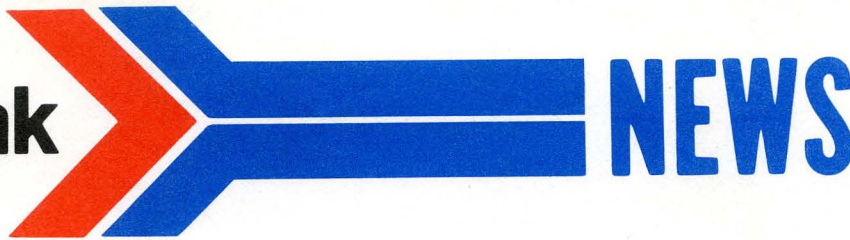


Amtrak



National Railroad Passenger Corporation
955 L'Enfant Plaza North, S.W.
Washington, D.C. 20024

BACKGROUND ON AMTRAK

THE RAIL PASSENGER SERVICE ACT

The Rail Passenger Service Act signed October 30, 1971, by President Nixon authorized the National Railroad Passenger Corporation to manage the basic national rail network and be responsible for the operation of all intercity passenger trains -- excluding commuter trains -- under contracts with the railroads.

Public reaction to the law ranged widely from complete skepticism that the mandate would be achieved to a vision of the NRPC as an instrument for widespread revitalization of rail passenger service in the United States. Clearly, the spirit and intent of the law present an image of the new corporation as a largely private, for-profit enterprise; but that, above all else, embraces the significant public trust of rebuilding rail passenger service into a viable part of the nation's transportation system.

CONGRESSIONAL MANDATE

The Rail Passenger Service Act of 1970 identifies three underlying purposes that share the fundamental philosophy and objectives of the new corporation. Specifically, the NRPC is charged by the Congress to:

1. Provide modern, efficient intercity rail passenger service within the basic rail system of the nation.
2. Employ innovative operating and marketing concepts to develop fully the potential of modern rail service in meeting intercity transportation needs.
3. Operate on a "for profit" basis.

THE CHALLENGE

Viewed against the perspective of the current status of passenger service, the Congressional mandate presents a difficult challenge to the National Railroad Passenger Corporation (AMTRAK): Turn around a key element of the transportation system by rebuilding both the image and substance of rail passenger service.

OBJECTIVES OF THE CORPORATION

The enormity of Amtrak's task emphasizes the fact that early progress will be modest at best. Thus, the underlying thrust of the Corporation's efforts is aimed at a gradual revitalization of public confidence in rail passenger service by demonstrating an immediately increased regard for passenger needs through substantive service improvement. These should dovetail over the long term with the Corporation's overriding objective to attract the traveling public back to the trains. Increases in passenger traffic over the longer term are imperative to 1) provide the financial means to offer new services, and 2) ultimately position the new Corporation on a reasonably sound financial footing.

In aiming toward its longer term objectives of rebuilding public confidence, attracting more passengers, and developing a reasonably viable system from an economic standpoint, the Corporation set some specific short-term or first-year goals. In summary terms, these goals include:

1. Completing an efficient takeover of rail passenger service from the railroads in accordance with the Congressional mandate.
2. Noticeably increasing the consideration with which Amtrak and railroad employees handle the public. These qualities of consideration and courtesy must exist in fact and equally important, be perceived by the traveling public.
3. Improving the quality of service that can be noted readily by the riding public. These service improvements have been directed primarily toward on-time train performance and clean, well-maintained equipment.
4. Building an effective, aggressive management team dedicated to the long term effort of making rail passenger service a successful operation. Further, and more specifically short term, is the task of developing positive programs to gain an increasing share of the travel market.

Obviously, the first few years must be viewed as a start-up and building period. While the Corporation aims during this phase to operate as effectively as it possibly can, it would be unrealistic to expect either profitable or even near breakeven operations. Rather, the main thrust has been to make progress in upgrading service, rebuilding image, and attracting more passengers. This strategy will offer the best opportunity long term to make the rail passenger system most successful in terms of both public service and sound finance.

FUNDING

The Corporation received an initial Federal grant of \$40 million, \$100 million in loans guaranteed by the Federal Government, and approximately \$197 million in entry fee payments from the railroads, payable in monthly installments over a three-year period.

On October 18, 1971, the Corporation submitted to the Department of Transportation -- its funding agency -- a request for \$170 million, its projected cash requirement for the period up to June 30, 1973.

OPERATIONS

Beginning May 1, 1971, the Corporation assumed the responsibility of managing the operation of intercity passenger trains between the city-pair end-points designated by Transportation Secretary Volpe on January 28, 1971. Amtrak's newly released schedule (November 14, 1971) includes approximately 1400 trains a week over about 22,000 miles of track reaching more than 350 cities and towns in the United States. The Corporation serves all 29 cities in the U.S. over one million population and hundreds of smaller communities as well.

The railroads that signed contracts with Amtrak include: the Atchison, Topeka and Santa Fe; Burlington Northern; Baltimore & Ohio-Chesapeake & Ohio; Chicago, Milwaukee, St. Paul and Pacific; Gulf, Mobile and Ohio; Illinois Central; Louisville and Nashville. Also included are: the Missouri Pacific; Penn Central; Richmond, Fredericksburg and Potomac; Seaboard Coast Line; Southern Pacific; and Union Pacific.

Three rail lines -- the Denver and Rio Grande Western, the Rock Island, and the Southern Railway -- which were offered contracts, declined and chose not to operate under the Amtrak system. As a result, these lines must continue their intercity passenger service until January 1, 1975, when they can then petition to discontinue.

Since its initial announcement of route selections on March 22, 1971, the Corporation has been continuously examining and reevaluating the system to determine if additional service is needed on existing routes, or if new routes are called for. Service that has been provided in addition to the basic system includes:

1. Since the D&RGW elected not to join Amtrak, the Corporation chose to operate the Denver-Ogden segment of its Chicago-San Francisco route over Union Pacific tracks serving Cheyenne, Wyoming, as an intermediate stop.

2. Under the Rail Passenger Service Act of 1970, the Corporation may experiment with intercity rail passenger service outside the basic system at any time. Such trains are operated on a provisional basis and can be discontinued if, after a reasonable period of time, the public does not utilize the services provided. Experimental service instituted since May 1 includes: 1) tri-weekly service between Minneapolis, Minnesota and Spokane, Washington via Bismarck, North Dakota, Billings, and Butte, Montana (June 14), and 2) daily West Virginia service between Washington, D.C. and Parkersburg, West Virginia (Sept. 7).

3. The Act also made provisions for participation by regional agencies in service not included in the basic network. Such an agency can petition the Corporation to provide service so long as it is prepared to pay no less than 2/3 of the loss incurred in operating the service. Such service provided since May 1 includes: 1) service from New York to Chicago through Buffalo and Cleveland (May 10); 2) service from Boston to Washington via Worcester, Springfield, Hartford, New Haven, and New York with through cars as far as Philadelphia (May 17); and 3) service between Chicago, Illinois and Quincy, Illinois via Macomb (Nov. 4).

THE AMTRAK COMMITMENT

After the Board of Incorporators had announced the basic route selections, and after the service package developments had been decided, Amtrak began managing the nation's intercity passenger railroads on May 1, 1971. Its aim: reverse the present downward trends of ridership and revenue and curtail uneconomic service.

For the first time in history, a unified, centrally-managed nationwide rail passenger network was formed -- able to provide uniform and rising standards of service for all United States citizens.

What has resulted is a rail passenger system that serves over 87 percent of the population. As this system has become operational, improvements have been made in equipment, routes, schedules, and service:

--- Amtrak is redistributing passenger cars and locomotives so that the best cars in the U.S. currently are most effectively used. The Corporation has purchased over 1200 of the best available rolling stock and is assigning them to Amtrak routes as needed. Amtrak plans to refurbish the entire fleet before the end of 1972.

--- To improve coordination of train service, Amtrak has issued periodically (May 1, July 12, November 14) national system passenger timetables listing the routes and running times of every train in the nationwide system. As running times are revised and better connections are arranged, the schedule has been -- and will continue to be -- reissued to reflect these improvements.

--- In addition to helping passengers and seeing that their needs are satisfied, passenger service representatives, all highly trained and experienced in railroading, serve as liaison between Amtrak and train crews. They are a vital part of Amtrak's effort to provide the highest standards of passenger equipment and service.

--- Each passenger service representative files a detailed report about every train he or she rides -- with specific references to on-time performance, passenger service, the operation of equipment and passenger suggestions. As liaison between Amtrak and the traveling public, they provide an important channel for communications in both directions.

--- To fulfill its Congressional mandate to "employ innovative operating and marketing concepts," Amtrak must interact responsively with a highly diversified national market. It is selecting target groups in both short haul and long haul markets and is directing its services and promotion activities toward these groups, at first on a temporary test-market basis, and, as these efforts prove successful, for the long term.

An example of such innovative marketing techniques took effect Dec. 1, 1971, when Amtrak lowered fares between New York and New England by as much as 22 per cent. Between Boston and New York, for example, the one-way fare was reduced from \$12.75 on a non-reserved-seat coach to \$9.90.

In sum, Amtrak -- to capture its share of the transportation market -- aims at gradual restoration of public confidence in rail passenger service by making service improvements wherever feasible. The initial effort has been to rebuild both the image and substance of rail passenger service, both on-train and in the station. This means reasonable fares, clean passenger cars, on-time schedules, appetizing meals, prompt service, and a pleasant environment in trains and stations.

Eventually, all of these amenities will be restored to rail operations. Although some innovations have been undertaken in the past few months, others such as completely refurbished equipment will require some time.

In this revitalization of rail passenger service, there is a definite need for public patience and understanding so that with public support, Amtrak can meet its commitment and develop passenger service that is responsive to the traveler's needs and expectations.

STATUS OF RAIL PASSENGER SERVICE BEFORE AMTRAK

With a few significant exceptions, rail passenger service in the country had eroded -- both in image and in fact -- to a low level. The number of trains in operation had declined from about 6,000 at the close of World War II to fewer than 300 in 1970, and the extent of services provided on these trains had been severely diminished. Important supporting services such as reservations and ticketing were often inefficient and not responsive to public need.

Equipment on trains operating -- with the exception of innovative, subsidized efforts like the Metroliner and the TurboTrain -- had deteriorated in age, cleanliness, and level of maintenance. At the same time, deficits for all intercity rail passenger service had grown to a level ranging annually from \$210 million to \$410 million (depending on the cost basis used) on revenues of some \$600 million.

This erosion in service and the mounting deficits continued despite some notable efforts by the railroads to reverse the tide. Faced not only with the deficit but also with staggering capital costs to replace obsolescent equipment and upgrade track, the railroads generally wished to be relieved of this burden. The Rail Passenger Service Act was passed as an attempt to reverse the decline of intercity rail passenger service in the United States.

BACKGROUND ON NRPC

The Rail Passenger Service Act required the Secretary of Transportation to designate a "Basic System" of intercity rail passenger service to be provided by the National Railroad Passenger Corporation, creation of which was also authorized by the Act.

On November 30, 1970, a Preliminary Report containing the Secretary's recommendations for the Basic System was submitted to the Congress and the Interstate Commerce Commission, as well as State regulatory commissions, representatives of railroads and railroad labor organizations. It was simultaneously made available to the public. Many comments were filed with the Department in response to the Secretary's Report.

After review of the comments, the Secretary, on January 28, 1971, issued his Final Report of the Basic System. It included a listing of points between which intercity passenger trains shall be operated, all routes over which service may be provided, and defined basic service characteristics.

The Secretary also charged the new corporation with the following:

"If rail passenger service is to be a viable element in a national transportation system, it must reverse the severe decline in patronage experienced in recent years. Only major improvements in the quality of service can generate increased demand.

There is little doubt that much of the presently existing rail passenger service is uneconomic and is not required as part of a total transportation play. Even if the continuance of all present service were desirable, operation of the total existing system would be far beyond the financial resources of the Corporation.

With these considerations in mind, final designation of a viable Basic System must be based on a careful identification of potential opportunities for the operation of improved passenger service, and the system must be operable by the Corporation within the limits of available capital. Available funds must, therefore, be channeled into a limited number of routes -- routes which show some promise of success -- in order to produce the changes that are necessary to attract a greater share of the traveling public."

ACTIONS BY INCORPORATORS

The enormity of the task that faced the eight Incorporators when they began work on January 1, 1971, is readily apparent. They had to:

1. Begin organizing what is comparable to a \$200 million public service corporation.
2. Find the best management talent available to run the corporation.
3. Decide what routes should connect the 21 "pairs" of cities designated by the Secretary of Transportation.
4. Decide what trains, frequencies and type of service to be operated after May 1.
5. Draft and negotiate very complex contracts with up to 22 railroads.
6. Seek solutions to complex problems regarding passenger equipment, rail terminals, ticketing and reservations, marketing of rail service, etc.

One of the initial steps taken by the Incorporators was to meet with railroad industry representatives to discuss means of smoothing the transition from individual railroad operations to the Corporation. Numerous sessions were then held with experts in a number of fields related to the problems that had to be resolved. At the same time, the Incorporators sought out the best full-time professional assistance possible. A management consulting firm was hired to help develop the organizational structure as well as provide interim staff support until the Corporation could hire its own people.

Two executive search firms were put to work to find management prospects. Lawyers began work drafting articles of incorporation and the contracts needed for the May 1 takeover. Engineering experts were sent out into the field to inspect and survey available passenger terminals. A major airline was asked to study and make recommendations on a nationwide ticketing and reservations system and a new food preparation and service system. A leading design firm was retained to develop a "new look" and name. A national public relations agency was retained to help promote increased passenger traffic. A major advertising agency was named.

Concurrently, work continued on the major job of route selection and development of a coordinated passenger system.

ROUTE SELECTION PROCESS

Each of the 100-plus routes set down in the Secretary of Transportation's January 28 report was studied individually and in relation to the total network. All available data were tabulated and submitted to the Incorporators. In the difficult and arduous process of selecting the routes to constitute the new system, a number of criteria were carefully applied. These were:

1. Market size -- measured by total population of cities along route and total air and rail passenger traffic between major cities on route.

2. Physical characteristics of route and track -- measured by route miles, average authorized train speed, scheduled running time and freight traffic.

3. Current train ridership--measured by passenger miles per year, passenger miles per train mile and number of trains per week.

Other factors evaluated included: 1) Current operating costs on route, 2) Relationships of route to other city pair route segments, 3) Mail revenue, 4) Adequacy of other travel modes on routes to be eliminated, and 5) Service consideration, including scenery, etc.

In the light of these criteria, basic route selections were made and announced on March 22, 1971.

ORGANIZATIONAL STATISTICS

The Corporation was incorporated by eight Presidential appointees: David W. Kendall, chairman; General Frank S. Besson, Jr., vice chairman; David E. Bradshaw; John J. Gilhooley; Arthur D. Lewis; Charles Luna; Catherine May Bedell; and John P. Olsson.

On April 21, 1971, the President nominated eight people to serve on the Corporation's Board of Directors. On May 3, 1971, the Senate confirmed these nominations. On May 19, 1971, the railroads that agreed to take common stock equivalent to their specified payments to Amtrak elected three railroad members to the Board of Directors. The remaining four members of the 15-person Board as specified in the Act will be elected by preferred stockholders.

The Presidential appointments included six of the original incorporators. Mr. Gilhooley, former President of the New York Transit Authority and Chairman and President of Urban Industries, Inc., was nominated for a four-year term. Nominated for three-year terms were General Besson, former Chairman of the Pentagon's Joint Logistics Review Board; Mr. Bradshaw, a Chicago attorney; and Mr. Luna, ex-president of the United Transportation Union. Mrs. Bedell, former Congresswoman (R., Washington) was one of the President's choices for a two-year term, but after the Corporation's inception, she was appointed Chairman of the U. S. Tariff Commission, and vacated her seat on the Board of Directors. Mr. Kendall, chairman of Amtrak's incorporators, was nominated for the other two-year term.

The two remaining Presidential appointees were new to the Corporation. Nominated to serve in place of Arthur Lewis and John Olsson were Roger Lewis, then President of General Dynamics Corporation, nominated for a four-year term, and Transportation Secretary, John A. Volpe, for a two-year term.

The railroad-elected directors included: Louis W. Menk, Chairman of the Burlington Northern Railroad; William H. Moore, President of the Penn Central Transportation Company; and William J. Quinn, Chairman of the Milwaukee Road.

On April 28, 1971, Roger Lewis, Member of the Board of Directors and former President of General Dynamics Corporation, was elected by the Corporation's Board of Directors as President and Chairman of the Board of the National Railroad Passenger Corporation.

TRANSPORTATION STATISTICS

In 1929, the nation's railroads, operating some 20,000 passenger trains, carried 77 per cent of all passenger traffic in the United States. Buses carried 15.4 per cent and the airlines had an immeasurably small percentage.

By 1950, more than half the passenger trains had disappeared, and the railroads' share of intercity passenger traffic had declined to 46.3 per cent. In the meantime, traffic on buses increased to 37.7 per cent and the airlines' share had grown to 14.3 per cent.

Twenty years later -- 1970 -- railroad passenger traffic dropped to 7.2 per cent and the number of trains still operating was less than 450. Of these, more than 100 were in the process of being discontinued. Airlines dominated the public carrier market with 73 per cent, while buses, still in second place, held on to barely 16 per cent.

Despite the growth of the airlines and near extinction of the railroad passenger train, the dominant mode of transportation over the last four decades has been and remains the private automobile. It accounted for 87 per cent of all intercity transportation in 1970.

The country's increasing reliance during the past four decades on the private automobile and the airlines as the preferred forms of intercity travel has left the country with a serious imbalance in its transportation network.

Today, it is increasingly evident that the United States cannot rely solely upon further massive construction of highways and airports to meet its transportation needs. The strangulation of our central cities together with such environmental problems as air and noise pollution, excessive land use and dislocation of people make unrestricted expansion of these facilities impractical and hazardous.

By the year 2000, our urban population will have added one hundred million more people. One baby is born every 8-1/2 seconds in this country. To handle this tremendous tide of travelers, auto and bus systems must be supplemented by a swift and efficient rail passenger service. It will be vitally needed to restore an essential balance to the total transportation complex.

Especially in high density corridors, rail passenger service has unparalleled capabilities for helping alleviate the burden on the other modes, and is obviously essential for a balanced handling of intercity travel demands of the 70's and beyond.

AN INFORMAL RAIL HISTORY

The romance of railroading has directly influenced the history of America since 1830, when the steam engine "Tom Thumb" pulled the first passenger car 13 miles from Baltimore to Ellicott's Mill, Maryland.

Today's railroad cars have come a long way since the first one in 1830. The initial "stagecoach" type of passenger car quickly gave way to the double-track car that was the forerunner of those we know today. Soon many of the larger cities along the Atlantic seaboard were visited by travelers who arrived on the "exotic cars," as they were called.

The first passenger sleeping car was introduced on what was then known as the Cumberland Valley Railroad. It provided three tiers of bunks on one side of the car for weary passengers desiring a few hours' sleep while traveling between Harrisburg, Pa. and points in the Cumberland Valley region of Pennsylvania and Maryland.

In 1856, George M. Pullman gave his name to a new type upper and lower berth sleeping car. In 1859, he introduced an all-steel version that was a major contributor to railway passenger safety.

In 1850, railroads linked the Atlantic Coast with the Great Lakes; Chicago came on the line in 1853, and the rails stretched all the way from New York to the western side of the Mississippi River by 1856.

By Acts of Congress in 1862 and 1864, the construction of the first transcontinental railroad was undertaken. It was completed on May 10, 1869, when the Union Pacific, running westward from Nebraska, and the Central Pacific, coming eastward from California, met at Promontory Point, Utah for the famous Golden Spike Ceremony.

On long trips, passengers were required to change trains at several junction points, because of different track widths (gauge) which made through car service impossible. This inconvenience was eliminated in the 1880's when a "standard gauge" of 4 feet 8-1/2 inches between the rails was adopted. Air brakes were patented by George Westinghouse in 1872, and were incorporated as standard equipment on passenger cars a few years later.

Starting with the American Civil War, which military historians sometimes call "the first railroad war," the nation's rail network became a major factor in military logistics. During the Spanish American and both World Wars, tremendous amounts of material and millions of troops were moved efficiently by train. During World War I, the Federal

Government assumed control of the nation's railroads, and directed their operation through the United States Railroad Administration. The railroads were returned to their owners in 1920.

A new chapter in railroad history began when the National Railroad Passenger Corporation (AMTRAK), a quasi-public corporation dedicated to providing modern, efficient attractive service, began operating the nation's passenger railroads on May 1, 1971.

As the nation moves toward tomorrow, new high-speed ground transportation will supplement today's trains. The Department of Transportation is currently testing new modes of propulsion -- the gas-turbine engined TurboTrain, and electrified Metroliner, the linear induction motor, and a tracked air cushioned vehicle capable of speeds of up to 300 miles per hour. Passenger car interiors and exteriors are being redesigned to permit easier boarding and exit as well as greater comfort, safety, and convenience of passengers.

Sometimes regarded as an outmoded, vestigial form of transportation, doomed to extinction, the nation's passenger railroads, like the fabled Phoenix, have started to rise again from the ashes of the past to become a key element in the nation's balanced transportation system of tomorrow.