategy for
reexamining the
base of government



Reexamining the base

Generic reexamination questions

Does the program...

1. have a **clear federal role** and mission?
 2. have **outcome-based performance** measures?
 3. **target** areas with the greatest needs and least capacity?
 4. **encourage** S/L governments and private sector to **invest their own resources**?
 5. employ the **best tools and approaches**?
 6. appear affordable and **sustainable in the long term**?
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Objectives of IPR Review

- Identify the characteristics of the U.S. intercity passenger rail (IPR) system and the **potential benefits** provided by this system.
- Identify **foreign experiences** with passenger rail reform and lessons learned for the United States.
- Assess **how well the U.S. is positioned** to reform IPR service.
- Identify the **challenges** that must be addressed in any reform efforts.
- Identify **potential options** for the future federal role in IPR service.

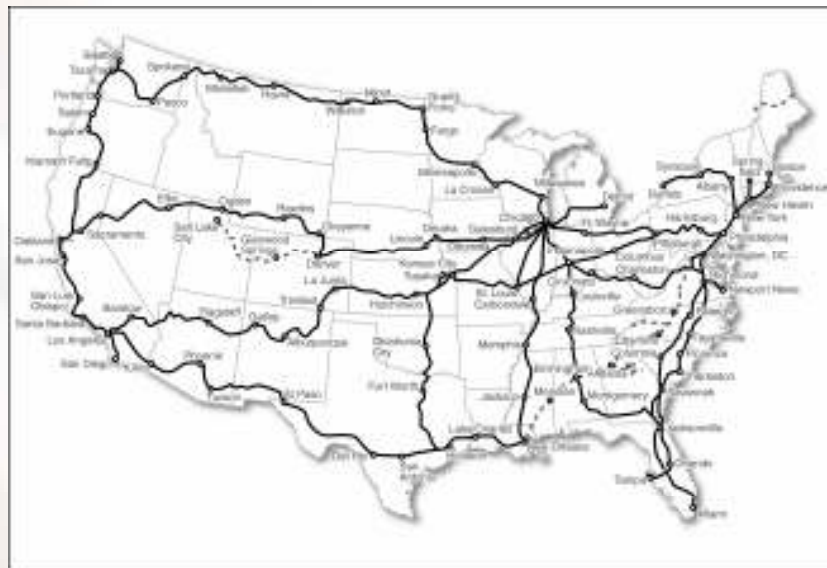
Scope and Methodology

- Characteristics of current U.S. IPR system, including ridership and financial characteristics of Amtrak's routes.
- Collected and analyzed data on restructuring from Canada, France, Germany, Japan, and the United Kingdom
- Interviewed Amtrak, Federal Railroad Administration, state, rail labor unions, freight railroad officials, and others.
- Reviewed studies on passenger rail reform and consulted with international rail experts.

Findings: Characteristics and Value of Current IPR Structure

- **Current structure remains in poor financial condition with deferred capital and maintenance projects.**
 - **Amtrak route structure exists largely as it did when it began over 35 years ago.**
 - Federal resources are being devoted to areas of comparative disadvantage, such as long distance routes.
 - Corridor services are a comparative strength and hold the most promise for financial viability and potential public benefits.
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Amtrak Route Maps, 1971 and 2005



— Amtrak service
 - - - - - Non-Amtrak service

Source: National Association of Rail Passengers; GAO; Corell (map).



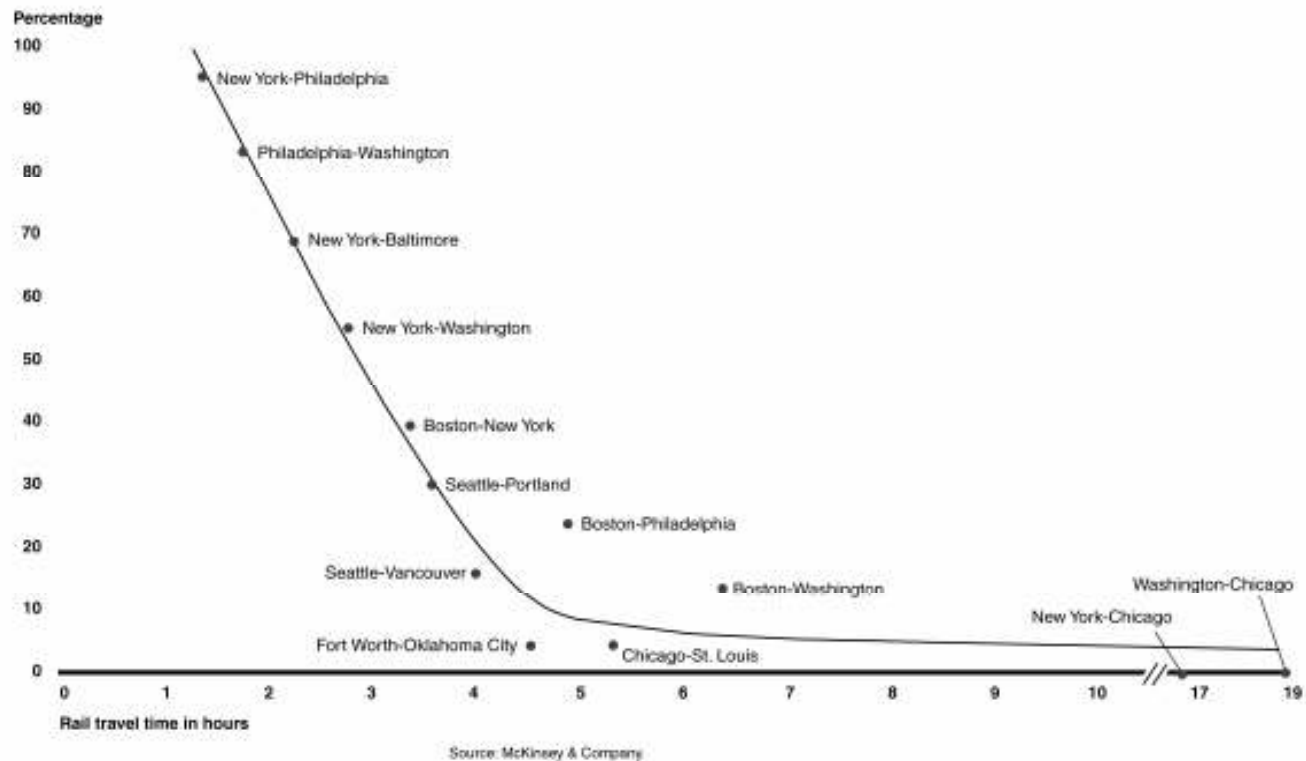
— Long-distance service
 - - - - - Corridor service (may also include long distance)
 ■ States currently providing financial support for Amtrak services

Source: GAO, Corell (map).

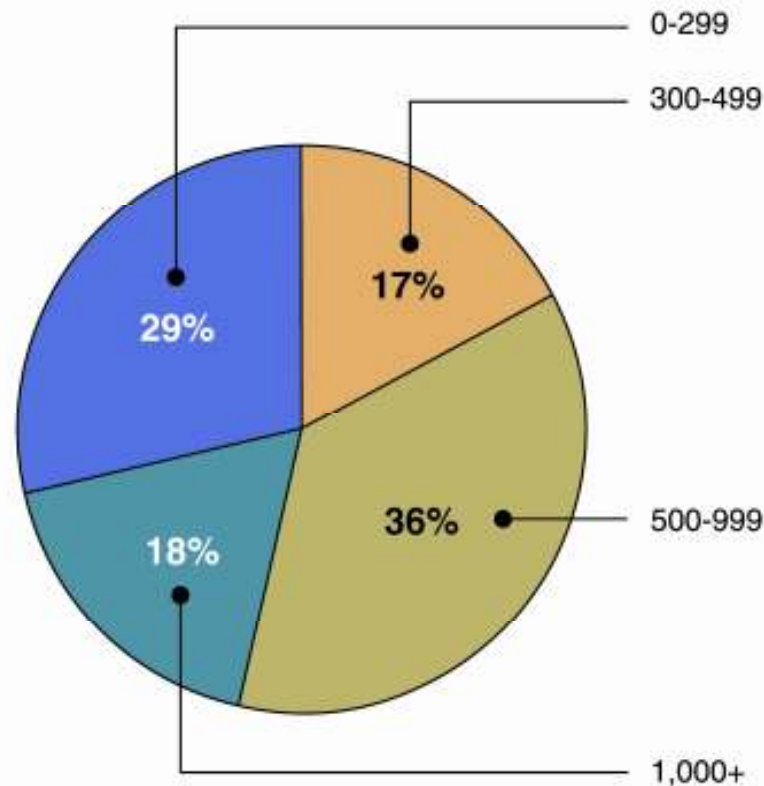
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Amtrak's Market Share Compared to Air Services – Selected Origins and Destinations



Trip Distance on Amtrak's Long Distance Routes, Fiscal Year 2005



Source: GAO analysis of Amtrak data.

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Findings: Foreign Experiences

- **Foreign countries have employed a variety of approaches in reforming IPR, including:**
 - Shifting from service operator to service regulator or customer and, in some cases, devolving decision-making authority to local and regional governments.
 - Restructuring existing IPR organizational structure and introducing competition and privatization.
 - Changing the public funding structure.

Reform Approaches Used by Site Visit Countries

Approach	Canada	France	Germany	Japan	United Kingdom
Clearly establishing the roles and responsibilities of intercity passenger rail stakeholders					
• Shift from service operator to service regulator/oversight			✓	✓	✓
• Shift away from infrastructure manager, yet remaining full owner		✓	✓		
• Devolving decision-making authority to local and regional governments		✓	✓		
• Shift from service operator to customer	✓	✓	✓		✓
Changing the public funding structure used to support intercity passenger rail					
• Changes in government commitment to funding	✓	✓	✓	✓	✓
• Changes to infrastructure funding mechanisms		✓	✓		✓
• Changes to funding dissemination		✓	✓	✓	✓
Restructuring existing passenger rail organizational structure	✓	✓	✓	✓	✓
Introducing competition/privatization in intercity passenger rail operations			✓	✓	✓

Source: GAO analysis of foreign data.

Findings: Foreign Experiences

- **Foreign countries addressed key reform elements in implementing new approaches:**
 - Established clearly defined national policy goals.
 - Clearly defined government and stakeholder roles.
 - Established consistent; committed funding.

Findings: How Well U.S. is Positioned for Reform

- **U.S. not well positioned to reform IPR:**
 - Goals and expected outcomes of current passenger rail policy are ambiguous.
 - Stakeholder roles are unclear.
 - Funding difficulties due to other priorities or lack of consensus.
- **Amtrak can and has taken action to reduce costs but is not positioned to address broader goals, roles, and funding issues.**

Findings: Challenges That Must be Addressed

- **Federal role:** What should it be? Federal government has policy and ownership interests
 - **Federal-state partnerships:** Role of state participation/Use of financial leveraging/Mechanisms for interstate cooperation
 - **Freight railroad issues:** Defining Infrastructure access and cost issues
 - **Workforce issues:** Availability of expertise, flexibility and productivity of the workforce/Potential labor protection payments/Status of labor-management laws
 - **Private sector issues:** Availability of private sector operators/Costs of private operators/Incentives needed for participation
 - **Funding issues:** Availability of funds/Aligning decision-making with beneficiaries/Development of Incentives for stakeholder participation and cost sharing
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Findings: Challenges That Must be Addressed

- **Response to IPR funding challenges are more complex than providing comparable funding to other transport modes:**
 - Other modes, like highways and airports, receive funds from explicit taxes and user fees.
 - Commitments made to some user-fee based transport modes (e.g., highways) is not sustainable.
 - The magnitude of federal funding for IPR needs to be based on the role IPR does (or could) play in national mobility relative to other transport modes and their public benefits.
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Findings: Challenges That Must be Addressed

- **Issues associated with adopting a “user pays” principle:**
 - “User pays” concept would have the full range of system users (e.g., states, public) pay the costs to build and maintain the rail infrastructure.
 - If adopted, a better matching of fees paid to costs incurred by diverse users could provide incentives to make modal choices and select options based on true costs.
 - Amtrak is currently unable to define “true costs” of IPR service due to accounting practices and multiple information systems.

Options for Reform: Components for Defining Federal Involvement in IPR

Component	Description
Set national goals for the system	<ul style="list-style-type: none"> •establish what federal participation in the system is designed to accomplish •should be specific, measurable, achievable, and outcome-based.
Establishing and clearly defining stakeholder roles	<ul style="list-style-type: none"> •state and local governments •private participation •ensure that the federal role does not negatively affect the participation or transportation role of other stakeholders
Determine effective funding approaches	<ul style="list-style-type: none"> •federal funding for future projects involving intercity passenger rail service will require a high level of justification •cost sharing for investment in new infrastructure will maximize the impact of any federal expenditures and investment

Source: GAO analysis.

Options for Reform

- **Potential Options for Reform:**
 1. Keep existing structure and funding of IPR.
 2. Incremental changes with existing structure of IPR.
 3. Discontinue federal role in IPR.
 4. Restructure IPR.
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Framework for Deciding the Future of Federal Involvement in Intercity Passenger Rail

Four main options	Keep existing structure and funding of intercity passenger rail	Incremental change within existing intercity passenger rail structure	Discontinue federal role in intercity passenger rail	Restructure intercity passenger rail system
Possible implementation of options	Current structure for intercity passenger rail is retained with no significant reform efforts or increase in federal support	Reform existing intercity passenger rail structure incrementally within current structure, with a possible cap on operational support	Exit strategy from intercity passenger rail should outline an orderly transition from federal role for rail, divest major portions of current system and devolve responsibility and support of intercity passenger rail service and the NEC to state and local government and other stakeholders	Federal support of intercity passenger rail as more integral to national transportation system, using tools such as franchising, competition, matching funds, or privatization
Applying the three components of federal involvement	<p>Goals: Keep current structure, service levels with no change in federal funding</p> <p>Roles: Existing roles would remain the same</p> <p>Funding: Same level of federal support appropriated annually</p>	<p>Goals: Federal involvement in intercity passenger rail could focus on improved performance</p> <p>Roles: Existing roles would remain the same</p> <p>Funding: Federal funds are used to incentivize improved performance</p>	<p>Goals: Elimination of the federal role</p> <p>Roles: States and local governments must contract with Amtrak or other providers for intercity passenger rail service</p> <p>Funding: Federal government will be responsible for some shutdown costs and face pressure to assume other shutdown costs (such as employee labor protection)</p>	<p>Goals: Restructure intercity passenger rail service to increase the realization of its transportation and public benefits</p> <p>Roles: Federal leadership secures a consensus with all stakeholders to support new vision for intercity passenger rail system</p> <p>Funding: Mechanisms that align intercity passenger rail benefits with costs to all stakeholders</p>

Source: GAO.

Options for Reform

- **Each option has advantages, disadvantages, and challenges.**
 - **Status Quo:** Foregoes benefits from improving the system and could lead to deteriorating infrastructure and aging equipment that would increase costs.
 - **Incremental Change:** Does not address fundamental flaws in the system.
 - **Discontinue:** May reduce services; would require detailed planning; substantial federal expenditures
 - **Restructure:** Allows opportunities for increased transportation and public benefits.

Conclusions

- Long term fiscal challenges require **reexamination of base of government**
- Effective integration of IPR into the national transportation system and targeting federal support to assure performance, results, and accountability, calls for a **change to the current structure of and federal role in IPR.**
- Development of a national IPR policy should have:
 - (1) clearly defined **federal role**,
 - (2) **outcome-based** policy goals,
 - (3) financing that **stimulates investment** by others, and
 - (4) appropriate **accountability** mechanisms.
- The current IPR structure meets none of these goals.

Matter for Congressional Consideration (from November 13, 2006 report)

- Restructure the approach for the provision of IPR service in the United States.
- Solicit input from all stakeholders, particularly the Department of Transportation (DOT) and the Federal Railroad Administration.
- Consider the relationship between passenger and freight railroads and the national freight transportation policy being developed by DOT.

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