

# David Gunn Attacks Myths About Amtrak

**The following testimony was given by David L. Gunn, President and CEO of Amtrak before the House Committee on Appropriations, Subcommittee on Transportation, Treasury and Independent Agencies on April 10. Although it was written before the Bush Administration's latest call for Amtrak's privatization, (see page 1) it anticipates and answers much of the flawed thinking embodied in that approach.**

Mr. Chairman and members of the committee, I thank you for the opportunity to appear today to discuss Amtrak's FY04 funding request. Although the Amtrak account is a new one for this particular subcommittee, many of you have been involved in this issue for many years.

Next month, I will have completed my first year at Amtrak. As I have told some of you, what I found when I arrived was a company in big trouble. Amtrak was only a few weeks away from insolvency and all my time and effort, during those early weeks, was consumed by trying to get a loan so that we could simply keep going. Fortunately, we were able to negotiate a \$100 million loan with the U.S. Department of Transportation followed by supplemental funding from Congress that averted that crisis.

Sitting here today with six months of the fiscal year gone, I can tell you that I think we will make it through the year without running out of money so long as there are no cataclysmic events outside of my control. In fact, I fully expect that we will close our books for FY02 in the next two to three weeks, and I think we will see a good report from our accountants. Remember last year, we did not close our books until September because it took nearly nine months to clean them up. What we have done in the past year reflects, in large part, the achievement of this milestone. In fact, we now are able to produce a monthly financial report including a Generally Accepted Accounting Principles income statement and balance sheets two weeks after the end of each month, which we share with this committee, OMB and the Department of Transportation.

My immediate goals over the past year were to maintain solvency, begin an incremental program of critical capital investment, create a lean organization with tight financial controls, and build a zero-based budget. I have attached to my testimony a monthly performance highlights chart which shows that we have stayed true to this course. In the process, we streamlined our organization, eliminated nearly 1,000 positions so far, announced the closing of a call center, exited the money losing express business, rationalized the mail business, eliminated two trains and entered into new negotiations with state partners to have them cover 100% of the direct operating loss for state services. Overarching all of this was and is the continuing need to rebuild our credibility and so I have taken steps to end the spin and happy talk press releases. Instead, we would prefer to let our actions speak for us. However, our biggest failure has been our inability to restore liquidity to the company.

For FY04, we are requesting \$1.812 billion of which \$1.044 billion would be spent on capital investment and \$768 million for operating support. The capital investment would be used to continue the restoration of our fleet to improve reliability, service and revenue, fulfill our statutory mandates and make critically needed infrastructure investments to the existing system and the Northeast Corridor, which we own. On the operating side, the increase over last year is

driven in large part by the growth in our debt service – which should peak in FY04 - higher costs for insurance, and increased employee benefit costs. There is no new borrowing assumed in this budget, nor any expansion of service. We expect to see a reduction from FY03 to FY04 in our total costs.

As I have said publicly, the problems we have appear to some to be overwhelming, but I think many of them can be overcome. There is no silver bullet or even a cartridge of silver bullets that will fix the problem. The solution requires a consistent multi-year funding plan, patience and small steps. For instance, beginning in late 1998, the company began to defer capital to stay on the "glidepath" to self-sufficiency, the last great idea for Amtrak, and so among the activities that fell along the wayside was the repair of wrecked equipment. Last fall, nearly one in ten pieces of equipment was out of service awaiting wreck repair. Some trains had their consists changed for lack of equipment; other trains were simply shortened and inefficient turnaround servicing was required. Now we have reestablished production lines for wrecked cars, and by the end of April, 15 of 22 cars budgeted for repair this year will be fixed and back in service. There are many other examples of the small steps we are taking to make things more efficient.

One of our biggest obstacles is the lack of working capital. Even if I hit my budget, I will end the year with barely \$10 to \$20 million in the bank. In other words, we are one bureaucratic slip up away from insolvency. Revenue will be off nearly \$100 million from what we budgeted last year. The economy, war and problems with our Acela trainsets are the biggest reasons for this downward trend. However, we have been controlling costs and so far this has basically offset the loss in revenue.

The only way to bring discipline to large organizations like Amtrak is through a tight organization, competent managers, and the budget process. My process for managing includes five basic tools:

- 1) organization with minimum layers, individual accountability for specific functional areas, organization charts documenting the chain of command and all authorized positions;
- 2) clear goals and objectives;
- 3) an operating budget based on monthly staffing levels;
- 4) a detailed multi-year capital budget;
- and 5) a monthly financial reporting and performance reporting for specific responsibility centers and projects.

With these five tools in place, you can manage. For too long Amtrak did not have a process that created internal accountability and the annual funding provided by Congress has always left it close to the edge. So it is no wonder why the problems we have had are both significant and recurring. Even with tighter management and better financial accounting, there are still big risks. However, through better management, we will be able to avoid these recurring financial crises, which divert attention from the real problems, and decisions which need to be made.

In closing, I would like to share with you six myths about Amtrak which need to be understood if there is to be meaningful reform.

**Myth #1 — Amtrak can be profitable.** No national rail passenger system in the world is profitable. Without public subsidy, there will be no passenger rail transportation systems in the United States.

**Myth #2 — The private sector is dying to take over our services.** Remember why we were formed. We are what is left of a once privately run enterprise.

**Myth #3 — Long-distance trains are the problem.** This is perhaps one of the biggest

myths. If you eliminate every long-distance train, your avoidable costs would decrease about \$70 million a year—after about a year and a half of making labor protection costs. On a fully allocated basis, after five years, you might save annually about \$300 million. Focusing on this problem is not going to save Amtrak. This approach is a red herring.

**Myth #4 — Amtrak is a featherbed for labor.** Our wage rates are about 90% of the freight industry and are even lower when compared to transit. Wages are not the problem; generating a higher level of productivity, that is the challenge. It is management's duty to seek such improvement.

**Myth #5 — The Northeast Corridor (NEC) is profitable.** The NEC may cover most of its above-the-rail costs, but it is an extremely costly piece of railroad to maintain. The NEC is not profitable and never will be. Sure, private groups might be interested in having it, but they would take it only with the promise of massive capital infusions.

**Myth #6 — There is a quick fix—reform.** The word reform is like catnip to those interested in a quick fix to Amtrak. If the answer were quick and easy, we would have solved the problem long ago. What needs to be done is to tightly manage the company and its finances and begin to make incremental but critical improvements to plant and equipment.

At some point, Congress will turn its attention to the reauthorization of Amtrak and it will be in this venue that the future of rail passenger service will be decided. In the year that I have been here, I have been struck by the amount of attention that Amtrak generates without real progress occurring in addressing the long-term funding problems that everyone knows exist. I realize that Amtrak is partly to blame for this paralysis of action; recurring crises distract us from the central issues that should be discussed. I know that Amtrak for too long had been engaged in the charade of pleasing its detractors by endorsing the concept of self-sufficiency. Let me be clear, however, that despite the best management that could be brought to this railroad, without support for a realistic investment over the next few years, we will always remain on the edge and the problem will grow worse, risking a real disaster either physically and/or financially. The lack of a detailed policy will soon produce unwanted consequences.

We are putting the final touches on a modest five-year capital plan, which will show that with a consistent level of funding from FY04 through FY08, we will bring the railroad up to a state of good repair. If fully executed, our equipment will be in good condition on regular maintenance cycles, improving reliability and utilization, and the backlog of critical needs to our Amtrak infrastructure will be gone. Regardless of what policymakers decide is the future for Amtrak or rail passenger service in the United States, I would argue that the steps outlined in our plan would have to be done in any case and the first down payment on that would be in FY04.

Unfortunately, in the past few years, a troubling pattern has emerged of creating new oversight responsibilities as a substitute for a real discussion on the issue. This is a "mugs game," a distraction with no real benefit to anyone unless the goal is to interfere with this company reaching fiscal stability and a state-of-good-repair. Repairing and improving this railroad is my immediate goal and is in everyone's interest. We have a five-year plan that will accomplish this and I am asking for your support and leadership as we move forward. Moving down that path will help all of us to avoid these regular and recurring crises that have become so tiresome.