

TESTIMONY

OF

**DAVID M. LANEY, ESQ.
CHAIRMAN, AMTRAK BOARD OF DIRECTORS**

BEFORE THE

SUBCOMMITTEE ON RAILROADS

OF THE

**HOUSE COMMITTEE ON
TRANSPORTATION AND INFRASTRUCTURE**

10:00 a.m.

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2325 RAYBURN HOUSE OFFICE BUILDING**

Chairman LaTourette, Members of the Committee: My name is David Laney. I am the Chairman of the Amtrak Board of Directors. I am also a partner at Jackson Walker, a Texas law firm, and have spent much of my career working on transportation issues, including six years as Chairman of the Texas Transportation Commission.

I know we are here today to talk about the recent leadership change at Amtrak, and I will speak to that in a moment. But I want to start off today by talking a little about Amtrak's recent performance, and the need for more fundamental change to put the rail service on a stronger, more financially sustainable track.

At the outset, I want to make it clear that our Board is 100% committed to leveraging the full potential of intercity rail service in our national transportation mix. We want to fix Amtrak's problems, and make it better. It is not our goal to destroy, dismantle or privatize Amtrak as some have falsely claimed. My hope is that today, and going forward, we can have a spirited and constructive debate about the best strategy for improving Amtrak – a goal that all of us share.

So, let's talk about where Amtrak stands today:

As I said when I testified before this subcommittee in September on our Strategic Reform Initiative, David Gunn has helped Amtrak achieve much needed financial stability. He has focused the railroad on repairing its core assets in the Northeastern Corridor. Today, Amtrak is a better run company as a result of his leadership, and he and the employees of Amtrak deserve credit for these significant achievements.

At the same time, however, the Amtrak Board cannot just look in our rear view mirror and be content at the distance we have come. Huge challenges still lie ahead that Amtrak will not and cannot overcome on its present course. These urgently need our attention, our creativity, and most of all, our concerted action.

For example:

- For the last four years, in spite of the improvements noted, Amtrak has had operating losses of nearly \$500 million each year. It may be that these losses would have been worse in recent years without some of the actions that David Gunn and the Board took. But the critical point is that Amtrak's financial performance has not improved in the last three years – we've lost the same amount of money every year. And over the last four years, Amtrak has lost two billion dollars in its operations, a bottom line that is not acceptable, and cannot continue indefinitely.
- Second, a key indicator that Amtrak's business needs substantial re-engineering is the fact that labor costs (salary and related expenses including benefits) were 103% of passenger related revenue in fiscal 2005. In other words, in our capital intensive business where labor is only one element of our cost structure, the cost of Amtrak's labor force alone exceeds the revenues derived from passengers on our trains. Few, if any businesses, would survive long with such outsized labor costs. It would be nice to fix this problem through a significant boost in passengers and ticket revenue, but to get our labor costs under control more quickly and certainly, Amtrak will need to outsource services, replace labor with technology, change labor agreements or take other significant steps.

- Third, in three areas where Amtrak has substantial difficulties that drive costs and losses up – food and beverage service, long distance service, and on-time performance problems– quite honestly, there is little progress to report, and much remains to be done.

With these challenges and others in mind, the Board, with the support of management, put together a strategic plan to map out future reforms for Amtrak that would build on the progress already made. We completed this plan in April, and gave testimony on it to this committee in September. As I described then, the plan advances four essential objectives:

1. Development of passenger rail corridors based on an 80-20 federal state capital matching program, with states becoming “purchasers” of a variety of competitively bid corridor services.
2. Return of the Northeast Corridor infrastructure to a state of good repair and operational reliability
3. Preservation of our national long distance system with gradually restructured routes that will over time have to meet minimum financial performance requirements.
4. The opening of intercity passenger rail to competition and private commercial participation.

This now brings me to the issue of our management change. The Strategic Reform Initiative was developed with the knowledge that the progress we had made to date was only a beginning, and that Amtrak’s present course was not sufficient to significantly improve the railroad’s performance. David Gunn participated reluctantly and often not constructively in the development of this plan. When it came to its implementation, he became, at best, an unwilling bystander. His resistance to the strategic initiative presented the Board with two problems:

- One, David’s refusal to go in several new directions meant that Amtrak would continue on its present course – flat operating losses, unsustainable labor costs, money losing long distance and food services and more;
- Two, it meant that while the Amtrak Board was accountable to the Congress, Administration and public for the organization’s performance, our chief executive officer was accountable to no one above him.

In the end, the Board felt that we had no choice but to release David because neither of these outcomes was acceptable. But let me say, this was a decision of last resort. It was a decision we wished that we did not have to make. This decision was not made casually or precipitously as some have suggested. On the contrary, the decision was made with care, deliberation and objectivity over an extended period of time. Most importantly, the action taken by the Board was the right decision based on David Gunn’s overall performance during the past many months, and it is our final decision.

Last, before I finish I’d like to address the issue of the Board’s September decision to create a structural mechanism – either a wholly owned subsidiary or separate division – to more clearly separate the financial management and accounting for train operations from the infrastructure in the Northeast Corridor. Much has been said about this decision and most of this is misinformed.

Current and potential Amtrak partners will not invest in our infrastructure or underwrite our operations if they don't have confidence that they are getting what they pay for – no more, no less. This is a particular concern now when there is growing interest in bringing the Northeast Corridor up to a state of good repair after years of underinvestment. Separating the accounting and financial management of these distinct business operations is just good business. It is not a prelude to an asset sale or the privatization of Amtrak; the Board supports neither at this time which we made clear in our Strategic Reform Initiative. Finally, the Board was very clear in adopting the strategic plan that Amtrak should continue to control the management of both train operations and infrastructure on the Northeast Corridor. The complexities and risks of a different arrangement at this time simply outweigh the benefits.

That concludes my statement, Mr. Chairman. I'd be happy to answer any questions.