United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Transportation,
Committee on Appropriations,
U.S. Senate

For Release
on Delivery
Expected at
10 a.m. EDT
Wednesday
May 7, 1997

TRANSPORTATION FINANCING

Challenges in Meeting Long-Term Funding Needs for FAA, Amtrak, and the Nation's Highways

Statement of John H. Anderson, Jr.
Director, Transportation Issues,
Resources, Community, and Economic
Development Division

GAO/T-RCED-97-151

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to testify on three critical transportation financing issues facing the Congress and the administration: meeting the long-term funding needs of the Federal Aviation Administration (FAA), Amtrak, and the nation's highways. Each area presents formidable challenges that will stretch our limited resources; at the same time, pressures remain to reduce the federal budget. Overall, the $38 billion proposed in the Department of Transportation's (DOT) fiscal year 1998 budget to fund the Department represents about a 1-percent reduction from this year's enacted appropriation. In summary, we have found the following:

- Major financing issues need to be resolved to improve the safety and security of our nation's aviation system. FAA estimates that its needs will exceed projected funding levels by about $13 billion over the next 5 years. The Congress last year established a national commission to make recommendations by August 1997 on how best to finance FAA. Currently, FAA receives most of its funding from excise taxes, including a tax on domestic airline tickets, but those taxes lapse at the end of fiscal year 1997. The administration has proposed replacing the current system with user fees, and the national commission clearly will be examining this option. Developing such fees requires good data for assigning FAA's costs to specific users and policy decisions on such issues as how to allocate costs not directly related to any particular user. FAA currently lacks sufficient cost data, however, and will not start collecting better data until October 1997. As a result, better cost data will not be available before the excise taxes lapse or before initial decisions will have to be made about how to finance FAA. Deciding among the various financing alternatives involves tradeoffs between their (1) ease of administration, (2) impact on how efficiently the airport and airway system is used, (3) ability to produce an equitable system in which users pay their fair share, (4) potential competitive impacts, and (5) other policy goals.
- Amtrak remains in a very precarious financial position and continues to be heavily dependent on federal support to meet its operating and capital needs. Amtrak's passenger rail service has never been profitable and, through fiscal year 1997, the federal government has provided Amtrak with over $19 billion for operating and capital expenses. Amtrak projects that its fiscal year 1997 operating loss could be $783 million. While the corporation's goal is to eliminate the need for federal operating support by 2002, it is likely that Amtrak will continue to require substantial federal financial support—both operating and capital—beyond that time.

- DOT believes that current public spending on the capital needs of highways is inadequate and estimates that $16 billion in additional spending is needed annually just to maintain—not improve—the condition of the nation's highways. State Infrastructure Banks offer the promise of helping to close the gap between transportation needs and available resources by sustaining and potentially expanding a fixed sum of federal capital. Benefits include expediting the completion of projects, recycling loan repayments to future projects, and obtaining financial support from the private sector and local communities. However, some state officials and industry experts are skeptical that such banks will produce these benefits and believe that (1) the number of projects with a sufficient revenue stream to repay the loans may be insufficient and (2) state infrastructure banks face impediments under state law. Only time will tell. This program is new, and only two states have begun projects under their state infrastructure bank.

Issues Associated With Addressing FAA's Financial Problems and Determining the Best Funding Mechanism

One of the most difficult financing problems confronting the Congress and the administration is how to adequately fund FAA to meet its mission over the long term. Over the years, we have issued numerous reports and testimonies that identified shortcomings in FAA's aviation safety and security programs.[1] These shortcomings include the insufficient training of FAA safety inspectors, inaccurate and incomplete aviation safety databases, and vulnerabilities in our aviation security systems. Similarly, in the wake of the May 1996 crash of Valujet Flight 592 and the July 1996 crash of TWA Flight 800, FAA and the White House Commission on Aviation Safety and Security (the Gore Commission) have concluded that a number of actions are needed to improve the safety and security of our aviation system.[2] However, how to fund these improvements has not been resolved.

Deciding how to meet FAA's funding needs involves not only determining what FAA's financial requirements are but choosing the best financing mechanism to meet those needs. Recognizing the seriousness of these issues, the Congress directed that a number of studies be completed. Under the Federal Aviation Reauthorization Act, enacted in October 1996,

[1]See, for example, Aviation Safety: New Airlines Illustrate Long-Standing Problems in FAA's Inspection Program (GAO/RCED-97-2, Oct. 17, 1996), Aviation Safety: Data Problems Threaten FAA Strides on Safety Analysis System (GAO/AIMD-95-27, Feb. 8, 1995), Aviation Security: Additional Actions Needed to Meet Domestic and International Challenges (GAO/RCED-94-38, Jan. 27, 1994), and Aviation Security: Technology's Role in Addressing Vulnerabilities (GAO/T-RCED/NSIAD-96-262, Sept. 19, 1996).

[2]Final Report to President Clinton, White House Commission on Aviation Safety and Security (Feb. 12, 1997) and FAA 90 Day Safety Review (Sept. 16, 1996).

the Congress required (1) an independent assessment of FAA's financial needs and costs, which was performed by Coopers & Lybrand; (2) an assessment by GAO of airports' capital needs; and (3) an assessment by GAO of how air traffic control costs are allocated between FAA and the Department of Defense (DOD). The act established the National Civil Aviation Review Commission to, among other things, consider these studies and recommend to the Secretary of Transportation, by August 1997, how best to finance FAA.[3]

While its assessment of FAA's financial needs identified some areas for potential savings, Coopers & Lybrand concluded that FAA's estimates of its needs through 2002 were reasonable.[4] Table 1 compares FAA's estimated requirements with the agency's budget estimates for fiscal years 1998-2002, which were contained in the President's fiscal year 1998 budget.[5] In addition, FAA officials estimate that the almost $9 billion potential shortfall shown in table 1 could increase by an additional $4 billion as the agency tries to address the Gore Commission's recommendations to accelerate the modernization of the National Airspace System.

Table 1: FAA's Projected Budget Shortfall, Fiscal Years 1998-2002

(Dollars in billions)

Fiscal year	FAA's estimated requirements	FAA's projected budget	FAA's budget shortfall
1998	$8.46	$8.46	$0
1999	10.82	8.68	(2.14)
2000	11.22	8.91	(2.31)
2001	11.32	9.15	(2.17)
2002	11.50	9.39	(2.11)
Total	**$53.32**	**$44.59**	**$(8.73)**

Source: FAA and the President's 1998 budget.

To help meet these financial challenges, the administration has proposed that the current approach to financing FAA be changed. Generally, three-quarters of FAA's funding comes from the Airport and Airway Trust

[3]The Secretary of Transportation is required to consult with the Secretary of the Treasury and report to the Congress by October 1997 on the Secretary's recommendations for funding FAA through 2002.

[4]Federal Aviation Administration: Independent Financial Assessment, Coopers & Lybrand (Feb. 28, 1997).

[5]One component of FAA's requirements is funding a portion of the cost of developing our nation's airports. Last month, we reported that estimates of airports' annual capital needs during 1997-2001 ranged from $1.4 billion to $10.1 billion, depending on how needs are defined. See Airport Development Needs: Estimating Future Costs (GAO/RCED-97-99, Apr. 7, 1997).

Fund, which in turn, receives most of its funding from a 10-percent tax on the fares paid by passengers. The remainder of FAA's funding comes from the General Fund of the U.S. Treasury. In its fiscal year 1998 budget for FAA, the administration proposed replacing this system with usage-based fees starting in fiscal year 1999. The administration also proposed, as an interim step, $300 million in new user fees in addition to the $100 million in fees on foreign airlines' overflights of the United States that were authorized in fiscal year 1997. FAA has subsequently indicated that the new fees could potentially be charged for business aviation, international air cargo, and security activities. Similarly, a coalition of the nation's largest airlines advocate replacing the airline ticket tax with usage-based fees. These airlines believe that they pay more than their fair share of the costs incurred by FAA in running the airport and airway system and that competing low-fare airlines underpay.[6]

In our December 1996 report on the coalition's proposal to replace the ticket tax and in our February 1997 testimonies before the Senate Finance Committee and House Aviation Subcommittee, we stated our belief that, to the extent possible, commercial users of the nation's airspace should pay their share of the costs that they impose on the nation's airport and airway system.[7] We noted that because the airline ticket tax is computed based on the fares paid and not on factors that directly relate to FAA's costs for providing service, the extent to which the tax fairly allocates costs among system users is open to question. While many factors drive FAA's costs, we found that the coalition's proposal only incorporated factors that would substantially increase the taxes paid by low-fare and small airlines and decrease the taxes paid by the seven coalition airlines. We concluded that determining how best to finance FAA is a complex problem that requires careful study and good cost data. Our prior work has shown that FAA does not have an adequate cost-accounting system and, as a result, has limited capability to accumulate accurate, reliable cost data.[8]

On February 28, 1997, Coopers & Lybrand reported that despite FAA's lack of a cost-accounting system, it is possible, on an interim basis, to attribute FAA's costs to broad categories of users such as commercial airlines as a

[6]The coalition comprises the seven largest airlines—American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, TWA, United Airlines, and US Airways.

[7]See Airport and Airway Trust Fund: Issues Raised by Proposal to Replace the Airline Ticket Tax (GAO/RCED-97-23, Dec. 9, 1996), Issues and Options in Deciding to Reinstate or Replace the Airline Ticket Tax (GAO/T-RCED-97-56, Feb. 4, 1997), and Issues Related to Determining How Best to Finance FAA (GAO/T-RCED-97-59, Feb. 5, 1997).

[8]See Air Traffic Control: Improved Cost Information Needed to Make Billion Dollar Modernization Investment Decisions (GAO/AIMD-97-20, Jan. 22, 1997).

group or general aviation. However, Coopers & Lybrand concluded that FAA did not have sufficiently detailed or reliable cost data upon which to base a comprehensive system of new fees charged to specific users (e.g., particular airlines). It recommended that if FAA is required to adopt a comprehensive system of user fees, a modern cost-accounting system should be implemented to reliably assign costs to specific products and users. FAA is developing a cost-accounting system as required by the Federal Aviation Reauthorization Act of 1996 and plans to implement the system by October 1997. However, FAA's Manager, Cost Accounting System Division, told us that developing a sufficient amount of data to accurately assign costs to specific users will take at least 6 to 12 months after the system is implemented.

Because the airline ticket tax and other taxes that finance the Trust Fund lapse on September 30, 1997, better cost data will not be available before the Congress is faced with the lapsing of those taxes. As a result, regardless of whether the Congress decides to extend the current excise taxes, modify them, or implement some other financing mechanism, it will not have assurance that specific users are assigned their fair share of costs. When more detailed cost data become available sometime in the future, a determination could be made to reexamine the financing method that is chosen.

Notwithstanding the limitations of FAA's cost data, the data that are currently available indicate that a large portion—55 percent—of FAA's costs are "common," or not directly related to any particular user. In our congressionally mandated April 1997 report on the allocation of air traffic control costs, we concluded that the method for allocating common costs could have a profound impact on the total cost shares assigned to system users.[9] We reported that in allocating common costs, assumptions and judgments must be made and that different user groups are likely to have diverging opinions about what constitutes an equitable allocation of those costs. We also reported that FAA and DOD strongly disagree about how FAA's common costs should be allocated.[10] In addition, we noted that whether and to what extent DOD's costs for providing air traffic services to civil users should be included in the development of user fees is another issue that would need to be resolved if the Congress instituted such fees. If

[9]Air Traffic Control: Issues in Allocating Costs for Air Traffic Services to DOD and Other Users (GAO/RCED-97-106, Apr. 25, 1997).

[10]DOD believes that it should not bear any of FAA's common costs because the Department is only a marginal user of FAA's air traffic services and has a minor impact on FAA's cost structure. Conversely, FAA believes that DOD should be assigned some portion of common costs because, like other users, DOD benefits from FAA's air traffic control infrastructure.

DOD's costs are included, fees could be collected from civil users for the services provided by DOD, thereby providing an offset to what DOD may owe FAA.

In addition to retaining the ticket tax, there are numerous financing alternatives for the national commission, and ultimately the Congress, to consider. Possible options include taxing one or more of the general indicators of system use, such as departures, passenger enplanements, seats flown, fuel consumed, or a combination of these indicators. However, the potential competitive impact of using these indicators as a basis for allocating FAA's costs varies greatly depending on which indicator is used. For example, if a tax on passenger enplanements were adopted and designed to generate about the same amount of revenue as the ticket tax, the amount paid by the coalition of the nation's largest airlines would decline by about $251 million while the amount paid by competing airlines would increase by $269 million and commuter carriers by $61 million. In contrast, a fuel tax would keep the amount paid by the largest airlines and by competing airlines about the same as each paid under the ticket tax, but the amount paid by individual airlines would vary.

The various potential financing mechanisms for FAA, whether they be the $400 million in user fees contained in the administration's fiscal year 1998 budget or the longer-term options for replacing the ticket tax with usage-based fees, present policy tradeoffs between their ease of administration, impact on how efficiently the airport and airway system is used, ability to produce an equitable system in which users pay their fair share, and other policy goals. For example, a usage-based formula that combines several of the common system-usage indicators might provide the most exact method to ensure that all users pay their fair share of system costs. However, such a formula may also be so complex that it would be difficult to administer. By contrast, a fuel tax, while generally correlating to system use, would be less exact than more complex formulas but would be easier to administer. Likewise, taxing airlines for their use of the most congested airports may result in a more efficient use of the nation's airspace. However, because the coalition airlines are the primary users of these airports, this approach may not produce the most equitable result from their point of view.

Such tradeoffs and the potential competitive impacts of new fees will need to be carefully studied over the next several months by the national commission, the Secretary of Transportation, and the Congress. The financing mechanism that is finally selected should be relatively easy to

administer and help ensure that, in the long term, FAA has a secure funding source, the nation's airports and airways are used as efficiently as possible, commercial users of the system pay their fair share, and a strong, competitive airline industry continues to exist. Ultimately, it is a policy call for the Congress to decide how to achieve these and other goals.

Amtrak's Financial Condition and Its Quest for Operating Self-Sufficiency

Over the last several years, we have issued a number of reports and testified several times on Amtrak's financial condition.[11] Amtrak's passenger rail service has never been profitable and, through fiscal year 1997, the federal government has provided Amtrak over $19 billion for operating and capital expenses. In response to continually growing losses and a widening gap between operating deficits and federal subsidies, Amtrak developed its Strategic Business Plan. This plan, which has been revised several times, was designed to increase revenues and control cost growth and, at the same time, eliminate Amtrak's need for federal operating subsidies by 2002.

Our assessment of Amtrak's financial condition is that, despite some gains, the corporation is still in a very precarious position. It remains heavily dependent on federal support to meet its operating and capital needs. Although actions taken by Amtrak through its business plans have helped reduce Amtrak's net losses, Amtrak has struggled to reach net loss targets.[12] For example, Amtrak's plans for fiscal years 1995 and 1996 included actions to reduce its net loss by $195 million—from about $834 million in fiscal year 1994 (in current year dollars) to $639 million in fiscal year 1996.[13] By the end of fiscal year 1996, Amtrak's loss had declined to about $764 million; however, it was substantially more than planned. In addition, the relative gap between total revenues and total expenses has not significantly closed, and passenger revenues (adjusted for inflation)—which Amtrak has been relying on to help close the gap—have generally declined over the past several years (see apps. I and II). Similarly, the gap between operating deficits and federal operating

[11]See Intercity Passenger Rail: The Financial Viability of Amtrak Continues to Be Threatened (GAO/T-RCED-97-94, Mar. 13, 1997), Amtrak's Strategic Business Plan: Progress to Date (GAO/RCED-96-187, July 24, 1996), Northeast Rail Corridor: Information on Users, Funding Sources, and Expenditures (GAO/RCED-96-144, June 27, 1996), Amtrak: Early Progress Made in Implementing Strategic Business Plan, but Obstacles Remain (GAO/T-RCED-95-227, June 16, 1995), and Intercity Passenger Rail: Financial and Operating Conditions Threaten Amtrak's Long-Term Viability (GAO/RCED-95-71, Feb. 6, 1995).

[12]"Net loss" is defined as total revenues minus total expenses.

[13]Net loss for fiscal year 1994 excludes a one-time charge of $244 million for accounting changes, restructuring costs, and other items.

subsidies rose in fiscal year 1996 to $82 million—the highest it had been in the last 9 years.[14]

Amtrak's continuing financial crisis can be seen in other measures as well. In February 1995, we reported that Amtrak's working capital—the difference between current assets and current liabilities—declined between fiscal years 1987 and 1994. Although Amtrak's working capital position improved in fiscal year 1995, it declined again in fiscal year 1996 to a $195 million deficit (see app. III). This decline reflects an increase in accounts payable, short-term debt, and capital lease obligations, among other items. A continued decline in working capital jeopardizes Amtrak's ability to pay immediate expenses. Amtrak's debt levels have also increased significantly (see app. IV). During fiscal years 1993 through 1996, Amtrak's debt and capital lease obligations nearly doubled —from about $527 million to about $987 million, in 1996 dollars. These debt levels do not include an additional $1 billion expected to be incurred beginning in fiscal year 1999 to finance 18 high-speed trainsets and related maintenance facilities for the Northeast Corridor and the acquisition of new locomotives.

It is important to note that servicing Amtrak's increased debt takes away from the federal financial operating support needed to cover future operating deficits. In fact, over the last 4 years, interest expenses have about tripled—from about $20.6 million in fiscal year 1993 to about $60.2 million in fiscal year 1996 (see app. V). Because Amtrak pays interest from federal operating assistance and principal from federal capital grants, this increase has absorbed more of the federal operating subsidy each year. During fiscal years 1993 through 1996, the percentage of federal operating subsidies used to pay interest expenses increased from about 6 to about 21 percent. As Amtrak assumes more debt to acquire equipment, the interest payments are likely to continue to consume an increasing portion of federal operating subsidies. Amtrak's fiscal year 1997 operating losses may be even higher than those in fiscal year 1996. As a result of unanticipated expenses and revenue shortfalls, at the end of the second quarter Amtrak projected that its actual fiscal year 1997 year-end net loss could be about $783 million.

Amtrak Has Large Capital Needs

Amtrak's goal of eliminating federal operating subsidies by 2002 is heavily dependent on capital investment. Such investment—the modernizing of

[14]Operating deficit is the same as net loss, except noncash items (such as depreciation) and the one-time charge taken in fiscal year 1994 are excluded from total expenses.

property, plant, and equipment—will not only help Amtrak to retain revenue by improving the quality of existing service but will potentially increase revenues by attracting new riders.

Amtrak's capital investment needs are great—both to replace and modernize current physical assets and to complete new projects such as high-speed rail service on the Northeast Corridor. For example, in May 1996, the Federal Railroad Administration (FRA) and Amtrak estimated that about $2 billion would be needed over the next 3 to 5 years to recapitalize the south end of the Northeast Corridor and preserve its ability to operate in the near-term at existing service levels. FRA and Amtrak estimate that up to $6.7 billion may be needed over the next 20 years to recapitalize the Northeast Corridor and make improvements targeted to respond to high priority growth opportunities. Amtrak also estimates that an additional $1.4 billion will be needed to finish the high-speed rail project.

Our ongoing work indicates that Amtrak has made some progress in addressing its capital needs, but the going has been slow and, in some cases, Amtrak may be facing significant future costs. For example, in October 1996, about 53 percent of Amtrak's active fleet of 1,600 passenger cars averaged 20 years old or more and were at or approaching the end of their useful life. It is safe to assume that as this equipment continues to age, it will have more frequent failures and require more expensive repairs.

Finally, Amtrak will continue to find it difficult to take those actions necessary to further reduce its costs. During fiscal year 1995, Amtrak was successful in reducing and eliminating some routes and services. For example, Amtrak reduced the frequency of service on seven routes from daily to three or four times per week, and on nine other routes various segments were eliminated. Amtrak estimates that such actions saved about $54 million. However, Amtrak was less successful in making the route and service adjustments planned for fiscal year 1997. As a result, Amtrak estimates that its projected fiscal year 1997 net loss will increase by $13.5 million. Amtrak has also been unsuccessful in negotiating productivity improvements with labor unions.

Amtrak has staked its financial future on the ability to eliminate federal operating support by 2002 by increasing revenues, controlling costs, and providing customers with high-quality service. Although its business plans have helped reduce net losses, Amtrak continues to face significant challenges in accomplishing this goal, and it is likely Amtrak will continue

to require substantial federal financial support—both operating and capital—well into the future.

Innovative Highway Financing Through State Infrastructure Banks

In October 1996, we reported that total public spending on the capital needs for highways and bridges was approximately $40 billion in 1993—the most recent year for which data are available—and that DOT estimated that an additional $16 billion annually is needed just to maintain—not improve—the condition of the nation's highways at the 1993 level.[15] Moreover, postponing investment can increase costs; DOT estimated that deferring $1 in highway resurfacing for just 2 years can require spending $4 in highway reconstruction costs to repair the damage.

In order to stretch limited federal funds, the Congress in 1995 authorized some innovative uses of federal transportation funds. The National Highway System Designation Act of 1995 established a number of innovative financing mechanisms, including the authorization of a State Infrastructure Bank (SIB) Pilot Program for up to 10 states or multistate applicants—8 states were selected in April 1996, and 2 were selected in June 1996. Under this program, states can use up to 10 percent of most of their federal highway funds for fiscal years 1996-97 to establish their SIBs. This program was expanded by DOT's fiscal year 1997 appropriations act, which removed the 10-state limit and provided $150 million in new funds.

A SIB serves essentially as an umbrella under which a variety of innovative finance techniques can be implemented. Much like a bank, a SIB needs equity capital to get started, and equity capital can be provided at least in part through federal highway funds. Once capitalized, the SIB can offer a range of loans and credit options, such as loan guarantees and lines of credit. For example, through a revolving fund, states can lend money to public or private sponsors of transportation projects. Project-based revenues such as tolls or general revenues such as dedicated taxes can be used to repay loans with interest, and the repayments replenish the fund so that new loans can be supported. Thus, projects with sufficient potential revenue streams are needed to make a SIB viable.

Expected assistance for projects in the 10 states selected for the pilot program include loans, credit enhancement to support bonds, and lines of credit. In some cases, large projects that are already under way may be helped through SIB financial assistance. Examples of projects that the

[15]State Infrastructure Banks: A Mechanism to Expand Federal Transportation Financing (GAO/RCED-97-9, Oct. 31, 1996).

initial 10 pilot states are considering for financial assistance include the following:

- In Orange County, California, a $713 million project that includes construction of a 24-mile tollway may receive SIB assistance in the form of a $25 million line of credit that would replace an existing contingency fund. If the line of credit is used, plans are for it to be repaid through excess toll revenues.
- In Orlando, Florida, a $240 million project that will construct a 6-mile segment to complete a 56-mile beltway may receive a SIB loan in the amount of $20 million. Repayment of the loan would come from a mix of project-related and systemwide toll receipts and state transportation funds.
- In Myrtle Beach, South Carolina, a SIB loan is being considered to help construct a new $15 million bridge to Fantasy Harbor. The source for repaying the loan would be proceeds from an admission tax at the Fantasy Harbor entertainment complex.

SIB assistance is intended to complement, not replace, traditional transportation grant programs and provide states with increased flexibility to offer many types of financial assistance. As a result, projects could be completed more quickly, some projects could be built that would otherwise be delayed or infeasible if conventional federal grants were used, and private investment in transportation could be increased. Furthermore, a longer-term anticipated benefit is that repaid SIB loans can be "recycled" as a source of funds for future transportation projects. If states choose to leverage SIB funds, DOT has estimated that $2 billion in federal capital provided through SIBs could be expected to attract an additional $4 billion for transportation investments.

For some states, barriers to establishing and effectively using a SIB still remain. One example is the low number of projects that could generate sufficient revenue to repay loans made by SIBs. Officials from six of the states that we surveyed told us that an insufficient number of projects with a potential revenue stream would diminish the prospects that their state would participate in the SIB pilot program. Officials from 10 of 11 states that we talked to about this issue said they were considering tolls as a revenue source. However, state officials also told us that tolls would likely generate considerable negative reaction from political officials and the general public.

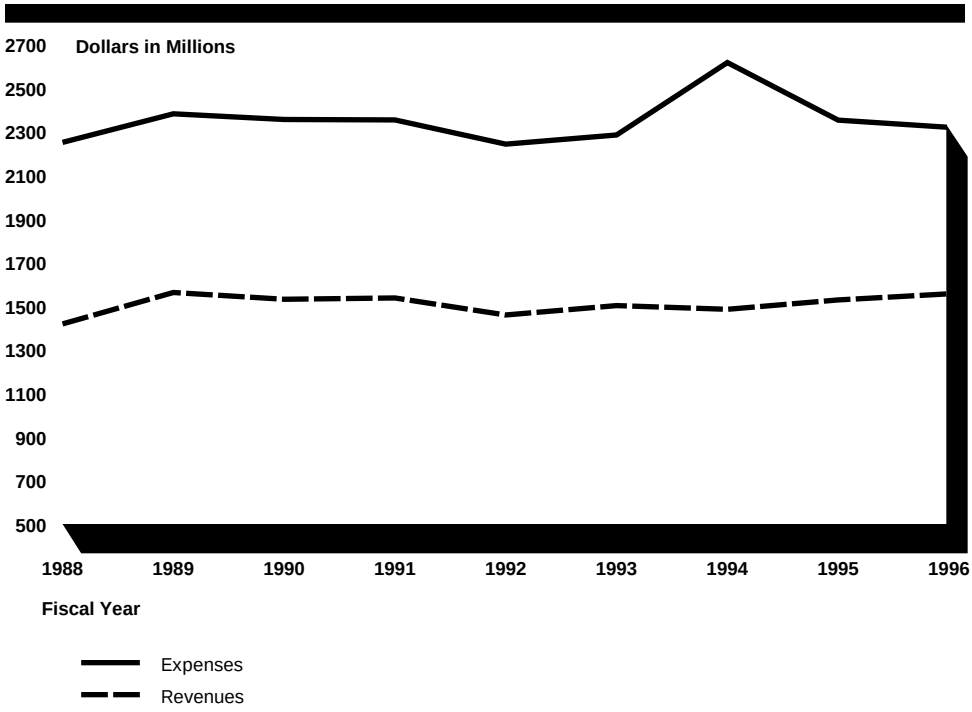
Some states expressed uncertainty regarding their legal or constitutional authority to establish a SIB or use some financing options that would involve the private sector. Michigan, for instance, said that it does not currently have the constitutional authority to lend money to the private sector. Another impediment can arise if the SIB exposes the state to debt. Backing SIB assistance with the full faith and credit of the state is not legally permitted in some states. Without that guarantee, SIBs will have to rely on the strength of their project portfolio and initial capitalization as the basis for borrowing. As such, they are likely to experience higher borrowing costs than if their portfolio was backed by the full faith and credit of the state. Bond-rating agencies will have to assess each portfolio on a case-by-case basis.

Finally, a principal federal barrier to attracting private capital is the fact that the Internal Revenue Code, with some exceptions, restricts private involvement in tax-exempt debt. In the case of state and local bonds, bondholders' interest earnings are exempt from federal taxes. However, the tax exemption does not apply to a bond issue if (1) the private sector uses more than 10 percent of the proceeds and finances more than 10 percent of the debt or (2) more than 5 percent of the proceeds or $5 million (whichever is less) is used to make loans to the private sector. A number of federal and state officials and academic experts told us that states that choose to leverage their 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.

The SIB program has been slow to start up. Only two states—Ohio and Missouri—have actually begun projects under their SIB. Nevertheless, since $150 million was provided and the 10-state restriction was lifted in DOT's fiscal year 1997 appropriations act, the agency has received applications from 28 states and Puerto Rico. The program will need time to develop and mature before a comprehensive assessment of SIBs' impact on meeting transportation needs can be assessed. In our October 1996 report, we suggested that once SIBs begin operating, the Federal Highway Administration could disseminate information on states' successes and failures with various financing options and thus help states use SIBs more effectively and educate other states on the pros and cons of a SIB.

Mr. Chairman, that concludes our prepared statement. We would be happy to respond to any questions that your or other members might have.

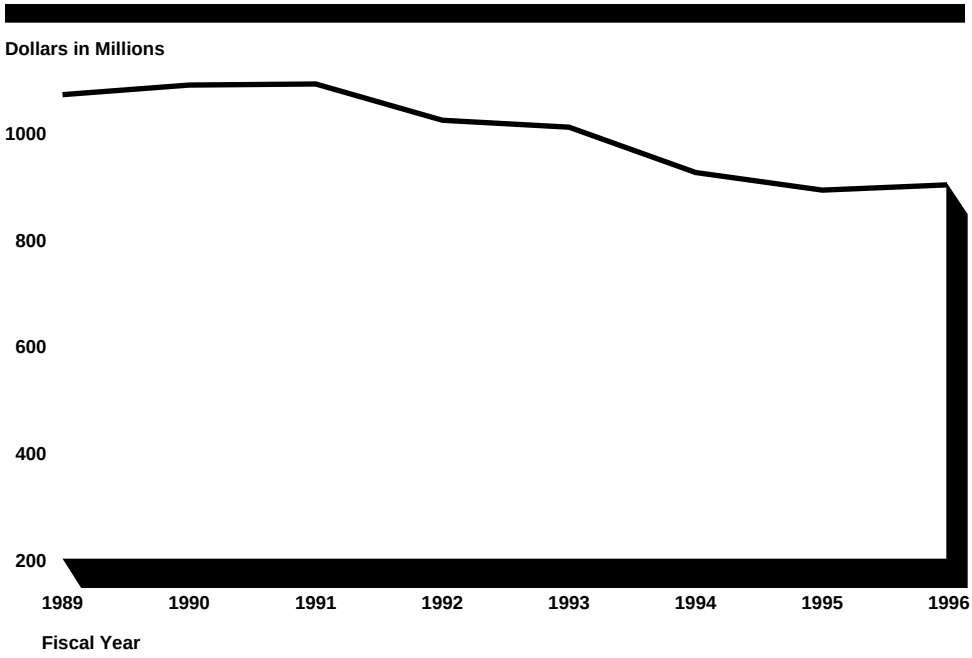
Amtrak's Revenues and Expenses, Fiscal Years 1988-96



Note: Amounts are in 1996 dollars.

Source: Amtrak.

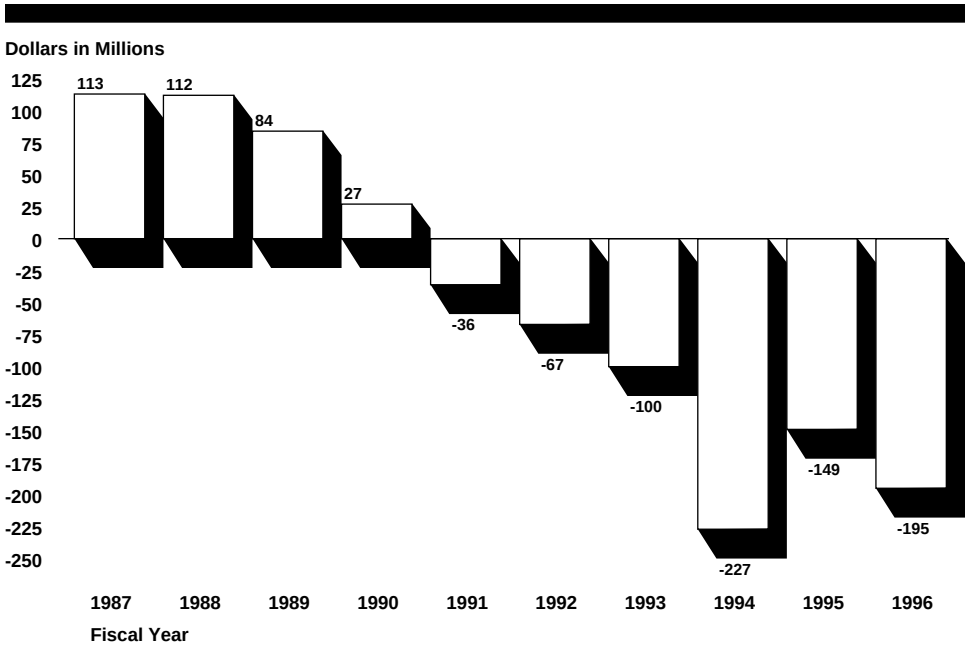
Amtrak's Passenger Revenues, Fiscal Years 1989-96



Note: Amounts are in 1996 dollars.

Source: GAO's analysis of Amtrak's data.

Amtrak's Working Capital Surplus/Deficit, Fiscal Years 1987-96

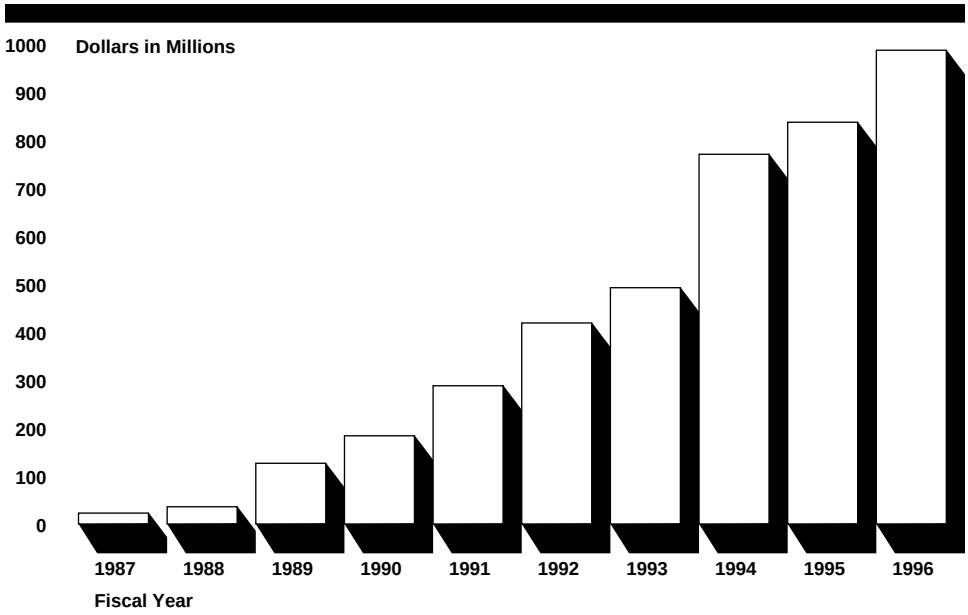


Notes: Working capital is the difference between current assets and current liabilities.

Amounts are in current year dollars. In 1996 dollars, working capital declined from $149 million in fiscal year 1987 to a deficit of $195 million in fiscal year 1996.

Source: GAO's analysis of Amtrak's data.

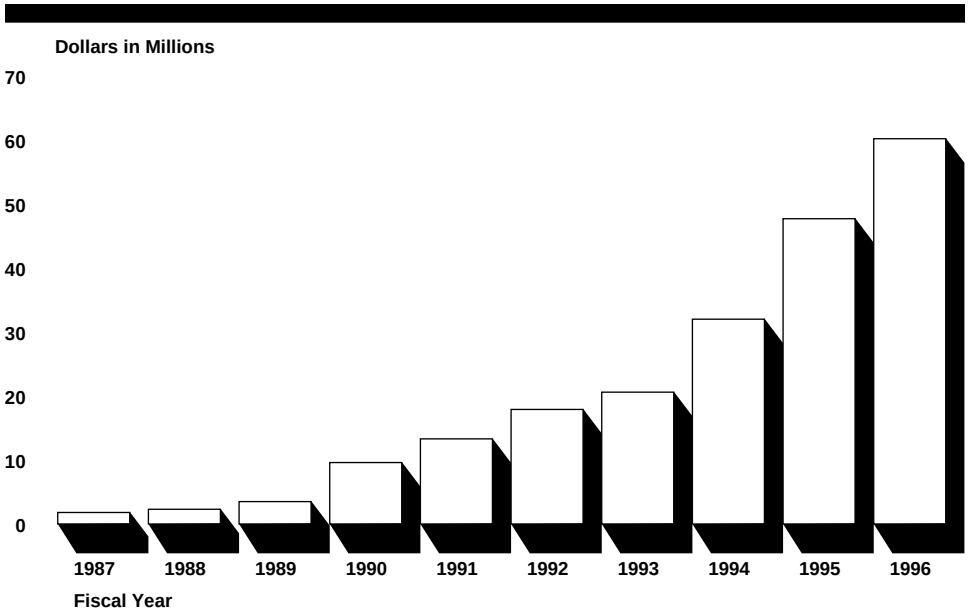
Amtrak's Outstanding Debt/Capital Lease Obligations, Fiscal Years 1987-96



Note: Amounts are in current year dollars.

Source: Amtrak.

Amtrak's Interest Expense, Fiscal Years 1987-96



Note: Amounts are in current year dollars.

Source: Amtrak.

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov

PRINTED ON  RECYCLED PAPER

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested