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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

April 9, 1981

B-202798

The Honorable James. J. Florio
Chairman, Subcommittee on Commerce, Transportation, and Tourism
Committee on Energy and Commerce
House of Representatives

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The Honorable Bob Packwood, Chairman
The Honorable Howard W. Cannon
Ranking Minority Member
Committee on Commerce, Science, and Transportation
United States Senate

Subject: Analysis of Proposal to Reduce Amtrak's Federal Subsidy (CED-81-93)

As you requested, we have briefly inquired into the National Railroad Passenger Corporation's (Amtrak's) estimate that it can provide intercity rail passenger service only in the Northeast corridor if the Federal subsidy is limited to $613 million in fiscal year 1982.

We met with Amtrak officials to discuss how they estimated the service they could provide for $613 million. We also met with Federal Railroad Administration (FRA) officials to obtain their comments and analysis of Amtrak's estimate. We obtained some supporting documentation for Amtrak's estimates but did not have time to validate the methods or data used to calculate the estimates. Similarly, we obtained supporting documentation from FRA but were not able to thoroughly validate it in the time available.

Some of the data used in making the estimate was taken from Amtrak's financial reporting systems. Although we did not have time to trace data back through these systems, we have reviewed Amtrak's primary system in the past and found that it generally provided reliable data. Other parts of the estimate are based on Amtrak's subjective judgment of factors such as the number of employees who would be adversely affected by route cutbacks and the number of affected employees who are likely to receive labor-protection payments in fiscal year 1982. Because of the supporting data's complexity and our limited time to review Amtrak's assumptions and judgments, we are not in a position to comment on the estimate's overall reasonableness.

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BACKGROUND

In the fall of 1980, believing that it would continue expanding and developing its system, Amtrak estimated that it would need the following Federal subsidy in fiscal year 1982.

	(millions)
Operating grant	$ 907.2
Capital grant	375.0
Labor protection	6.4
Completion of the Northeast corridor purchase	30.0
Debt retirement	25.0
Total	$1,343.6

Amtrak reconsidered its needs for fiscal year 1982 in February 1981 and revised its fiscal year 1982 budget justification as follows:

	------(millions)------	
Operating grant:		
Subsidy requirement	$804.2	
Less: Reduction in tax and interest expense, subject to enactment of legislation	87.9	
Net operating grant requirement		$ 716.3
Capital grant		254.0
Labor protection		6.0
Completion of the Northeast corridor purchase		30.0
Total		$1,006.3

Amtrak did not include $87.9 million of likely fiscal year 1982 costs for interest and State and local real estate and personal property taxes in its February budget because it assumed that legislation would be enacted to eliminate these obligations.

Two other major assumptions Amtrak made in its February 1981 budget justification were:

--Five of Amtrak's least cost-effective trains would be discontinued and one other marginal train 1/ would be restructured at the close of fiscal year 1981, reducing Federal funding by $42 million for fiscal year 1982 and helping hold Amtrak's operating grant requirement down to $716.3 million.

--The reconstructed national system would produce revenue of $623.8 million in fiscal year 1982, an increase of $195.1 million, or about 46 percent, over actual revenue in fiscal year 1980, and an increase of $96 million, or 18.2 percent, over its revenue estimate for fiscal year 1981.

DESCRIPTION OF AMTRAK'S COST ANALYSIS

Amtrak prepared a detailed financial analysis to determine what services it could provide if its subsidy were limited to $613 million. The analysis uses the full 1980 Northeast corridor operating cost of $348.4 million as its base which includes the fixed costs of owning and operating the Northeast corridor rail system, the variable costs of operating the trains that would remain in a corridor-only operation, and portions of various overhead-type costs not directly related to operating the corridor. Seven long-distance trains currently use the corridor and, according to Amtrak, the Northeast corridor portions of four of these long-distance trains would be continued in fiscal year 1982; the other three would be completely terminated.

The following schedule shows Amtrak's cost analysis and assumptions.

1/The five trains to be discontinued were the Shenandoah between Washington, D.C., and Cincinnati; the Cardinal between Washington, D.C., and Chicago; and three midday metroliners between Washington and New York. The restructured train was the Inter-American between Chicago and Houston and Laredo.

		-----(millions)----
Northeast corridor costs, fiscal year 1980		$348.4
Less: Depreciation (no funding required)	$ 14.3	
Interest expense (legislative relief assumed)	7.1	21.4
Remaining costs		$327.0
Remaining costs in fiscal year 1982 dollars ($327 x 1.252)		$409.4
Less: Estimated fiscal year 1982 transportation revenue	$177.0	
Other revenue	30.5	207.5
Northeast corridor operating subsidy needed		$201.9
Additional indirect costs:		
Marketing and reservations	$15.0	
General support	18.0	
Taxes and insurance	12.0	
General and administration	13.0	58.0
Amtrak's estimated indirect costs and operating subsidy needs for a Northeast corridor-only operation in fiscal year 1982		$259.9

For the total Amtrak system in fiscal year 1980, Amtrak incurred indirect costs of $175.5 million for marketing and reservations, general support, taxes and insurance, and general and administrative expenses. It allocated $67.5 million of these costs to the Northeast corridor (included in the $348.4 million) and $107.9 million to routes outside the corridor. Amtrak does not believe these costs could be reduced to $67.5 million in a Northeast corridor-only operation and estimated that an additional $58.0 million would be needed if the Northeast corridor is all it operated.

Amtrak also reported it has irreducible commitments for capital acquisitions that will cost $136 million in fiscal year 1982 and that closing down all services outside the Northeast corridor would probably cost $25 million. Finally, Amtrak says that if it terminated operations outside the corridor, its resulting statutory and contractual obligations for labor-protection payments in fiscal year 1982 would cost about $200 million if about 50 percent of the eligible Amtrak and railroad employees collect labor-protection payments. Thus, as of March 16, 1981, Amtrak believed it would need a total Federal subsidy of $621 million for a Northeast corridor-only operation and that the Department of Transportation's proposal of $613 million would, in effect, shut down all service outside the corridor.

Labor protection payments

The Rail Passenger Service Act, as amended (45 U.S.C. 565(a) and 565(c)), directs that Amtrak and the other railroads provide fair and equitable arrangements to protect the interests of employees affected by discontinuances of intercity rail passenger service. Such protective arrangements were covered in the 1971 basic agreement between Amtrak and the railroads. Appendix C-1 to the basic agreement describes each railroad's responsibility for railroad employees, and Appendix C-2 describes nearly identical Amtrak responsibility for its employees. Generally, protected employees who lose their jobs because of service terminations can get full pay for up to 6 years.

Amtrak estimated that 24,500 employees 1/ (18,500 Amtrak employees and 6,000 from other railroads with which Amtrak contracts for operating services) are involved in its train operations and that about 60 percent, or 14,700 employees, would be adversely affected if all service outside the Northeast corrider were shut down. Amtrak further estimated that about 50 percent of the 14,700 employees would actually seek or be qualified for labor-protection payments. Amtrak assumed an average payment of $27,000 in fiscal year 1982 for these employees.

1/In this letter, "employees" is synonymous with positions and staff-years. Actually, available Amtrak records show staff-years of labor paid or to be paid for all positions, irrespective of the total number of employees that provide the labor either full-time or part-time in these positions. Amtrak estimates staff-years of labor used by contracting railroads based on their labor costs and estimated average salaries.

Based on these estimates, Amtrak calculated its "most likely" labor protection costs in fiscal year 1982 if it operated only in the Northeast corridor to be $199 million (rounded for Amtrak reporting purposes to $200 million). Amtrak also calculated its labor-protection costs based on other assumptions about how many people would qualify, but it considered the other estimates, ranging from $182 to $317 million, to be less likely.

These estimates were based on several unsupported assumptions. In trying to validate its assumptions, Amtrak determined that 9,582 Amtrak employees would probably be adversely affected if its operations were limited to the Northeast corridor. Amtrak also estimated that 4,365 employees of other railroads would lose their jobs if operations outside the corridor were terminated based on (1) the amounts Amtrak expected to pay contracting railroads in fiscal year 1981, (2) an Amtrak analysis of the proportion of railroad costs attributable to labor, (3) the average railroad employee compensation, and (4) the estimated number of railroad employees involved in corridor service.

Amtrak believes 13,947 is a better estimate of the actual number of employees who would be adversely affected, compared with 14,700 used in the initial estimate. Amtrak again assumed that only 50 percent of these employees would receive labor-protection payments but increased the estimated average compensation for each affected employee to $29,737, based on expected wage and benefit increases by 1982. This process resulted in total estimated labor-protection payments of $207 million, so close to its initial estimate that Amtrak did not announce the revised figure.

A crucial estimate for which Amtrak does not seem to have supporting data is that 50 percent of the adversely affected employees would actually receive labor-protection payments. Amtrak subjectively considered several factors in making this estimate, including: (1) employees with less than 1 year in passenger service are only entitled to a reduced amount of labor protection the first year (Amtrak's current hiring freeze has reduced the number of such short-term employees); (2) other railroads must pay labor-protection costs for positions involved in rail passenger service at the time Amtrak took over the service; (3) Amtrak assumed the number of employees obtaining other jobs, retiring, or dying would be relatively low; and (4) Amtrak considered that some employees would exercise their option to take lump-sum payments instead of spreading the payments over several years.

Amtrak said that no data is available to evaluate its assumption that 50 percent of the adversely affected employees would actually receive labor-protection payments. Amtrak is paying some labor protection because of its 1979 route cutbacks, but it says that the experience with the 1979 cutbacks is not directly applicable to the 1982 proposals because the 1982 cutbacks would be much more extensive.

Despite what Amtrak says, we believe the experiences resulting from the 1979 cutbacks might have some value in evaluating Amtrak's estimate for 1982. We did not have time, however, to compile information on the labor-protection payments resulting from 1979 cutbacks.

DEPARTMENT OF TRANSPORTATION ASSESSMENT OF AMTRAK'S ESTIMATE

FRA does not agree that a $613 million Federal subsidy would limit Amtrak operations to the Northeast corridor. FRA believes Amtrak should be able to provide service outside the corridor but has not officially determined how much. FRA personnel gave us various ideas about where Amtrak's estimates might be faulty and why more service could be provided but noted that FRA has not officially adopted these ideas. The following is their most recent analysis.

FRA personnel believe that about $150 million of subsidy could be available for Amtrak operations outside of the Northeast corridor with a $615 million Federal subsidy. Amtrak's and FRA personnel's estimated costs are summarized below.

	Amtrak	FRA
	-------(millions)------	
Northeast corridor operating loss	$260	$150
Capital acquisitions	136	100
Interest	0	80
Labor-protection payments	200	125
Shutdown expenses	25	10
Operational losses outside the corridor	0	150
Total	$621	$615

The largest areas of disagreement seems to be the Northeast corridor operating loss. Amtrak's analysis showing a $260 million loss is described earlier (see p. 4); the FRA personnel's analysis is shown on page 8.

	(millions)
Cost of operating Northeast corridor trains in fiscal year 1980, as shown on Amtrak's route profitability statement	$250
Cost of operating four additional trains to substitute for four long-distance trains--not considered corridor trains--that serve corridor passengers	39
Northeast corridor fixed costs that were allocated to the other three long-distance trains that would be terminated	11
Total	300
Less: Depreciation that does not require cash	17
Total	283
Cost increase by fiscal year 1982 (about 20 percent)	56
Total	339
Additional indirect costs	31
Total	370
Amtrak's estimated Northeast corridor transportation revenue for fiscal year 1982	177
Additional revenue increase based on passenger willingness to pay higher fares if faced with a loss of service (7 percent)	12
Other Northeast corridor revenue, based on Amtrak analysis	31
Total	220
Operating loss ($370-$220)	$150

The major differences between the FRA personnel's analysis of the Northeast corridor operating loss and Amtrak's are (1) Amtrak included $58 million in additional indirect costs, but FRA personnel included only $31 million; (2) FRA personnel assumed that transportation revenue would be 7 percent ($12 million) higher than Amtrak's estimate; and (3) FRA personnel assumed that cost increases could be limited to about 20 percent by effecting economies compared with Amtrak's estimate that costs would increase by more than 25 percent. In addition, the FRA personnel included $50 million ($39 plus $11 million) as the cost of operating the seven long-distance trains. Amtrak included the fixed costs of operating the corridor, part of which was allocated to the seven trains in Amtrak's route profitability statement, and the variable costs of operating the four long-distance trains that would remain. We did not determine what these costs are.

The FRA personnel's $100 million estimate for Amtrak's capital acquisitions cost was based on an Amtrak estimate of $130 million as its irreducible commitment (subsequently revised to $136 million) and its March 16, 1981, estimate that $30 million of this amount could be saved by eliminating a proposed new communication system for the Northeast corridor. FRA personnel also assumed that Amtrak would have to pay the $80 million in interest on Government loans and $7.9 million in State and local taxes that Amtrak assumed would be eliminated through legislation. The $7.9 million in taxes is included in the cost of operating the corridor. FRA personnel assumed that both labor-protection payments and shutdown costs would be less, based on some service continuing that Amtrak assumed would be terminated.

FRA personnel said that all costs of operating service outside of the corridor, including indirect costs, would be covered by the $150 million.

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Amtrak's and FRA's analyses are based on different assumptions regarding possible economies to be realized and, therefore, come to far different conclusions. The validity of these assumptions, rather than the manner in which Amtrak and FRA made their analyses, is the major factor determining the amount of service that can be provided with $613 million in Federal subsidies. Neither analysis assumes that additional funds would be available from State subsidies either in the Northeast corridor or elsewhere. Sufficient time was not available to probe further into the Amtrak and FRA figures and assumptions; however, we are continuing our inquiry and will provide you with additional information later.

In accordance with your instructions, we did not take the time to obtain Amtrak or Department of Transportation comments on the contents of this letter. We did discuss its contents with officials of these organizations, and appropriate changes have been made based on their comments.

As arranged with your office, unless you approve or publicly announce its contents, we plan no further distribution of this report until 30 days from its date. At that time, we will send copies to interested parties and to others upon request.

Henry Eschwege

Henry Eschwege
Director