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National Association of Railroad Passengers News (55N 0739-3490), is published monthly except November by NARP, 236 Massachusetts Ave., N.E., Suite 603, Washington, D.C. 20002. 202/546-1550. Membership dues are \$15/year (\$7.50 under 21 or over 65) of which \$4 is for a subscription to NARP News. Second-class postage paid at Washington, D.C.

Postmaster: send address changes to NARP, 236 Massachusetts Ave., N.E., Suite 603, Washington, D.C. 20002.

(This has news through Jan. 20. No. 10 was mailed 1st Class Dec. 6). ®

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Aviation Subsidies Fly High

"The largest gap (subsidy) between federal obligation and modal or use-related revenues has occurred in the air system." —Study of Federal Aid to Rail

Transportation, U.S. DOT, 1977

Responding to Budget Cuts, Amtrak Reduces Service on 10 Routes

As a result of the budget cut of more than 10% imposed on Amtrak this year—even before taking Gramm-Rudman into consideration—Amtrak implemented service cuts on Jan. 12.

Amtrak claims that the service cuts listed below, along with the following other changes, are saving over \$20 million (long-term avoidable costs) during the current fiscal year:

• the new "Montrealer" contract with Canadian National, also covering the Jan. 12 "Adirondack" Montreal station change;

• the Jan. 1 transfer of "Blue Ridge" to Maryland DOT (Amtrak will pay for operating costs of the West Virginia portion and, on an (continued on page 4)

GRAMM-RUDMAN

Congress approved the Gramm-Rudman amendment to the debt-increase legislation and President Reagan used a Dec. 17 ceremony "honoring" Gramm-Rudman as another opportunity to make Amtrak a symbol of what government shouldn't be doing—a clear indication that, once again, he will propose a budget with no Amtrak funding. Moreover, strict compliance with G-R deficit targets and the President's no-tax and more-defense-increases policies would guarantee the end of Amtrak and many other federal programs come Oct. 1.

G-R may be found unconstitutional. Or Congress may heed economists' claims that (a.) taxes should be increased even Martin Feldstein, former chairman of Reagan's Council of Economic Advisers; and (b.) the G-R budget-reduction schedule itself threatens the economy because the schedule is so rigid and steep—even an American Enterprise Institute economist concurred (*The Wash. Post*, Jan. 17).

G-R is anti-rail. It might mean a short-term reduction in highway and aviation spending, but revenues would continue to mount in the trust funds earmarked for highway/aviation spending, laying the groundwork for an eventual explosion in such spending. Your legislators need to hear your renewed plea for saving Amtrak and for Congress to acknowledge the extensive subsidies other modes get and to approve a transportation trust fund. [This is the second in a series of articles about government subsidies to transportation. Our purpose is to help you rebut oft-repeated, erroneous claims that only Amtrak is subsidized.

Airport congestion is a growing problem in the U.S. and results in part from the scarcity of fast corridor trains that could meet the needs of many people now flying. President Reagan's response is to ignore the rail lines whose upgrading would help alleviate air (and road) congestion, and to try to kill our few existing fast trains. Why?

Primarily because we have created a transport accounting system oriented towards making the big modes bigger and eliminating the small modes without regard for the latter's potential usefulness.

The U.S. transportation bureaucracy sees each mode in isolation and considers only the percentage of costs (narrowly defined) covered by user payments of that mode. Reflecting this mentality, Secretary of Transportation Elizabeth Dole, in her 1985 Capitol Hill testimony, ignored "the extent to which governmentestablished funding mechanisms for government-owned highway, air, and water facilities benefit those modes.... Government's failure to establish any comparable mechanism for railroads or rail passenger service is perhaps more significant than the actual dollar amounts involved. Put another way, the 'moneychannels' dug by the government are more important than the precise dollar amounts flowing through those channels." The highway and air trust funds, "fuelled by user taxes, are massive 'money machines' enabling politicians to vote huge spending amounts virtually painlessly-and effectively by passing the appropriations process." (Quotes are from the May 1, 1985, House Appropriations Transportation Subcommittee testimony of NARP's Ross Capon. A self-addressed envelope with 39¢ postage sent to "NARP-May 1 Testimony" will bring you the full statement; the same to "NARP-May 1 Testimony + June Newsletter" will bring you our highway subsidies article as well; "NARP—June Newsletter" by itself requires only 22¢ postage on the return envelope.)

The federal deficit and the process of drafting a new tax law in 1986 may encourage our nation's leaders to look more closely at changes in transport financing. Chrysler Corp. Chairman Lee lacocca, whose 1984 book advocated using increased gasoline taxes to renew our infrastructure including railroad tracks, called for a 25¢/gallon increase in the gasoline tax in his column in the January issue of Regardie's, the Washington business magazine. Will anyone in Washington listen?

In any event, it seems clear that aviation today continues to enjoy significant direct and indirect government subsidies. Read on!]

HISTORICAL PERSPECTIVE: Federal investment in aviation began in the early 1900's when the federal government provided airmail subsidies to a fledgling airline industry and began investing in a national airport and airway system. By the early 1940's the government operated and maintained over 32,000 miles of airways, 311 airports and fields, radio stations and thousands of navigational aids. Federal assistance to aviation through 1945 totalled \$1.1 billion. After World War II, government investment soared, totalling \$24.9 billion during 1946-75, bringing the 1911-75 total to \$26 billion, or nearly 15 times the \$1.8 billion spent on the railroads during the same period.

In 1932, the government imposed taxes on airport and airway users (taxes on gasoline, lubricating oil and tires) to help pay the costs of the airport and airway facilities. These taxes, which went into the general fund until 1971, fell far short of the vast government outlays for aviation. Moreover, one-third to one-half of the fuel taxes paid has been refundable and the entire tax on lubricating oil has been refundable to air carriers and other system users. Thus, according to a 1977 Dept. of Transportation study, a total of \$15.8 billion invested by the federal government in airport and airway development prior to 1971, should be treated as "sunk costs, none of which have been or will be paid for by air carriers and other system users" (Study of Federal Aid to Rail Transportation).

In contrast, railroad passengers paid \$2.0 billion in federal ticket taxes (1942-62) and freight shippers paid \$3.1 billion in federal waybill taxes (1942-58)—money which simply went into the general fund while the federal government spent nothing on railroads and continued investing heavily in highways and airways. This should make it easier to understand why most NARP members believe that today's inadequate rail system results from past political decisions—not from any fair analysis of the economic strengths of the different forms of transportaton.

FUNDING AVIATION TODAY: Currently, the federal government, through the Federal Aviation Administration (FAA), continues to equip, maintain and operate the nation's air traffic control system and provides assistance to states and localities for construction and rehabilitation of airport facilities. In 1985, Congress appropriated \$5.3 billion for the aviation program, half of which supported the nation's air traffic control system operations and FAA administration. The other half was spent on capital costs (new facilities and equipment, airport grants) and research and development (R&D).

Subsidy to Air Traffic Control Operations: In 1970, the Airport and Airway Trust Fund was established, formally linking aviation user fees to aviation program expenditures. Revenues are raised from a passenger ticket tax (ticket tax revenues provided 87% of the tax receipts in 1985), a tax on private aircraft jet fuel and taxes on freight waybills and international passenger departures.

The passenger ticket tax was set at 8% in 1970, reverted to 5% in 1980 when the originating legislation expired and increased again to 8% in 1982. General aviation taxes were set at 7¢/gallon in 1970 and increased to 14¢/gallon on private aircraft jet fuel (12¢/gallon on gasoline) in 1982.

User fees finance virtually all federal capital costs for building and equipping air traffic control facilities and for airport improvements (tax exempt bonds, however, play a greater role in airport development than federal dollars—see below). However, only a variable portion of federal government costs of *operating* the air traffic control system come out of the Trust Fund.

The air traffic control system is an extensive system of 25 navigational centers, 188 terminal area approach systems and 442 airport terminal control towers. In addition, 317 flight service stations provide general aviation—firms and individuals that own and operate aircraft for business and recreation—with aviation maps, weather reports, and other flight services. To staff and maintain this system, the FAA spent \$2.6 billion in 1985.

Trust Fund dollars were used for only 15% of FAA operational costs in 1980; for 50% in 1983. In 1984, no Trust Fund dollars were used for FAA operational costs. The annual fluctuation stems from the Airport and Airway Improvement Act of 1982, which states that the amount of FAA operational costs funded by the Trust Fund is reduced by \$2 for every authorized capital dollar not

Federal Spending for Air Traffic Control By Purpose, Fiscal Years 1965-1984



Note that a substantial portion of the annual aviation budget goes to FAA operations (air traffic control and admin), a cost borne in large part by the general public. (See text below).

actually appropriated. (In essence, the aviation community, which believes the general taxpayer should pay for all traffic control operational costs, accepted a user-fee increase in return for a provision ensuring higher levels of capital spending and minimizing "raids" on the Trust Fund for operational costs.)

Thus, a substantial share of operating costs of the traffic control system directly benefitting airlines and their passengers comes not from user fees but from general taxes that we all pay. The aviation community is quick to note that, even in FY '84 when general tax dollars funded *all* operating costs, total taxes paid by aviation users exceeded total FAA expenditures. But, when general taxes are used in place of Airport and Airway Trust Fund dollars, those dollars sit in the trust fund earning interest; both principle *and* interest remain designated for future aviation spending.

Although as much as 88% of government aviation costs may be attributable to non-governmental aircraft, aviation interests thus far have successfully opposed the administration's proposal to force collection of 75% of traffic control operating costs on a regular basis from the Trust Fund.

We used the FAA's 1978 cost allocation study as the basis for the 88% just noted. This study assigns 10% of total aviation costs to government/military and 74-76% to commercial/general, but assigns the remaining 14-16% to a "general public" category consisting of items which should be assigned predominantly to commercial/general, that is, the costs of:

• the nation's only major federally-owned airports, National and Dulles, serving Washington, DC;

• air traffic control service at terminals served by federally subsidized air carriers;

• developing and enforcing aviation regulations for safety, environment, and other areas; and

aviation medicine.

The study doesn't even consider other, hard-to-measure costs of aviation, including air and noise pollution.

Subsidies from Tax Exempt Bonds for Airport Construction: Direct federal spending plays a much smaller role in total capital spending for airport improvement and expansion. Historically, tax exempt airport bonds have been the primary source of airport capital funding. Between 1978-1982, tax exempt bonds provided 65% of the total (federal plus private) investment in airport capital development; the federal government, through the Airport and Airway Trust Fund, provided 35%. The relative reliance on federal funding varies significantly with airport type and size. The largest 24 airports rely on federal funding for 20% of capital spending while small community, reliever and general aviation airports depend on it for 69%, 80% and 92%, respectively of all capital spending.

The FAA estimates that \$18 billion of airport development will be needed over the next 10 years (\$1.8 billion per year). The federal program currently provides approximately \$1 billion per year, with the remainder to be funded through tax exempt revenue bonds. In testimony before the House Public Works Committee, Aviation Subcommittee (Sept. 1985), the Airport Operators Council International (AOCI) and American Assn. of Airport Executives (AAAE) estimated total costs of development at primary commercial service airports to be significantly higher (\$16 billion over next 5 years), relying on tax exempt bonds for \$2 billion/year. For example:

• The NY Port Authority is planning to spend at least \$2 billion over the next 5 years for improvements at La Guardia and Kennedy Airports;

• Denver wants to build a new international airport for \$3 billion on farmland east of Rocky Mountain Arsenal, funded largely through revenue bonds; and

• O'Hare Airport in Chicago is using tax exempt bonds to fund its major expansion with a total of over \$1.3 billion of bonds issued in 1983-4 and more than \$700 million of additional bond financing planned for 1986-1989.

The practice of allowing airports to use tax exempt bonds to support airport development represents another substantial public subsidy to aviation. The extent of the subsidy can be understood by calculating how much airports are saving in interest on their bonds. They have estimated that for each \$10 million 33-year airport revenue bond at taxable interest rate of 13% (compared to the tax exempt rate of 10%), the additional interest cost alone would amount to approximately \$9 million over the life of the bond.... Systemwide, the extra cost of financing each year's \$2 billion of airport development would approximate \$1.8 billion over the life of the bond". The Joint Tax Committee estimated that the revenue loss to the Federal Treasury from airport/seaport bonds will be \$3.1 billion from 1986-1990.

The aviation community has argued that airports serve a public purpose which justifies the tax exemption for airport bonds. Yet the exemption clearly benefits private entities, such as the airlines, air taxi operators, hotels and restaurants, who use or are located within the airports. If airport development was funded through financing at commercial interest rates, these private users would be charged the true costs of their use of the airport through increased landing fees and other charges. Thus, it is not surprising that President Reagan's proposal to eliminate the tax. exemption for airport bonds after 1989 met with stiff resistance throughout the aviation community. The tax reform bill passed Dec. 17 by the House of Representatives preserves the tax exempt status of airport bonds although it reduces the size of the exemption by eliminating from tax exemption some development pro-Jects (i.e., hotels within the airport and the interior development of restaurants).

Right-of-Way Treatment: Beyond the advantages to certain modes of transportation from direct federal subsidies, federal financing of capital development provides the ability to mobilize funds on a massive scale and convert fixed costs into user charges. An essential difference between the railroad industry's private sector investment in right-of-way and public financing of air (and (highway) and airway users" (DOT Study of Federal Aid to Rail Transportation, 1977). Public financing of air facilities allows the airlines to finance their right-of-way costs as they are needed and (highway) and airway users" (DOT, Study of Federal Aid to Rail Transportation, 1977). Public financing of air facilities allows the airlines to finance their right of way costs as they are needed and used. Thus, during slow business periods, r-o-w payments fall off and in active periods they increase. "Railroads...are not permitted that luxury. Amortization of right-of-way investments...require fixed annual payments to finance systems that must be built to handle peak loads; these charges have to be met in bad business years as well as in prosperous years." (Ibid). Thus, air carriers who pay user charges rather than fixed charges improve their industry's financial security compared with the fixed interest and debt retirement costs paid by railroads. Airlines (motor carriers

TRAVELERS' ADVISORY

Watch out! The Jan. 12 timetable not only reflects reduced service frequencies on several Amtrak routes, it also includes many earlier departures: northbound "Palmetto" and southbound "Illini" operate an hour earlier; "Silver Star" runs about 30 minutes earlier in both directions; southbound "Adirondack" departs Montreal 50 minutes earlier (12:45 PM from Central Sta.); and the last departure of the day from Albany-Rensselaer for New York is at 7 PM instead of 7:25.

and water carriers) have their "business risks reduced when the Federal Government in effect serves as their banker in arranging for the financing in their (respective) rights-of-way." (Ibid).

Cross Subsidies to General Aviation: The user taxes paid by general aviation do not come close to covering the costs attributable to them (FAA's 1978 Cost Allocation Study and a 1983 Congressional Budget Office study). The CBO stated that general aviation users make little contribution to their 30% share of total air traffic control system (capital and operating) costs. "As a measure of the magnitude of this subsidy, recovery of all costs that general aviation imposes would require an increase in gas and jet fuels from 12¢/gallon to \$1.20 per gallon." CBO projects the number of general aviation planes growing 50%—with corporate business jets more than doubling—over the next decade.

The general aviation community believes that the extent of the cross-subsidy from commercial aviation is exaggerated, pointing out that even absent general aviation, the country would still require essentially the same system of navigational aids and airports. Furthermore, the cost of many new and expensive navigational systems are paid for by all aviation users yet benefit the commercial airlines. If these arguments are valid, then the subsidy to commercial aviation is even greater.

Subsidy for Provision of Essential Air Service: The Airline Deregulation Act of 1978 included a provision (Section 419) to ensure that all locations served by certificated air carriers in 1978 would continue to receive essential air service, with federal subsidy if necessary, until 1988. The essential air service program provides service to 147 small communities in 38 states. Total subsidies for the program have cost the federal government approximately \$170 million and have been declining. In FY '85, Congress appropriated \$51 million (only \$36 million was actually spent); in FY '86 the Dept. of Transportation estimates that the program will cost about \$45 million.

Dept. of Defense Subsidies: It's no secret that commercial aviation long has benefitted from taxpayer-supported military aircraft R&D programs; the chart shows that FAA also undertakes R&D specifically for non-military purposes. Less remarked, however, is the extent to which commercial carriers benefit from military training of pilots. "Pilots trained during military service have been a primary source of major airline pilots.... In the mid-1970s, between 4,000 and 5,000 pilots trained during the Vietnam war could leave the service annually; but now only about 500 to 600 can, said Louis Smith, president of Atlanta-based Future Aviation Professionals of America."

Because of the sharp decline in pilots leaving the military, major airlines are hiring away pilots from commuter airlines, some of which have had to reduce service for lack of pilots. An airline cost increase may lie ahead. Richard A. Henson, president of Henson Airlines of Salisbury, MD says, "I think the day is coming when majors like American Airlines are going to have to set up a training academy, take people out of high school or college and train them to be pilots like the Air Force and the Navy do. They can't continually rob the regionals and expect them to perform." (The Washington Post, Dec. 25, 1985).

Landing Rights Subsidy: Commercial airlines also enjoy free airport take-off and landing positions (slots). Debate over a new DOT plan to allow airlines, starting Apr. 1, to buy and sell slots at New York's JFK and LaGuardia, Chicago's O'Hare, and Washington's National (possibly other cities later) has revealed the extent of this subsidy.

The AOCI's Deborah Lunn stated that, in the May 1982 30-day trial use of buy-sell, the value of a LaGuardia prime-time after-

noon slot rose to \$250,000. She said that at certain high-density airports such a slot might now be worth as much as \$500,000. The Washington Post (Jan. 22) reported estimates as high as \$1 million. Said Lunn, "For an airline like Eastern Air Lines, which has 77 takeoffs a day at National, it's a windfall" (Traffic World, Dec. 23).

Although the FAA plan bows to political reality with a "grandfather clause" (i.e., airlines won't be charged for slots they currently hold), the establishment of a slot pricing system would be a step forward. As NARP Dir. Dietrich R. Bergmann noted in an 11 Jan. letter to NARP, slot sales, by benefitting the big airlines rather than those with many short-distance flights and cut-rate fares, could improve Amtrak's competitive environment and move us towards balanced transportation. The Jan. 22 Post article confirmed Bergmann's theory, reporting airline industry officials' predictions that the FAA plan "will create 'windfall' profits for some big airlines." (Of course, *that* could be addressed by eliminating the grandfather clause and requiring all airlines to pay slot-value fees on a regular basis!)

The FAA will accept written comments on its slot proposal until Feb. 20. Send comments to: FAA Docket Section, 800 Independence Ave., SW, Washington, DC 20591.

Service Cuts (continued from page 1)

interim basis, provide some equipment for the train);

• the Oct.-Jan. phasing out of costly self-propelled diesel cars [SPV2000s] formerly operated on the Hartford line;

• other changes reflected in the October timetable; and

• the elimination of 3 state trains originally included in Amtrak's FY '86 budget (Florida's "Silver Palm," Minnesota's "North Star," and North Carolina's "Carolinian"; the latter's possible Apr.-Oct. '86 restoration would reduce the savings slightly).

No route loses all service, but travel choices for many people have been reduced significantly. No longer is a train safe simply because it meets the congressional criteria; now any train is vulnerable. Not that Capitol Hill protested the new cuts; ironically enough, the only loud complaint came from a longtime Amtrak foe, Rep. Robert S. Walker (R-PA), whose Lancaster district lost several trains.

As if to warn U.S. policymakers about the folly of cutting passenger train service, normal functioning of other transportation was disrupted in three areas affected by Amtrak service cuts while Amtrak was getting out word of those cuts. The Seattle airport was seriously disrupted by fog during a 12-day period in Dec., and, in early January, major snowstorms hit Michigan and upstate N.Y.

Cuts on these 7 routes are to continue indefinitely:

• Portland-Seattle "Mt. Rainier" runs south Th/Fr/Sa/Su evenings only; north Fr/Sa/Su/Mo mornings only instead of daily. In conjunction with the "temporary" "Pioneer" reduction to triweekly noted below, this virtually destroys Seattle-Portland as a corridor. The mid-day "Coast Starlight," albeit the most heavily used of the trains for local traffic, is the only daily service—consult your calendar for other choices. If you're in Seattle and want a full weekend in Portland, go down Friday evening—while "Pioneer" runs tri-weekly, the first Saturday train from Seattle gets to Portland at 3:05 PM.

• Amtrak killed the morning Chicago-to-Carbondale "Shawnee" and the morning Champaign-to-Chicago "Illini"; extended the Chicago-to-Champaign "Illini" to Carbondale (it runs an hour earlier—4:35 PM from Chicago); and renamed the northbound "Shawnee" as the "Illini." Comparing present service with the 5½ well-patronized daily round-trips that served the **Chicago-Carbondale** line until Amtrak's May 1, 1971 startup it appears that this market has suffered terribly under Amtrak, perhaps more than any other Amtrak currently serves. Amtrak originally planned simply to drop the "Shawnee," but the state, which partially funds "Illini," negotiated the above plan to preserve twice-daily service south of Champaign. Amtrak's strange fares policy weakened "Shawnee": for the past few years, a Chicago-Champaign roundtrip discount was honored on the *long-distance* "City of New Orleans" but not on the short-distance "Shawnee."

• "Empire State Express" no longer runs Albany/Rensselaer-Niagara Falls so one can only reach Syracuse and Buffalo before 8:32 PM and 11, respectively, by braving the AM rush hour for

GOOD NEWS ALONG WITH THE BAD

• The NY-Montreal "Adirondack" finally switched Jan. 12 from Montreal's Windsor Station. The train departs Montreal at 12:45 PM instead of 1:35 (operating in New York State 25 minutes earlier than before). The northbound arrival in Montreal is 10:50 PM, not 10:35. Although "Adirondack's" running times are slightly longer, modern Central Station is vastly more convenient; passengers no longer have to endure the long, exposed walk required just to get between the train and what's left of the old Windsor concourse. Central Station is located under a major hotel, and is VIA Rail Canada's eastern hub. Note, in particular, that VIA's westbound "Ocean" from Halifax, St. John, and northern Maine points, connects with the winter southbound "Adirondack" schedule.

• Completing a process that began with the Oct. timetable, Amtrak on Jan. 12 finally eliminated the infamous New Haven cross-platform transfer for Hartford/Springfield line passengers bound to/from points west. Through Amfleet service replaced costly-to-operate, unreliable self-propelled diesel cars, which have been withdrawn from service.

• Following through on a NARP suggestion to improve the "Montrealer," which links Washington and Montreal via New York's Penn Station and New England points, the northbound train operates an hour later, starting with the Jan. 12 departure from Washington, reaching most Vermont points at more hospitable times.

• It now appears likely that Amtrak's "Cardinal" (NY-Chicago via Washington, Charleston, WV and Cincinnati) will be rerouted to serve Indianapolis at least by April 27.

"Maple Leaf's" 8:45 AM New York departure; and one can only reach New York before 6 PM on the very early (5:15 AM from Depew near Buffalo; 6:14 from Rochester) "Lake Shore Ltd.," which is more likely to run late since it comes from Chicago. The "kill-#74" decision was based on FY '85 figures including over 5 months' operation (Apr. 27 on) of a schedule both unattractive (6:23 AM from Buffalo) and very close to "Lake Shore's" (1:54 PM NY arrival vs. "Lake Shore's" 1:35); this problem—which Conrail helped create—was corrected just last Oct. 26.

• Philadelphia-Harrisburg: Kill 3 round-trips Mo-Th; 2 Fr/Sa. "Sunset commuter" trains enjoy legal protection, so big gaps open up at other times of day. More on this in a future issue.

• Chicago-Detroit: Eastbound morning "Wolverine" and westbound afternoon "Twilight Ltd." to run Fr/Sa/Su only;

• Chicago-St. Louis: End the Sa evening south/Su morning north "State House" round-trip; and

• Chicago-Valparaiso: service reduced from 2 to 1 weekday round-trip, departing Valparaiso at 6:10 AM and Chicago at 5:10 PM.

On 3 temporarily tri-weekly routes, daily service resumes Mar. 20:

• (Chicago-)Salt Lake City-Boise-Portland-Seattle "Pioneer": westbound departures from Salt Lake Tu/Th/Sa (one day earlier from Chicago), eastbound Seattle departures Su/Tu/Fr;

• NY-New Orleans "Crescent" south of Atlanta: southbound departures from Atlanta Su/Tu/Fr plus Jan. 25 and Feb. 8 (one day earlier from New York). Northbound N.O. departures Mo/We/-Sa plus Jan. 28, Feb. 13 & 14. Service quality west of Atlanta is at an all-time low; "Crescent" is the only Amtrak overnight train hitting three consecutive mealtimes sans diner.

• (NY-)Washington-Savannah "Palmetto" runs south Fri/Sa-Su, north Sa/Su/Mo. This is one of Amtrak's most efficient trains, according to Amtrak's FY '86 projections submitted to Congress last year. With a short-term avoidable loss of \$.006/passenger-mile, "Palmetto" was surpassed by only one other longdistance train ("Coast Starlight" at \$.001) and by only one "basic system" short-distance route (Los Angeles-San Diego at \$.002).

Cancelling trains in the already-skeletal national system especially trains on which space has been reserved for months shakes the public's new-found confidence in Amtrak. A repeat performance must be avoided.