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SURFACE TRANSPORTATION

Reorganization, Program Restructuring, and Budget Issues

Statement of Kenneth M. Mead,
Director, Transportation Issues,
Resources, Community, and Economic
Development Division

GAO/T-RCED-95-103

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to provide our views on issues affecting the Department of Transportation's (DOT) surface transportation programs. These programs support building and maintaining the nation's highways and transit systems, researching advanced technologies and new safety techniques, and overseeing safety for roads and rail. They collectively account for over $26 billion and 6,700 full-time-equivalent positions in DOT's proposed fiscal year 1996 budget.

Our testimony today is based on our work over the last 4 years in the transportation infrastructure area as well as ongoing work for this Subcommittee and will provide observations on (1) the proposed reorganization of surface transportation within DOT, (2) the proposed restructuring of DOT's grant delivery system, (3) surface transportation budget issues, (4) federal funding of transit operating assistance and new transit investments, and (5) the financial and operating condition of Amtrak. In summary:

-- DOT proposes to reorganize the Department by merging the five surface transportation operating administrations into one. This plan has the potential to save money by consolidating both duplicative administrative support functions and DOT's surface transportation field office structure. Nonetheless, details of the reorganization remain to be defined; therefore, specific budgetary savings cannot be determined at this point.

-- DOT's plan to restructure its grant programs is designed to streamline how funds are allocated to states and metropolitan areas, increase flexibility, and simplify the grant application and approval processes. Since the details are still being worked out on the new grant delivery process, it is difficult to say to what extent this process will increase flexibility above what states have now or affect the different transportation programs. However, with the inclusion of Amtrak and transit grants previously funded by the general fund, the budget authority available to the states for infrastructure investment will decline by $2.5 billion. Until DOT can provide a cross-walk between the proposed restructured program and prior year funding levels, the Congress will have difficulty determining the magnitude of proposed cuts associated with specific programs. Furthermore, since performance measures have not been established as we recommended, it is not clear how national goals--such as maintaining the National Highway System (NHS)--will be met.

-- Federal-aid highway program spending is generally constrained by limiting the total amount of funds that can be obligated in a given year. The program is also designed to reward states that spend their full share of the obligation limitation. In fiscal year 1994, these rewards amounted to $501 million. While most highway programs are subject to obligation limitations, demonstration project spending is not subject to such a limitation. However, demonstration projects are often slow in using available funds and have a tendency to exceed authorized funding levels. Similarly, the Intelligent Transportation System Program, which encompasses numerous surface transportation applications of electronics, telecommunications, and information processing technology, received an authorization of $659 million in 1991 for six years. Yet, after only four years its appropriations have exceeded $800 million--nearly $150 million more than was authorized for the six year period.

-- The administration is seeking a 30-percent reduction in federal operating assistance for mass transit in fiscal year 1996. The impact on transit operators could vary. Generally, the larger the urbanized area the less reliance transit operators have on federal operating assistance. On the capital side, the trend has been to provide capital funds to some projects in the early planning phases. Since DOT criteria target these capital funds for projects in the final design and construction phase that have written funding agreements with DOT, funding projects that do not meet that criteria dilutes the funds available for eligible projects. This has resulted in DOT's not meeting funding commitments on certain projects and has increased total project costs.

-- Amtrak's financial and operating conditions have declined steadily since 1990, and the railroad's ability to provide nationwide service at its present level is seriously threatened. Amtrak clearly had to take action and its recently announced strategic plan is an aggressive first step. However, even if Amtrak accomplishes its entire plan, its losses are still expected to exceed federal and state operating subsidies by $1.3 billion by the year 2001. Amtrak also estimates it will need over $4 billion in capital investments to bring its equipment and facilities up to a state of good repair. Without significant increases in passenger revenues or additional financial support from some source, Amtrak's recently announced cuts will be just the beginning of route adjustments and service frequency cutbacks. In light of Amtrak's financial problems, our recent report offers several matters for congressional consideration relating to the scope of Amtrak's mission and

its basic route network.

DOT'S REORGANIZATION PROPOSAL OFFERS POTENTIAL BUDGET SAVINGS BUT DETAILS ARE SKETCHY

DOT recently announced its plans to consolidate its 10 operating administrations into 3--an aviation administration, a surface administration, and the Coast Guard. The surface administration would be called the Intermodal Transportation Administration (ITA), and would encompass the existing programs of the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA), the Federal Railroad Administration (FRA), the National Highway Traffic Safety Administration (NHTSA), and parts of the Maritime Administration. Reorganizing these components provides an opportunity for budget savings by (1) consolidating DOT's administrative and executive support functions, and (2) consolidating the Department's extensive field office structure.

DOT's headquarters administrative support structure for the surface transportation operating administrations employs about 1,100 people and costs about $88 million a year. As shown in appendix I, each of the modal administrations performs policy, civil rights, and public affairs functions; has an Office of Chief Counsel; and has an administrative office for budgeting, personnel, procurement, and other functions. These functions are also performed by the Office of the Secretary with about 470 people, at a cost of about $40 million. Merging the separate administrations would present an opportunity to consolidate these administrative support functions, streamline operations, and reduce duplication. For example, if consolidation reduced the budget for these support functions by just 20 percent, it could yield savings of about $26 million a year. Furthermore, merging the policy and budget activities of the operating administrations could help to promote the intermodal planning and decision-making goals in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). However, it must be noted that expertise in highways, transit, and rail will still be needed within the new structure.

Reorganization also affords DOT the opportunity to look at its existing field office structure. In fiscal year 1995, nearly 3,200 people were employed in what will become the ITA's field offices; and these offices cost $232.6 million to operate. As appendix II shows, 161 surface transportation field offices currently exist in the 50 states and the District of Columbia, and some cities have several offices. Given that DOT's customers are in virtually every city in the U.S., some type of field structure is appropriate. However, there may be opportunities to consolidate some offices, depending on DOT's assessment of the various field offices' missions and customer-related needs. Any

budget savings would need to be offset by moving expenses and related costs.

If the departmental reorganization does not occur, there still may be opportunities to streamline the field structure through colocation. Colocation occurs when two or more offices share a common office space, thereby potentially reaping the benefits of shared administrative services, such as reception, printing, mailing, copying, etc. The existing field structure does not generally take advantage of colocation. For example, the map in appendix II shows that the Denver metropolitan area has seven DOT surface transportation field offices. Some of these offices are located in different buildings in downtown Denver, while others are located outside Denver.

Changes to DOT's field organization need to be driven by what role field offices will have in carrying out the Department's mission and interfaced with the skills that will be needed. New technologies, such as Intelligent Transportation Systems, and transportation-related issues, such as energy conservation, land use concerns, and statutory requirements for monitoring the transportation impact on air quality increasingly require staff who are skilled in both highly technical and rapidly changing fields. DOT's efforts must recognize the changing role of DOT and its expanding customer base.

RESTRUCTURING OF DOT's GRANT DELIVERY SYSTEM STILL UNDER DEVELOPMENT

From a surface transportation standpoint, DOT has proposed creating a Unified Transportation Infrastructure Investment Program (UTIIP) that would contain several components. First, the proposal would combine the National Highway System (NHS) and Interstate Highway programs into one grant program. Second, it would combine the remaining ISTEA highway programs, except for Federal Lands, into a unified grant, along with the FTA's discretionary grant programs. Third, DOT would provide seed capital for state infrastructure banks to help promote private-public partnerships, and fourth, it would establish a discretionary program for the Secretary to fund projects of national and regional importance.

While many of the details of this new program structure are being worked out, DOT is considering ways of targeting some of the unified allocation grant funds. One proposal is to have set-asides for large metropolitan areas and for safety construction projects such as rail-highway grade crossings. NHTSA's highway traffic safety grants and FHWA's motor carrier safety grants would remain separate, outside the UTIIP structure. DOT's fiscal year 1996 budget also proposes that all outstanding new-start commitments be funded separately, until those commitments are honored. Finally, DOT proposes a separate funding category for

Amtrak assistance, the Northeast Corridor Improvement Program, and other FRA-funded Amtrak programs. This would be phased out after a 4-year transitional period, and after fiscal year 1999, states could use their unified allocation to support or expand Amtrak service.

The DOT budget is very confusing. It presents two different sets of fiscal year 1996 budget numbers--one associated with program categories as defined in the detailed budget justifications for the modal budgets and one associated with UTIIP. Unfortunately, there is a $3.2 billion difference between the two sets of 1996 budgetary authority amounts and reconciliation is difficult.

In addition, our comparison of the proposed budget authority for fiscal year 1996 UTIIP with 1995 budgetary authority for the programs that will make up UTIIP under DOT's proposal showed a gap of $2.5 billion. As a result, states would be receiving $2.5 billion less than in 1995 and would have to determine how to constrain their infrastructure investments. For example, the unified allocation grant that would provide the states $10 billion through UTIIP consists of highway, transit and bridge programs that in fiscal year 1995 totaled $12.2 billion. DOT officials contend the budget gap of $2.5 billion will largely be offset if states leverage part of their federal funds. (The potential for this leveraging will be discussed in the next section.)

DOT's plan envisions a greatly streamlined grant/project application and approval process that would simplify federal regulations and make it easier for states and localities to access federal funds. It is also designed to give them greater control over federal funds by providing them greater flexibility to choose projects that meet local needs and priorities, rather than compelling them to "force fit" projects into narrowly defined federal program categories.

While the general concept may have merit, DOT is still developing the details on how the streamlined application process would work; therefore, it is unclear at this time what rules and regulations would be changed, softened, or eliminated. Furthermore, as we piece together the details of the proposal, it is difficult to say to what extent increased flexibility would result from the new program. For example, under ISTEA states can already "flex" moneys between NHS and most other highway programs, as well as transit programs. However, because of the huge needs for both highway and transit projects, states have not used the ISTEA flexibility to a great extent. How much new

flexibility DOT's plan offers may depend on the extent of set-asides contained in the final proposal and the rules governing how these funds can be spent.

While we support continued flexibility of federal funds, based on our previous work, it needs to be balanced with well-defined roles and responsibilities that clearly establish accountability and responsibility. This is particularly important in areas of national concern such as the National Highway System which would represent about one-third of the funding in the UTIIP. The National Highway System carries over 40 percent of the vehicle miles traveled, 70 percent of commercial traffic, and is essential to the nation's commerce, tourism, and national defense. One way to promote accountability for the National Highway System is through performance measures, such as pavement condition and safety levels, which we have recommended be developed, but the Department has yet to implement.[1]

Furthermore, there is a continuing responsibility to ensure that federal funds are spent efficiently and effectively. According to DOT officials, oversight of federal dollars will still be a DOT role. However, it is not clear how this oversight will be carried out under the new grant delivery system. Our concern is anchored in past work where we found problems with DOT's oversight. As an example, our work found major deficiencies in FTA's grant oversight program.[2] While FTA has made substantial progress in addressing the problems found, it is unclear whether any changes proposed as part of the streamlined grant process might impede that progress.

State Infrastructure Banks Are Intended to Attract New Investment

As DOT crafts its proposal to restructure its grant delivery system, one key element under consideration is the creation of state infrastructure banks. DOT proposes to provide the states with $2 billion in seed capital ($2 billion of the $24 billion in the UTIIP). It is expected that this level of commitment will continue for some years into the future. The banks are likely to be patterned after the state revolving funds that support the Environmental Protection Agency's (EPA) wastewater treatment facilities.

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[1]National Highway System: Refinements Would Strengthen the System, GAO/T-RCED-94-266, July 15, 1994.

[2]Federal Transit Administration Grant Management, GAO/HR-93-16, December, 1992.

Like EPA's state revolving funds, state transportation infrastructure banks might be structured in two different ways. The first model is a simple revolving loan fund. Under this model, a state would lend capital to projects; project-based revenues (such as tolls or dedicated taxes) would be used to repay loans. The repayments would replenish the fund so that it could support a new generation of loans. The second model is a leveraged revolving fund. In this instance, states would use federal seed capital as collateral against which to borrow additional funds and in turn lend out the proceeds. Leveraging would thus increase the pool of capital available to support project loans.

The central argument in favor of infrastructure banks is that they can sustain and potentially expand a fixed sum of federal capital, often by attracting private investment. The administration's budget notes that the creation of state infrastructure banks is intended to help ameliorate cuts in capital grants, and estimates that $2 billion in federal capital can be expected to attract an additional $4 billion for transportation investments.

Other possible benefits include the banks' potential to: (1) offer a more accessible and lower cost source of capital for viable projects that would otherwise be unable to access the capital markets and (2) introduce greater discipline into the project selection process because projects will generally have to repay debt through tolls or other user fees.

On the other hand, some state officials and industry experts remain skeptical about the viability of state infrastructure banks. For example, large, sparsely populated states are apt to have difficulty making use of state infrastructure banks because they have few potential projects that could generate revenues sufficient to repay loans. GAO's past work on EPA's state revolving fund program corroborates this concern, as we found that state revolving funds' assistance to small communities was particularly limited.[3]

It is also uncertain whether even densely populated areas will be able to offer many revenue-bearing projects with the capacity to repay state infrastructure bank loans. One key limiting factor to the banks' effectiveness will be the public's willingness and ability to pay tolls or additional taxes to support projects that are financed with federally-supported debt rather than federally-provided grants. As a final point, some infrastructure finance experts also question state infrastructure banks' prospects for attracting private sector involvement--one

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[3]Water Pollution: State Revolving Funds Insufficient to Meet Wastewater Treatment Needs, GAO/RCED-92-35, January, 1992.

of the program's primary goals. One principal barrier to attracting private capital is the fact that the Tax Reform Act of 1986 restricts private involvement in tax-exempt debt.[4] A number of observers told us that states that choose to leverage their infrastructure banks will likely do so with tax-exempt debt because bondholders are willing to accept lower interest rates in exchange for the bonds' tax-exempt status. Restrictions on private involvement in tax-exempt debt are not unique to infrastructure banks, however, as a result of the restrictions, private participation in projects financed by leveraged banks could be inhibited under the terms of existing tax law.

TIGHT BUDGET ENVIRONMENT REQUIRES SOME HARD CHOICES FOR SURFACE TRANSPORTATION

Federal-aid highway program spending is generally constrained by limiting the total amount of funds that can be obligated in a given year. The program is also designed to reward states that spend their full share of the obligation limitation. In fiscal year 1994, these rewards amounted to $501 million. While most highway programs are subject to obligation limitations, demonstration project spending is not subject to such a limitation. However, demonstration projects are often slow in using available funds and have a tendency to exceed authorized funding levels. Similarly, the Intelligent Transportation System Program, which encompasses numerous surface transportation applications of electronics, telecommunications, and information processing technology, received an authorization of $659 million in 1991 for six years. Yet, after only four years its appropriations have exceeded $800 million--nearly $150 million more than was authorized for the six year period.

Rewards for Using Obligation Authority

Section 1002 of ISTEA is geared to seeing that the annual highway obligation authority for the federal-aid highway program is fully used. It accomplishes this by providing in August each year for a redistribution of authority from those states unable to obligate their full share to other states that are able to obligate more than their initial share. In addition, FHWA has obligation authority for areas that it administers, such as research contracts. This obligation authority is also subject to redistribution if not fully used by the end of a fiscal year. In

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[4]In the case of tax-exempt debt, bondholders' interest earnings are exempt from federal taxes. The Tax Reform Act of 1986 prohibits private involvement in tax-exempt bond financing if the private sector a) uses more than 10% of the facility and b) finances more than 10% of the debt. Exceptions under the Act include public airports, docks and wharves.

fiscal year 1994, states fully used their obligation authority; thus, no obligation authority was redistributed to the states. However, $293 million in obligation authority was redistributed from FHWA managed activities, such as for research contracts, to the states. All but three states--Hawaii, Tennessee, and Virginia--participated in this redistribution in fiscal year 1994.

In addition, states receive a bonus for complete use of their obligation authority before September 30th. A state derives a bonus--the authority to obligate an additional 5 percent more than initially authorized in a given year--if the state uses up both its initial obligation authority and any obligation authority it received through the August redistribution process mentioned above. While the bonus is 5 percent of a state's initial obligation authority for major federal highway programs, the total nationally cannot exceed 2.5 percent of the annual authorization. In fiscal year 1994, an additional $208 million in bonus obligation authority was provided to all but four states--Hawaii, Tennessee, Vermont, and Virginia.

Demonstration Projects Are Not Subject to Obligation Limitations But Are Often Slow In Using Available Funds

Under current law, the obligation limitation applies to major federal-aid highway programs, such as the Surface Transportation Program. But, a few funding categories, including allocations for demonstration projects, are not subject to the limitation. The administration's fiscal year 1996 budget, however, proposes that obligations for demonstration projects be limited to $290 million, instead of $1.1 billion that would otherwise be provided in the absence of an obligation limitation for demonstration projects.

The concept of subjecting demonstration projects to an obligation limitation merits consideration, as these project are often slow in using available funds. For instance, $4 billion has been allocated for ISTEA demonstration projects, but $2.2 billion of these funds had not been obligated as of February 1995. Funds authorized for demonstration projects are available until expended--but only for the specific project for which they were authorized. Since our work has shown that some of these projects languish in early project development or never get started at all, individual project status is important to identify projects that are no longer needed. FHWA recently designed a system to capture information on individual project authorizations. According to a senior FHWA official, approximately 70 percent of the project data has been entered as of February 1995. Complete project data will be needed if FHWA is to effectively carry out its proposal to cancel $400 million in unobligated balances in fiscal year 1995.

Furthermore, demonstration projects frequently cost more than initially expected. In 1991, we found that for 66 projects reviewed, the cost to complete the projects frequently exceeded authorization levels. In fact, the federal funding and state match together accounted for only 37 percent of total anticipated project costs. The tendency for total project costs to exceed authorized funding persists under ISTEA. FHWA estimates that federal funds made available under ISTEA for demonstration projects will cover only 25 percent of total project costs. The trend of demonstration projects to cost more than originally expected could present an additional drain on future finances, if extra federal funds are needed to cover the cost of project completion.

Intelligent Transportation System Funded Above Authorization and Not in Line With Program Goals

The Intelligent Vehicle-Highway Systems Act of 1991 established what is now referred to as the Intelligent Transportation System (ITS) program, which encompasses numerous surface transportation applications of electronics, telecommunications, and information processing technology, ranging from electronic toll collections to futuristic, fully automated highways. The act authorized $659 million to support the program over 6 years, but after only 4 years its appropriations have exceeded $800 million--almost $150 million more than was authorized for the 6-year period. The ITS program has also grown from a few projects in 1992 to 268 projects as of January 1995. The Senate and House noted in their respective fiscal year 1995 appropriations reports that the program needed time to assess progress and ensure effective management and oversight because of its rapid growth. The administration is requesting $352 million for fiscal year 1996.

The Administration is also proposing $300 million to fund a new program referred to as the Congestion Relief Initiative. Projects would be selected if they involved or advanced the use of market-based measures and ITS technologies to reduce highway congestion. The program appears to extend the ITS program from the Intelligent Vehicle-Highway Systems Act's intent of researching and testing promising technologies to the acquisition and deployment of specific ITS technologies, such as traveler information systems. The initiative departs from the ITS program goals of allowing the commercial deployment of ITS technologies to occur based on state and local governments' needs. In looking at the federal role in ITS within the context of current fiscal constraints, questions arise about (1) the ITS program's appropriations exceeding authorized levels and (2) whether the goals of the Congestion Relief Initiative are aligned with those of other DOT programs.

FEDERAL TRANSIT ASSISTANCE

With shrinking federal dollars available, the long-standing debate on the federal role in providing operating assistance continues, as does a question of whether the nation is getting the most value for the federal dollar with discretionary capital funding for transit projects.

Federal Operating Assistance Reductions Would Have Varied Consequences

The Congress has authorized the use of federal funds to help pay for transit operating expenses since 1974. During the annual appropriations cycle, the Congress sets a limit on the amount of funds that are available as operating assistance. In fiscal year 1988 through 1994, the Congress appropriated just over $800 million per year, but in fiscal year 1995, the appropriation was reduced to $710 million, and the request for fiscal year 1996 is for $500 million, a 30 percent decrease.

The proposed reduction in operating assistance will not have the same impact on all transit operators. Generally, the larger the urbanized area, the less reliance transit operators have on federal operating assistance. For example, according to recent FTA statistics, large urbanized area transit operators rely on the federal operating subsidy for an average of 4.3 percent of their operating income. On the other hand, federal operating assistance for some transit operators in smaller urbanized areas accounts for over 40 percent of their operating funds. However, even among large transit operators differences exist. We found that, in fiscal year 1993, transit operators in 10 of the largest urbanized areas received about 58 percent, or $372 million, of the funds appropriated for that category. Because of the size of their operations and the additional state and local assistance received, federal operating assistance accounts for an average of 3.1 percent of their total operating revenues. On the other hand, Miami and Detroit, which are also in the largest urbanized category, received federal operating assistance that represented 21 percent and 13 percent of their operating revenues, respectively.

According to the American Public Transit Association (APTA), a non-profit trade group, when its members were asked what actions they would take to counteract deep federal cutbacks, three quarters of the 82 responding transit authorities said they would seek added capital and operating funds from state governments. In addition, 74 percent of the respondents predicted that their systems would have to raise passenger fares to maintain service. Transit operators are also addressing increasing operating costs from existing federal mandates such as the Americans with Disabilities Act, the Clean Air Act

Amendments, and federal drug and alcohol testing requirements. FTA estimates that these mandates could total about $850 million annually when fully implemented.

Transit advocates state that obtaining either additional state or local funding to offset reductions in federal assistance would be difficult since transit operators have regularly looked to higher state and local contributions to meet their operating needs in the past. In fact, state and local support for transit operations increased over 300 percent between 1979 and 1992, according to the most recent APTA statistics. In addition, FTA data show that about 50 percent of the transit operators receiving state and local operating assistance had a dedicated source of revenue.

There is another side to the debate on the costs and benefits of reducing federal operating assistance. Past administrations have questioned whether it was an appropriate federal role to provide operating assistance to transit operators. They pointed out that with limited resources, capital investments will yield long-term returns on investment while short-term operating assistance will not. The Congressional Budget Office noted that eliminating the operating subsidy would further shift transit responsibilities to local authorities, requiring them to make better use of more limited operating funds and existing capital resources by making transit services more cost-effective and efficient.

Funding New Transit Investments Will Require Difficult Decisions

According to FTA officials, the Congress has allocated more and more discretionary capital funding in the new starts category--new fixed guideway systems and extensions to existing systems--to projects that are in the early planning stages of the investment cycle. Within a relatively fixed funding total, this practice tends to decrease the available funding for projects that are in final design and construction and, by FTA principles, qualify for new start funding. Early funding of projects tends to lock them into federal funding for a number of years until the projects are completed. This could amount to hundreds of millions of dollars in funding, of which several million dollars would be spent for project planning and preliminary design.

For fiscal year 1995, FTA requested approximately $397 million in new start funding for five projects that had existing full funding grant agreements. These agreements establish the terms of federal financial participation, including the maximum amount of federal assistance for the project which is limited to 80 percent of the total project cost. Federal commitment on an annual basis is subject to appropriations. The Congress appropriated only $347 million for these projects in fiscal year

1995 while an additional $300 million of new start money was appropriated for 27 other projects. Of the 27, 6 had full funding grant agreements, and 16 were in the early phases of the investment process. For fiscal year 1996, FTA has requested $725 million for 12 projects that currently have or are expected to have signed full funding grant agreements.

Since new start funding is limited by authorizing legislation and further by appropriation, funding projects early in the process could inhibit projects that are entering final design and construction from finishing as scheduled. When this occurs, FTA cannot fulfill its commitment under full funding grant agreements, which could result in projects missing deadlines and incurring cost increases. For example, the Portland Area Transit Authority received a full funding grant agreement in 1992 that committed FTA to funding the authority's new start project at a level of $112 million in fiscal year 1995. However, because new start moneys were allocated to projects early in the planning phase, the authority received only $98 million. As a result, the Portland Area Transit Authority had to seek interim financing, which increased total project cost by about $10 million.

Transit operators with projects in the earlier planning and preliminary design phases can apply for funding from other federal transit programs that target planning. Local authorities can also use transit formula funding for planning but must trade off planning and designing a new project with funding on-going operating and capital expenses.

FINANCIAL AND OPERATING CONDITIONS THREATEN AMTRAK'S LONG-TERM VIABILITY

We are aware that the Subcommittee intends to hold a separate hearing on Amtrak in the near future. However, in light of the Administration's proposal to include Amtrak funding in the UTIIP, and because our recently issued report describes Amtrak's financial and operating conditions,[5] you asked us to discuss Amtrak today.

Amtrak's financial and operating conditions have always been precarious, but have deteriorated steadily since 1990 to the point where it's ability to offer service over the current nationwide system is seriously threatened. Since 1971, Amtrak has received over $13 billion in federal funding. This support has increased from $640 million in 1990 to almost $1 billion in 1995, but the increase has not covered the widening gap between

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[5]Intercity Passenger Rail: Financial and Operating Conditions Threaten Amtrak's Long-Term Viability, GAO/RCED-95-71, Feb. 6, 1995.

Amtrak's expenses and revenues. For example, Amtrak had a negative balance in working capital of $227 million at the end of 1994, and projects an after-subsidy operating deficit of $200 million in 1995. Requirements for capital investment have grown, with unmet needs for equipment and improvements in facility and track now totalling several billion dollars.

Over the past several years, Amtrak has taken actions to address this situation by assuming debt, deferring maintenance, and reducing staffing. These actions while necessary for day-to-day survival, have simultaneously diminished the quality and reliability of service and contributed to the decline in ridership and revenues. Most recently, on December 14, 1994, Amtrak announced an aggressive plan to reduce annual expenses by $430 million by adjusting routes and service frequencies, retiring its oldest cars, reducing staff, and improving service and productivity. These actions are directed at closing the gap between the expected operating deficit and federal grants for 1995. However, the gap will begin growing again in 1996, totalling over $1 billion by 2001, and the announced actions do not resolve Amtrak's need for equipment and improved facilities. Finally, the success of Amtrak's plan is very dependent on financial support from state and local governments as well as other legislative changes, such as providing Amtrak with greater flexibility to contract out its work.

It is unlikely that Amtrak can overcome its problems in financing, capital investments, and service quality--and continue to operate the existing 25,000-mile nationwide system--without significant increases in passenger revenues or subsidies. Amtrak's ability to overcome these problems is limited by an unfavorable operating environment, including intense fare competition from airlines. In addition, Amtrak estimates that it needs over $4 billion to bring its equipment and facilities systemwide, and track in the Northeast Corridor, up to a state of good repair. Also, Amtrak must soon negotiate new labor agreements and may confront additional costs for new agreements with freight railroads to use their track.

We believe that continuing the present course--maintaining the same funding level and route system, even with Amtrak's recently proposed service cuts--is neither feasible nor realistic because Amtrak will continue to deteriorate. Substantially increasing funding, which would permit Amtrak to make capital investments and improve service quality, might be difficult to achieve given current budget constraints. At the other extreme, eliminating subsidies and privatizing Amtrak would be difficult to achieve because few private firms would be willing to assume the risks of providing intercity passenger service, considering that no Amtrak route earns sufficient revenues to cover all its costs. One option would be to refocus Amtrak's efforts and realign or reduce the current route system, retaining service in

locations where Amtrak can carry the largest number of passengers in the most cost-efficient manner consistent with available funding. This option does not preclude retaining relatively unprofitable routes or operating high-speed service outside the Northeast Corridor, if the states or other entities are willing to make the necessary investments and cover any operating deficits.

Amtrak is at a critical juncture. A number of issues raised by Amtrak's financial and operating condition clearly go beyond the ability of Amtrak and its Board of Directors to resolve and will require congressional consideration. These issues include the amount of resources the Congress wants to commit to rail passenger service and how any remaining deficits and capital investment requirements might be covered. A related issue that will need resolution is whether all these corridors need to be connected in a national route network.

In light of Amtrak's financial and operating problems, the Congress may wish to consider whether Amtrak's original mission of providing nationwide intercity passenger rail service, at the present level, is still appropriate. To facilitate the definition of the scope of Amtrak's mission, the Congress could direct Amtrak or a temporary commission, to make recommendations and offer the options to the Congress defining and realigning Amtrak's basic route network so that efficient and quality service could be provided within the funding available from all sources.

Additionally, our report recommended that the President of Amtrak provide the Congress with cost and related information on proposed legislative changes Amtrak believes could improve its long-term viability and the expected effect of these changes on Amtrak's finances and other affected parties. These include amending the Rail Passenger Service Act to allow greater flexibility in negotiating labor agreements with regard to labor protection and contracting out Amtrak's work, removing payments under the Railroad Retirement Act for non-Amtrak employees from Amtrak's budget, authority to issue tax-exempt debt, and exempting Amtrak from federal fuel taxes. This information will provide a vehicle for Congressional deliberation on the merits of each of Amtrak's legislative proposals.

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Although our testimony today focused on DOT's restructuring and some of the major budgetary decisions facing the Subcommittee, we also recognize that the Subcommittee has always maintained a strong interest in DOT's safety mission, an interest that we share as well. In this regard, we plan to continue our work on safety issues by focusing on state seat belt enforcement

polices, how safety can be improved on rail grade crossings, and the implications of Mexican trucking regulations under the North American Free Trade Agreement.

Mr. Chairman, that concludes my prepared statement. We would be happy to address any questions that you or other members might have.

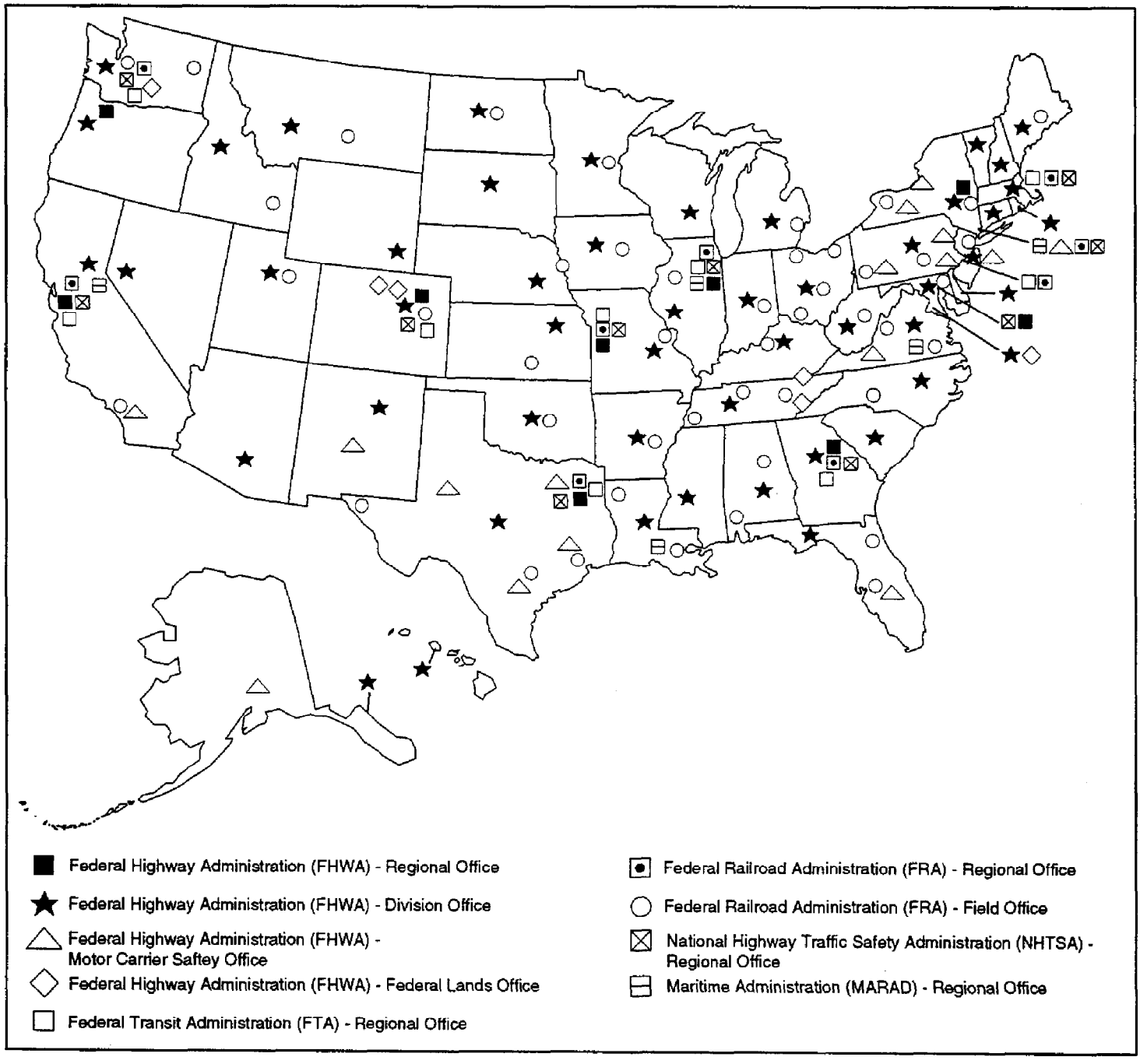
APPENDIX I

Staffing For DOT Surface Transportation Operating Administration's Support Functions

	STAFFING					TOTAL
	FHWA	FTA	FRA	NHTSA	MARAD	
Office of Administrator	19	7	10	17	11	64
Administration	277	62	63	80	105	587
Policy	94	61	32	10	43	240
Counsel	38	23	41	8	42	152
Civil Rights	19	16	3	4	--	42
Public Affairs	7	5	4	12	8	36
TOTAL STAFFING	454	174	153	131	209	1,121

Source: DOT

Existing Surface Transportation Field Offices



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