U.S. Department of Transportation
Office of the Secretary of Transportation

The Inspector General

Office of Inspector General
Washington, D.C. 20590

July 13, 2006

The Honorable Christopher "Kit" Bond
Chairman
Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510

The Honorable Joe Knollenberg
Chairman
Subcommittee on Transportation, Treasury, Housing and Urban Development, the Judiciary, and District of Columbia
Committee on Appropriations
United States House of Representatives
Washington, DC 20515

The Honorable Patty Murray
Ranking Member
Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510

The Honorable John W. Olver
Ranking Member
Subcommittee on Transportation, Treasury, Housing and Urban Development, the Judiciary, and District of Columbia
Committee on Appropriations
United States House of Representatives
Washington, DC 20515

Dear Chairmen Bond and Knollenberg and Ranking Members Murray and Olver:

This report[1] (1) presents our quarterly assessment of the savings[2] Amtrak has achieved from operational reforms, (2) fulfills the certification requirement included in the fiscal year (FY) 2006 Appropriations Act[3], and (3) includes our evaluation of the Department of Transportation's (DOT) efforts to set and collect

[1] The Transportation, Treasury, Housing and Urban Development, the Judiciary, District of Columbia, and Independent Agencies Appropriations Act, 2006, required our office to report quarterly to your Committees whether or not, and to what extent, Amtrak has achieved savings from operational reforms.

[2] Defined throughout as either net operating savings or a reduction in net operating losses.

[3] Under the Act, unless we certify that Amtrak has achieved operational savings by July 1, 2006, Amtrak will be prohibited from using appropriated funds to subsidize the net losses from food, beverage, and sleeper car service on any Amtrak route.

access fees from commuter railroads for use of Amtrak-owned infrastructure on the Northeast Corridor (NEC).[4]

Summary

- For the purpose of this report's certification requirement[5], Amtrak has achieved operational savings of $3.8 million through May 2006.[6] This compares to the $214,000 in savings we reported Amtrak had achieved through January 2006 in our April quarterly report.

- Amtrak has achieved $46.3 million in savings through May 2006 from all its FY 2006 operational reforms.

- These overall savings from reform contribute to Amtrak's current better-than-expected financial performance. Through May, Amtrak's operating loss is $99 million below the year-to-date projected loss in the $586 million subsidy baseline[7] (see Figure 1 on page 5). To live within its FY 2006 appropriations, Amtrak must maintain and expand upon this improved performance so that its operating loss through September is $101 million below the $586 million baseline.

- Amtrak currently estimates its financial performance will continue to improve and, as a result, expects to end FY 2006 with a $165 million cash balance.

- We have worked with Amtrak since our April report to ensure the reliability of Amtrak's savings estimates for each operational reform. We are confident that Amtrak is reliably tracking these savings. Some limitations with Amtrak's data remain, particularly Amtrak's ability to measure savings at the sub-initiative level within its food and beverage reforms.

- Many of Amtrak's reform initiatives simply reflect standard management practices of well-run businesses. The test for Amtrak will be to move beyond the "low-hanging fruit" to successfully implement more difficult reforms in

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4 The report accompanying the FY 2006 Appropriations Act directed our office to include an assessment of the Department's efforts to set and collect fees from commuter railroads for the use of Amtrak-owned infrastructure on the Northeast Corridor beginning with this July quarterly report.

5 As we indicated in our April 6, 2006, quarterly report, our certification is focused on savings from operational reforms not specifically included in Amtrak's FY 2006 Board-approved budget. The specific operational reforms included in that budget resulted in the $586 million subsidy baseline established in our January report. In April we referred to savings "beyond those included in the Board-approved budget" as "not in the baseline". We changed our terminology in this report to improve the clarity of how we categorized different reforms.

6 Throughout the report "through a specified date" means from October 1, 2005 to that date.

7 The $586 million subsidy baseline is described on page 3.

food and beverage service, sleeper car service, route restructuring, State payments, and labor contracts.

- Amtrak should continually increase its efficiency by benchmarking its costs against the costs for similar business practices at well-run businesses. The managerial cost accounting system Amtrak is developing will provide important data to this benchmarking process. Our office is monitoring Amtrak's development of this system, both to help ensure it is well designed and to respond better to congressional direction that we report on the strengths and weaknesses of the system once it is implemented.[8]

- Unless the Federal Railroad Administration issues a rule regarding the NEC commuter access fees almost immediately, it is unlikely they will collect the fees in FY 2006. We have concerns about the quality of the data upon which these fees would be based, how year-to-year swings in capital spending would be addressed, and the definition of the NEC. (Our concerns on these and other related issues are included in Appendix D.)

Structure of this Letter

In our January 2006 report, we stated we would evaluate Amtrak's net operating savings on four levels of detail: (1) corporate, (2) business line, (3) route, and (4) strategic reform initiatives, that is, operational reforms. Amtrak's net operating savings are measured against the FY 2006 operating subsidy baseline of $586 million we established in January. Therefore, this letter sets the stage by first discussing the operating subsidy baseline. We have also included a discussion of the reliability of the data used to estimate these savings.

$586 Million Subsidy Baseline

The $586 million subsidy baseline reflects Amtrak's expected operating loss based upon the FY 2006 budget approved by its Board of Directors in September 2005. That is, the operational reforms specified in that budget would result in a projected operating loss of $586 million.

To live within the FY 2006 appropriated Federal operating subsidy, Amtrak must reduce its operating loss from the $586 million subsidy baseline to the

[8] Within 30 days of development of the managerial cost accounting system, the FY 2006 Appropriations Act requires us to review and comment to the Secretary and the House and Senate Appropriations Committees upon the strengths and weaknesses of the system and how it best can be implemented to improve decision making by the Board of Directors and management of the Corporation.

appropriated subsidy of $485 million.[9] This will require net savings of $101 million beyond the operational reforms specifically included in the $586 million baseline.

Data Reliability

This report relies upon data generated by Amtrak's current revenue and cost accounting systems. These systems do not readily support reporting and analysis of financial data on an initiative-level basis. In our April 2006 report, we cautioned that the data provided by Amtrak were not audited. Since that report, we worked with Amtrak to ensure that Amtrak's savings estimates are reliable. We are now confident that Amtrak is properly tracking savings.

Amtrak established a new tracking system to measure savings from initiatives. This system draws on data from: (1) Amtrak's financial information system or general ledger, (2) savings specified by contract, and (3) assumptions based on expected activity levels. This new system and our work with Amtrak resulted in some new savings estimates that eliminated double-counting in some initiatives.

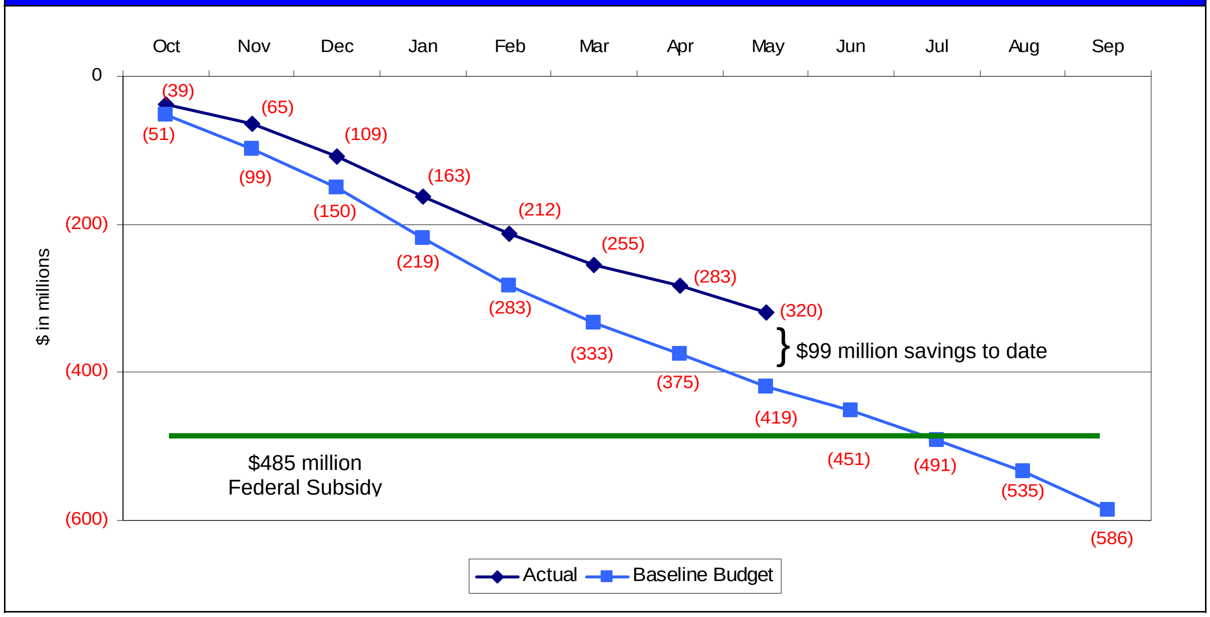
More detail on the methodology used in determining the reliability of the data generated by Amtrak can be found in Appendix C.

Corporate Level Results

Amtrak's overall financial performance continues to be better than expected. It has reduced its operating loss by $99 million below the year-to-date loss projected in the $586 million subsidy baseline (see Figure 1). To live within its FY 2006 appropriation of $485 million, Amtrak must sustain and expand upon this performance over the next 4 months to end the fiscal year at $101 million below the baseline. This will require Amtrak to continue to implement operational reform, control its costs, maximize its revenues, and successfully address any unforeseen adverse events.

[9] The FY 2006 Appropriations Act provided Amtrak a $495 million operating grant. The amount available to Amtrak for operations after the 1 percent across-the-board rescission and the $5 million dedicated to the development of a managerial cost accounting system was $485 million.

Figure 1. Amtrak Operating Loss
FY 2006 Year-to-Date through May



This improved financial performance reflects $44.1 million in savings from revenue increases, $35.4 million in savings from lower labor costs, and $19.5 million in other savings.

The revenue increase includes $17.5 million in passenger ticket revenue, in part due to Amtrak's system-wide general fare increases and the implementation of variable fares (i.e., revenue management[10]) for the NEC Regional and Acela services, and $26.6 million from commuter and other non-passenger revenues.[11] The reduced labor costs reflect a total employment level that was 1,390 lower than planned.

Of significance, other savings include reduced corporate overhead expenses (e.g., professional fees, data processing), which were $20.6 million less than expected, and lower train operations costs, which were $5.1 million below projected levels due to lower food supply costs, schedule adherence payments to host freight railroads, and maintenance of equipment materials costs. These savings were partially offset by increases in fuel and power costs ($9.4 million) and maintenance of way materials costs ($2.3 million).

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[10] Amtrak extended its current revenue management practices to the NEC Regional and Acela trains. Amtrak is now charging variable fares, based on demand levels, rather than the previous peak/non-peak fare approach.

[11] Non-passenger revenues include reimbursable, commercial development, other transportation and freight access fees and miscellaneous one-time revenues.

Amtrak projects it will end FY 2006 with a $165 million cash balance, $90 million more cash on hand than at the end of FY 2005. Amtrak originally anticipated having to draw down its cash balances in FY 2006 to make ends meet. Instead, based on current projections, it will be able to increase these balances.

Business Line Results

As shown in Table 1, most of Amtrak's improved performance to date comes from the *National Train System Operations* (core) business line. Through May 2006, losses from Amtrak's core operations were $57.1 million less than expected, relative to the $586 million subsidy baseline. Amtrak achieved additional savings of $41.8 million from its *Infrastructure Management*, *Ancillary Business* (commuter, reimbursable, and commercial operations), and *Unallocated Systems* (overhead) business lines.

Table 1. Amtrak Net Profit/(Loss), Excluding Federal Operating Subsidies*
FY 2006 – Year to Date through May ($ in Millions)

Business Line	Actual	Baseline	Compared to Baseline
National Train System Operations	($221.4)	($278.5)	$57.1
NEC	*148.4*	*131.1*	*17.3*
State Supported and Other Corridors	*(61.6)*	*(74.4)*	*12.8*
Long-Distance Service	*(308.1)*	*(335.1)*	*27.0*
Infrastructure Management	(40.2)	(55.1)	14.9
Ancillary Business	58.3	45.7	12.6
Unallocated System	(116.3)	(130.6)	14.3
Total	**($319.6)**	**($418.5)**	**$99.0**

* Amtrak reports these financials on an earnings before interest, taxes, depreciation and OPEBs (other post-employment benefits) basis.

Route Level Results

Amtrak's food and beverage initiative is the only reform so far that affects direct train costs; other reforms achieve savings at the corporate level. There are several food and beverage initiatives that are measurable at the route level. These include the Simplified Dining program, the elimination of food service on the Empire Corridor, and offering an enhanced food service program on the Empire Builder.

As of May 24, 2006, Amtrak's Simplified Dining program has been implemented on all of the long-distance trains except the Empire Builder and the Auto Train.

Savings from Simplified Dining are measurable by route and are shown in Table 2. The initiative incurs additional costs for food stock and supplies due to the pre-preparation and packaging of meals; however, the significant labor savings produce a net benefit to the initiative.

Table 2. Simplified Dining Program Net Operating Savings FY 2006 – Year to Date through May ($ in Thousands)				
Long Distance Service	**Months in Operation**	**Labor Savings**	**Non-Labor (Loss)**	**Net Savings/(Loss)**
City of New Orleans	3½	$175.6	($101.1)	$74.5
Texas Eagle	3½	219.1	(197.5)	21.7
Sunset Limited	3½	539.6	(47.8)	491.8
Capitol Limited	3½	226.9	(117.3)	109.6
Silver Star	1½	66.5	(97.9)	(31.3)
Lakeshore Limited	1½	94.6	(71.3)	23.3
Southwest Chief	1½	615.9	(164.0)	451.9
Silver Meteor	1	161.8	(97.9)	64.0
Crescent	1	113.1	(56.5)	56.5
Coast Starlight	¼	277.2	(71.6)	205.5
Total Savings		**$2,490.3**	**($1,022.8)**	**$1,467.5**

Also as part of its food and beverage initiative, Amtrak eliminated all food service on some trains serving the Empire Corridor from New York, New York, to Albany, New York, and closed the Albany Commissary. Amtrak reported savings through May 2006 of $931,658 excluding food and beverage revenue and supplies with a full year of savings projected at $1.1 million.

Amtrak's enhanced Empire Builder service achieved savings of $4.2 million through April 2006, well in excess of the $2.6 million it was expected to achieve for all of FY 2006. Despite these savings, the Empire Builder has lost $29.2 million through April 2006.

Strategic Reform Initiatives (Operational Reforms)

Amtrak identified 15 areas of operational reforms aimed at reducing long-term annual operating losses (see Appendix A). Only 4 of these 15 reform initiatives—food and beverage, mechanical, customer service, and management information—have progressed to the point of having estimated annual savings and estimated implementation periods.

Amtrak has achieved $46.3 million in savings from all operational reforms through May 2006. These savings from reforms fall into two categories: $42.5 million from reforms already reflected in Amtrak's FY 2006 Board-approved budget and $3.8 million from operational reforms beyond those included in Amtrak's FY 2006 Board-approved budget.

As previously stated, the reforms already reflected in the Board-approved budget and, therefore, in our January baseline, were not considered for the purpose of our certification requirement (see Appendix B, Table B-3 for a discussion of Amtrak's progress on these reforms). The reforms beyond those included in the Board-approved budget are the ones we focused on for the certification requirement (see Appendix B, Table B-2). These operational reforms include the following.

- ***Food and Beverage Reform.*** Amtrak expects to achieve $4.8 million in operating savings in FY 2006 from several modifications to its food and beverage service. Through May, Amtrak has realized $2.0 million in net operating savings from these modifications. The largest projected benefit is from implementing its Simplified Dining program. This program relies on fully prepared food products that only require heating on-board in a convection or microwave oven and uses disposable dinnerware. Through May, net cost savings from Simplified Dining were $1.5 million. In addition, Amtrak saved $520,833 through May by renegotiating the contract with its food supplier, Gate Gourmet, and expects total annual savings of $937,500 in FY 2006.

  Amtrak also plans to offer continuous, restaurant-style dining service and enhanced customer service, which is expected to increase food revenues. The program includes a new dining car advance reservation system to improve customer service, reduce on-board spoilage, and increase spending in the dining car by coach passengers.

- ***Corporate Overhead.*** Amtrak expects to achieve $1.4 million in operating savings from technology efficiencies in FY 2006. These will come from outsourcing information technology; lower software, storage, and communications costs; and increased management controls. Through May, Amtrak has realized $753,000 in net operating savings from these initiatives. Energy management efficiencies achieved through enhanced oversight of utility expenditures and new contracts resulted in an additional $1.0 million in savings through May 2006. These savings reflect commuter traction power contracts due to higher energy costs billed back to commuters.

- ***Other Operational Reforms.*** Several additional operational reforms are described in Appendix A. However, none of these are expected to generate savings in FY 2006.

Sustained Reform Over the Next Several Years Is Needed To Continue Reducing Amtrak's Operating Subsidy

Amtrak's ability to achieve credible reductions to its Federal operating subsidy will take significant effort by Amtrak's Board of Directors and its management over the next several years. Following are some of the issues that we believe require particular attention.

Continuous Reform. Operating Amtrak efficiently requires institutionalizing a process of continuous self-evaluation and benchmarking Amtrak's costs against the costs for similar business practices by well-run companies. This benchmarking will identify potential areas for further reforms and cost savings. Since the returns from reforms may diminish over time, Amtrak must continue to seek out and implement all opportunities to reduce its costs.

Critical to this benchmarking and unit costs analysis will be the development of an Amtrak managerial accounting system. Amtrak is currently developing a new system that will replace its Financial Information System general ledger with a state-of-the-art integrated financial system. Concurrently, Amtrak plans to replace its legacy activity-based Route Profitability System with one that will support both avoidable and full-cost methodologies and provide business-line and route level activity-based analysis. Avoidable costs are those that would not be incurred if a service was not provided, for example, fuel. Full-cost methodology allocates all costs to Amtrak's functions, including overhead and capital. We expect Amtrak to submit a statement of work to the Federal Railroad Administration (FRA) shortly that will identify the new system's characteristics and functionalities.

Within 30 days of development of the managerial cost accounting system, the FY 2006 Appropriations Act requires us to review and comment to the Secretary and the House and Senate Appropriations Committees upon the strengths and weaknesses of the system and how it best can be implemented to improve decision making by the Board of Directors and management of the Corporation. Our office is already engaged in monitoring the development of the system.

Food and Beverage Service. The shortcomings associated with Amtrak's food and beverage service are well documented. The Amtrak Inspector General concluded that Amtrak spends about $2 for each $1 sale of food,[12] and has identified substantial problems in management of food operations, including efforts to outsource. Our July 2005 report on Amtrak's long-distance service[13] concluded that Amtrak must find ways to provide food service in a much more efficient manner to eliminate the need for Federal subsidies for food services.

Amtrak estimates its food and beverage reforms will reduce its $104.7 million annual loss on food and beverage to between $27.2 million and $58.7 million. The efforts underway to improve the food and beverage service's financial performance represent progress on the part of Amtrak. However, the expected losses that will remain once the initiative is fully implemented should not be viewed as satisfactory. While there is a need to provide food and beverage service to riders of some Amtrak trains, there is no reason Federal taxpayers should subsidize the cost of providing that service. Amtrak should strive to achieve additional cost reductions to continue to reduce the financial support that Federal taxpayers provide to this service.

Amtrak's current approach has been to retain the basic food and beverage service but make it more cost efficient. If Amtrak cannot extend these reforms so that it eliminates the food and beverage service operating loss, it needs to pursue other alternatives. As we discussed in our July 2005 report, these alternatives include raising food prices, outsourcing, having passengers obtain meals in stations during regular stops, distributing boxed meals that have been prepared off the train, or selling packaged food from carts on the train.

Sleeper Car Service. The chief reason for providing Amtrak's long-distance service is to meet the basic mobility needs of the American public. It is not to provide first-class, sleeper car amenities that cannot be supported without adding to the operating loss and, consequently, requiring more federal subsidies. On a fully allocated cost basis, each passenger receiving sleeper class services on Amtrak's long-distance trains were subsidized in FY 2004 with Federal monies ranging from $269 on the Auto Train to $627 on the Sunset Limited. In our July 2005 report, we identified potential annual operating savings of between $75 million and $158 million and potential savings on a fully allocated basis of between $184 million and $267 million from eliminating sleeper class and related services.

Amtrak's sleeper service restructuring initiative will reduce sleeper service losses through food and beverage service modifications, "right-sizing" staffing and

[12] Amtrak Inspector General Report Number E-05-03, "Evaluation Report: Food and Beverage Financial Performance," 2005.
[13] OIG Report No. CR-2005-068, "Analysis of Cost Savings on Amtrak's Long Distance Services," July 22, 2005. OIG reports can be found on our website: www.oig.dot.gov.

equipment, mechanical efficiencies and other reforms. We believe this initiative is a promising start. The Board has not yet set a savings goal for this initiative. The Board should consider setting a near-term goal focused on eliminating incremental operating losses and a long-term goal of eliminating losses on a fully allocated operating basis, plus a capital charge. The Board decided in its April 2005 Strategic Reform Initiatives to require States, over time, to reimburse Amtrak for the fully allocated operating losses for State supported services. If fully allocated operating losses is an appropriate standard for the States, it is also an appropriate standard for Amtrak.

***State-Supported Services, Route Restructuring, and Labor Contracts*.** It is difficult to see how Amtrak can achieve significant further reductions to its Federal operating subsidies without addressing these three areas. Amtrak has taken on the challenging task of reforming these areas and should be given the support and tools necessary to be successful and then be held accountable for following through on meaningful reforms.

Currently some State corridor trains receive partial State support; other similar trains receive no State support. Providing a service without passing through the related cost inevitably leads to an inefficient use of resources. Amtrak's Strategic Initiatives would move all State corridor trains to payments that cover fully allocated operating losses (excluding interest and depreciation) plus a capital charge over 4 years. Amtrak has also begun a comprehensive evaluation of its entire long-distance route network, for the purpose of identifying possible restructuring and reconfiguration options. Any reconfiguring of the route network will need to balance inter-city mobility needs with the cost of meeting those needs.

Finally, the current labor negotiations have the potential to significantly reduce Amtrak's costs of operations through reforms, such as more efficient work rules and additional outsourcing flexibility. Labor is Amtrak's single largest cost, accounting for 68 percent of Amtrak's total operating expenses through May 2006, excluding interest, depreciation, and OPEBs.

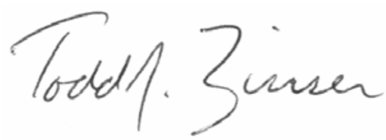
Conclusion

Amtrak's financial performance to date in FY 2006 is $99.0 million better than expected, almost half of which is from savings from operational reforms.

Incremental operating savings over the next 5 or 6 years will not be sufficient to fund the significant increases in capital investment required to return the system to a state of good repair and promote corridor development. As we have said in the past, the current system needs to be fundamentally restructured. A new model for intercity passenger rail that ensures greater cost effectiveness, responsiveness, and reliability is critical.

Under separate cover, we are transmitting copies of this letter to the Acting Secretary of Transportation and the Chairman of the Board of Amtrak. If you have any questions concerning this letter, please call me at (202) 366-1959 or David E. Tornquist, Assistant Inspector General for Competition and Economic Analysis, at (202) 366-9970.

Sincerely,



Todd J. Zinser
Acting Inspector General

Enclosures

Appendix A. Amtrak's Operational Reforms Description

Table A. Amtrak's Proposed Operational Reforms			
Reform Initiative	**Objective**	**Estimated Annual Savings ($ in millions)**	**Implementation Period**
Corporate			
1. Food and beverage	Enhance service flexibility, redesign equipment, and outsource certain services	34-76	FY 2006-FY 2010
2. Mechanical	Adopt reliability-centered maintenance, consolidate facilities, and outsource selected activities	30-75	FY 2006-FY 2012
3. Customer service	Modernize ticket issuance, collection, and reporting processes and improve service quality measurement and delivery	12-25	FY 2006-FY 2010
4. Management information	Develop more accurate and timely information on costs of routes, individual activities, and functions	12	FY 2006-FY 2012
5. Stations	Address ADA compliance, state-of-good-repair, and reduce station operating costs	TBD	TBD
6. Call Centers	Reduce ticketing costs by reducing staffing, increasing utilization of lower cost distribution channels, and outsourcing	TBD	TBD
7. Overhead functions	Reduce unit costs of corporate support functions through selective outsourcing, staffing reductions, skills development, and greater use of technology	TBD	TBD

TBD: To be determined

Table A. Amtrak's Proposed Operational Reforms (cont.)			
8. Service reliability	Improve on-time performance of Acela and NEC trains through operational modifications and targeted investments	TBD	TBD
9. Labor contracts	Reduce unit costs and increase flexibility by negotiating new labor agreements that eliminate certain work rule and outsourcing restrictions, and base wages on market levels	TBD	TBD
10. Ongoing efficiencies	Enhance financial performance of other activities and functions through continued business improvements (e.g., operating crew optimization, maintenance of way productivity)	TBD	TBD
Business Line			
1. Long Distance	Improve performance of all routes by redefining sub-brands, restructuring, services/routes, selected luxury outsourcing, and corporate initiatives	TBD	TBD
2. NEC Operations	Boost financial contribution through improved load factors, adjusted service patterns, re-launching sub-brands, trip time investments, and corporate initiatives	TBD	TBD
3. Corridors	Improve competitiveness of State services, establish pilot competition project, and transition States to full cost recovery for all corridor routes	TBD	TBD
4. Fleet Utilization	Optimize use of fleet, maximize load factors, and increase revenues by improving current train consist efficiency and retiring or redeploying excess equipment	TBD	TBD
5. Infrastructure	Develop a long-term capital master plan and operate NEC efficiently on behalf of all users, while establishing a fair sharing of operating and capital costs among all users	TBD	TBD

Source: Amtrak Strategic Planning Department

Appendix B. Amtrak's Savings to Date from Operational Reforms

In our April 2006 report, we reported Amtrak's operating savings based on a framework of sub-baselines. Table B-1 presents the estimated annual savings and year-to-date savings for FY 2006. Tables B-2 and B-3 present the savings from operational reforms beyond those included in the FY 2006 Board-approved budget and included in the FY 2006 Board-approved budget respectively.

Table B-1. Summary of Amtrak Savings by Sub-Baseline
FY 2006 Year to Date through May 2006 ($ in thousands)

Amtrak Net Operating Savings	Estimated Annual Benefit	Estimated YTD Benefit	Actual YTD Benefit	Variance +/-
Corporate Initiatives	**$19,118**	**$12,406**	**$20,169**	**$7,762**
Food and Beverage	7,687	4,519	9,698	5,178
OBS Labor	*7,919*	*2,864*	*5,336*	*2,471*
Commissary Labor and Support	*266*	*258*	*258*	*--*
F&B Stock Supplies (non-labor)	*(1,465)*	*435*	*4,349*	*3,914*
Food & Beverage Revenue	*967*	*962*	*(245)*	*(1,207)*
Train Operations	6,284	4,514	6,182	1,668
Labor Efficiencies	*5,228*	*3,654*	*2,488*	*(1,166)*
Fuel Conservation	*1,056*	*860*	*3,694*	*2,834*
Corporate Overhead	5,147	3,373	4,289	916
Law Department Efficiencies	*1,400*	*1,068*	*1,260*	*192*
Technology Efficiencies	*3,297*	*2,005*	*2,005*	*--*
Energy Management	*450*	*300*	*1,024*	*724*
Business Line Initiatives	**18,613**	**11,416**	**26,110**	**14,694**
Long Distance Train Service	2,600	2,149	4,173	2,024
*Enhanced Service Offerings**	*2,600*	*2,149*	*4,173*	*2,024*
NEC Operations	16,012	9,267	21,937	12,670
Fare and Revenue Management	*15,000*	*8,667*	*18,970*	*10,303*
Labor Efficiencies	*1,013*	*600*	*2,967*	*2,367*
Total	**$37,731**	**$23,822**	**$46,279**	**$22,456**

* Data were available only through April 2006

Table B-2. Summary of Reforms Beyond the FY 2006 Board-Approved Budget FY 2006 Year to Date through May 2006 ($ in thousands)				
Amtrak Net Operating Cost Savings	**Estimated Annual Benefit**	**Planned YTD Benefit**	**Actual YTD Benefit**	**Variance +/-**
Food and Beverage	$4,788	$1,752	$1,988	$236
OBS Labor	*7,233*	*2,254*	*2,490*	*236*
F&B Stock Supplies (non-labor)	*(2,446)*	*(502)*	*(502)*	--
Corporate Overhead	1,829	1,053	1,777	724
Technology Efficiencies	*1,379*	*753*	*753*	--
Energy Management	*450*	*300*	*1,024*	*724*
Total	**$6,617**	**$2,805**	**$3,765**	**$960**

Table B-3. Summary of Reforms in the FY 2006 Board-Approved Budget FY 2006 Year to Date through May 2006 ($ in thousands)				
Amtrak Net Operating Savings	**Estimated Annual Benefit**	**Planned YTD Benefit**	**Actual YTD Benefit**	**Variance +/-**
Food & Beverage	$2,899	$2,767	$7,710	$4,942
OBS Labor	*686*	*610*	*2,846*	*2,235*
Commissary Labor and Support	*266*	*258*	*258*	--
F&B Stock Supplies (non-labor)	*981*	*937*	*4,851*	*3,914*
Food & Beverage Revenue	*967*	*962*	*(245)*	*(1,207)*
Train Operations	6,284	4,514	6,182	1,668
Labor Efficiencies	*5,228*	*3,654*	*2,488*	*(1,166)*
Fuel Conservation	*1,056*	*860*	*3,694*	*2,834*
Corporate Overhead	3,318	2,320	2,512	192
Law Department Efficiencies	*1,400*	*1,068*	*1,260*	*192*
Technology Efficiencies	*1,918*	*1,252*	*1,252*	--
Long-Distance Train Service	2,600	2,149	4,173	2,024
*Redefining Service Offerings**	*2,600*	*2,149*	*4,173*	*2,024*
NEC Operations	16,013	9,267	21,937	12,670
Fare and Revenue Management	*15,000*	*8,667*	*18,970*	*10,303*
Labor Efficiencies	*1,013*	*600*	*2,967*	*2,367*
Total	**$31,114**	**$21,017**	**$42,514**	**$21,496**

* Data were available only through April 2006

Analysis of Progress on Reforms in the FY 2006 Board-Approved Budget

Amtrak reported $42.5 million in savings through May 2006 from operational reforms that were included in the FY 2006 Board-approved budget. Progress-to-date is summarized below.

- ***Food and Beverage Reform.*** During FY 2005, Amtrak (1) renegotiated contracts with its food vendors; (2) eliminated food service on the Empire Corridor (between New York, New York and Albany, New York), which allowed Amtrak to close the Albany commissary in July 2005; and (3) increased menu prices on its food and beverage service. These initiatives resulted in $7.7 million in savings through May 2006, exceeding the $2.9 million in projected annual savings. These savings include $4.9 million in food supplies, $257,955 in commissary labor, and $2.8 million in OBS labor.

- ***Train Operations.*** Amtrak has several sub-initiatives underway, including consolidation of facilities and work functions and conservation of train fuel.

  - Our April report included discussion of an initiative to consolidate Amtrak's Amfleet maintenance from Albany to Washington, DC, which would eliminate 17 mechanic positions with an associated cost savings of $1.2 million. Although the maintenance work for the Amfleet equipment has moved to Washington, DC, F-40 locomotive overhaul work for the Keystone Corridor service in Pennsylvania has delayed the staff elimination. As a result, there are no labor savings to report. The labor reduction is expected to occur by the end of the year.

  - Additional initiatives are underway to improve labor productivity by reducing allowable overtime in Amtrak's Mechanical Division and reducing core straight time wages in Amtrak's Engineering Division by 4 percent. These are budgeted to save $5.2 million in FY 2006. Through May 2006, Amtrak reported savings of about $2.5 million.

  - Through May 2006, Amtrak reported about $3.0 million in additional labor cost savings from improved crew management in the NEC.

  - Amtrak expects to reduce consumption of train fuel by 1 percent through improved locomotive handling and utilization, which is estimated to result in an annual operating cost savings of $1.1 million. Through May 2006, Amtrak has achieved a better-than-expected cost reduction of $3.7 million, based on a fuel cost of $1.83 per gallon. However, these savings from reduced fuel consumption were offset by an increase in the average price per gallon for fuel to $2.06 per gallon and resulted in core fuel costs that were $5.3 million higher than budgeted.

- ***Corporate Overhead.*** Overhead efficiencies implemented this year include a reduction in outside legal fees, software, and communications costs. Savings in FY 2006 are estimated at $3.3 million, with Amtrak reporting just over $2.5 million in savings through May 2006.

- ***Long-Distance Train Service.*** As part of an initiative to reposition the Empire Builder service as a luxury service, Amtrak rolled out an enhanced service offering in August 2005. This is the only reform of long-distance service Amtrak has implemented so far (excluding food and beverage initiatives). The enhanced service included refurbished sleeper, coach, and lounge cars; food and beverage upgrades, including additional on-board personnel; and a refocus on customer service. Ticket revenue on the Empire Builder was 18 percent higher ($3.9 million) on a cumulative year-over-year basis through May 2006 and 6.6 percent higher than budget ($1.6 million). Sleeper Class accounted for $2.2 million of the revenue increase through May and 5,472 of the 8,393 gain in FY 2006 ridership. Ridership increased 2.9 percent over the same period a year ago and 1.5 percent higher than budget. Operating losses through April are $4.2 million lower than the same period a year ago, exceeding Amtrak's expectations of a $2.6 million annual improvement from this initiative. However, the service continues to lose money. Last year, this train lost $45 million and has lost $29.2 million through April of FY 2006.

- ***NEC Operations.*** In October 2005, Amtrak began revenue management on NEC's Regional Service and on the Acela in February 2006 by implementing variable rates on Acela and Metroliner services based on demand for tickets. Amtrak's FY 2006 budget assumes $15 million will be realized from revenue management of the NEC trains. Through May, Amtrak estimates $19 million in revenue is attributable to revenue management. However, it is difficult to separate out multiple pricing factors, and Amtrak assumes one-quarter to one-half of all revenue increases are due to revenue management. It should also be noted that nearly all of these savings are from the Regional and Empire service. Acela, which has been weak this year due to increased competition from the airlines in the Northend, poor on-time performance, and fewer frequencies, has achieved only $1 million in benefit.

Appendix C. Data Reliability

In our April quarterly report, we cautioned that the data provided by Amtrak that we relied upon for that report were not yet audited. Since we issued that report, we have worked with Amtrak to ensure that the savings estimates are reliable so that we can properly express our opinion on whether Amtrak has achieved savings from operational reform.

Estimates of operating savings rely on data generated by Amtrak's current revenue and cost accounting systems. Over the past several months, we have reviewed Amtrak's reported cost savings to determine the accuracy, reliability, and integrity of the information. As part of the review, we met with representatives from each Amtrak operating group responsible for specific reform initiatives to discuss the methodology used in the development of cost savings; sources of financial data and the databases/systems used; and risks involved in calculating cost savings (e.g., double and undercounting). We continue to discuss monthly results with key Amtrak staff responsible for overseeing the determination of savings by initiative.

Amtrak's cost savings estimates by initiative rely primarily on selected account codes from Amtrak's Financial Information System (FIS). A few of the corporate level initiatives rely on specific contracts and invoices. Savings estimates from revenue managing NEC trains are based on an assumption that allocates some NEC revenue increases to fare increases and some to revenue management.

Amtrak's Consolidated Financial statements are audited annually by the independent auditing firm KPMG. In FY 2005, KPMG reported a lack of sufficient qualified accounting resources as a material weakness. Relevant to our review and with respect only to Amtrak's food and beverage initiatives, we found that Amtrak's 6-digit account classification system did not allow for measuring specific sub-initiatives. *The sub-initiatives that are affected are the non-labor segment of Amtrak's food and beverage initiatives*, including vendor contracts, the Gate Gourmet contract, and Amtrak's Simplified Dining program. These initiatives affect multiple account codes and their impact cannot be separated to the sub-initiative level.

It should be noted that this is a structural accounting system issue. Amtrak can reliably measure costs savings within existing account codes. However, to measure savings at the sub-initiative level requires the refinement of Amtrak's account classification system. To address this system shortcoming, Amtrak's reported savings for non-labor food and beverage reforms are based on FY 2006 estimated savings. Amtrak distributed estimated annual savings equally by the remaining months of the fiscal year. Total non-labor savings from the combined food and beverage initiatives are deemed reliable. However, the allocation of benefits between non-labor food and beverage reforms in the Board-approved budget and those not in the Board-approved budget remain estimates.

Measuring the success of Amtrak's food and beverage initiative is complicated by the fact that sub-initiatives build on each other. For example, savings from re-negotiated vendor contracts on food and beverage supplies cannot be combined with food cost savings from Amtrak's Simplified Dining program on a train level without double-counting savings. Only on-board labor savings can be directly attributed to route and train level performance. Thus, we have revised our sub-baselines for measuring cost savings from Amtrak's food and beverage initiatives to reflect the labor and non-labor savings across sub-initiatives. This approach prevents any double-counting of savings.

The remaining savings from reform initiatives that were not included in the FY 2006 Board-approved budget are corporate level initiatives, and we did not identify any reporting issues with them.

Amtrak's savings estimates are developed from multiple sources, which include the FIS or general ledger; Route Profitability System (RPS); Corporate Law Department's Matter Management System and Electronic Invoicing System (Etrax); invoices, contracts and agreements; and assumptions based on expected activity levels.

Amtrak has had to establish new tracking systems to measure the savings from initiatives. In order to understand how Amtrak developed its cost savings, we participated in a demonstration of the Amtrak Financial Gateway System (FinGate). The FinGate system extracts Amtrak's general ledger data by various dimensions: business line, account code, category, responsibility center, period of time, train, and operating metric. This provides a direct link to the business areas under Amtrak reform.

Appendix D. Commuter Access Fees

Congress requested that our office include an assessment of the Department's efforts in assessing and collecting commuter access fees in this and subsequent quarterly reports. The FY 2006 Appropriations Act directed the Secretary to:

- determine the annual capital and maintenance costs to Amtrak associated with the use of Amtrak-owned infrastructure on the Northeast Corridor by commuter railroads that operate over that corridor,[14]
- assess and collect appropriate fees from the commuter railroads for any direct capital and maintenance costs based on relative infrastructure usage, and
- account fully for the contributions that commuter railroads currently make toward these costs in determining appropriate fees.

We met separately with the Federal Railroad Administration (FRA) and the Coalition of Northeastern Governors (CONEG) to prepare this assessment. The FRA has not publicly announced how it intends to calculate or collect commuter access fees. This assessment of FRA's efforts will focus on issues we believe will need to be addressed in the fee proposal and other related observations.

Timing. It is unlikely the FRA will collect commuter access fees in FY 2006. FRA would need to promulgate an Interim Final Rule (IFR) almost immediately if it intends to collect fees in FY 2006. This timetable would permit 30 days for public comments and consultation, 30 days for States to pay the fee after being billed, and a very brief period for FRA to collect fees from States, if any, that do not pay their fee on time. This timetable is very aggressive even assuming the FRA were prepared to issue a rulemaking in the next several days.

Consultation. Congress directed the Secretary to establish these fees "through an open and transparent process that seeks, to the maximum extent possible, to yield a consensus on the part of all stakeholders as to the appropriate distribution of costs between said stakeholders." FRA held a series of roundtable meetings with stakeholders early on and there have been a number of subsequent meetings between Department and State officials. Recent consultations have been limited or non-existent, which is a normal part of the rulemaking process. Typically, two-way communication and consultation begins again after an agency's internal deliberations are completed and a final proposal is made public. Given the lack of

[14] There are seven commuter authorities operating over the Amtrak-owned NEC. These include MARC, DART, SEPTA, NJ Transit, LIRR, SLE, and MBTA.

progress at this late date in the fiscal year, only the barest minimum of time exists to further consult with stakeholders.[15]

***Methodology*.** While FRA does not have a final methodology it is ready to make public, we did discuss with them their approach to calculating the fees. In general, the maintenance and capital costs by rail segment for each of the commuter railroads operating on Amtrak-owned infrastructure would be identified. Costs would be allocated among users according to different factors, such as passengers, train movements, kilowatt hours, and unit miles.[16] Netted against these costs are the commuter agency contributions. These include payments to Amtrak for access charges (net of the portion for operating expenses), joint benefit capital projects, and in-kind contributions for station projects and for the portions of the NEC owned by New York and Connecticut. This methodology appears reasonable, but is preliminary in nature. The test will be how the final methodology is implemented on a case-by-case basis.

***Data*.** The quality of the data upon which the fees will be calculated is a concern since it is being derived, in part, from systems which were not designed to provide such data on a State, route, or track basis. FRA recognizes this concern and has been working to "scrub" the data to improve their accuracy and reliability.

Definition of the NEC. The NEC has been defined at various times narrowly (i.e., just the spine from Washington, DC to Boston) and at times more broadly (i.e., the spine plus the 104-mile-long rail line between Philadelphia and Harrisburg, PA, the 62-mile-long rail line between New Haven, CT, and Springfield, MA, and the 11-mile-long rail line between Pennsylvania Station in New York City and the northernmost tip of Manhattan [Spuyten Duyvil] in New York City). FRA will need to adopt a definition of the NEC in its rulemaking. We can see no reason why commuter railroads using the spur lines would be treated differently from commuter railroads using the spine.

Variability of Capital Costs. By their nature, capital projects can require large investments in one fiscal year followed by smaller investments in subsequent years. In addition, the relative payments in one year by a commuter railroad and

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[15] On January 30, 2006, CONEG wrote to the Secretary expressing concern "that the rapid schedule designed by the Department does not conform to the Congress' requirements for an open and transparent process that seeks a consensus on the part of all stakeholders." The process CONEG considered too rapid included several more months for consultation among stakeholders than are currently available if the fees are to be collected this fiscal year.

[16] This use of unit miles (number of cars and locomotives) rather than train miles in allocating costs (as suggested by the legislation) was preferred by the FRA and the commuter agencies. This method considers the impact from varying weights of different train consists and is considered a more appropriate determinant of maintenance requirements. Thus, a longer train, which causes more wear and tear on the system, would be assessed a higher fee than a shorter train.

Amtrak may not reflect the relative payments agreed to for the project as a whole, i.e., the commuter may pay more than its share this year and Amtrak may pay more than its share the following year. As a result, the capital contributions in any one year may not reflect the average level of capital contribution over the long run. Therefore, to prevent large swings in the access fee, FRA should consider using a rolling average or some alternative method that better reflects the longer-term capital contribution of each party. At the very least, FRA should compare the actual costs incurred in a particular year with the actual contributions made in that same year.

Relative Priority of Capital Projects. The commuter railroads may choose to fully fund a capital project even though it partially benefits Amtrak because it is a low priority for Amtrak (and vice-versa). FRA's methodology would credit the commuter with this "contribution" to Amtrak even though Amtrak may not value it. FRA should examine the degree to which this occurs and whether an efficient allocation methodology can be used to account for this issue.

Use of Funds. Currently, commuter railroads and States that make capital contributions to Amtrak have a voice, through the contract negotiations, in how that money is spent. The FY 2006 Appropriations Act allows the Secretary to decide on what capital projects commuter access fees will be spent. The Secretary should maintain the integrity of the user charge concept by considering the views of the State or commuter railroad paying the fee when the Secretary decides how it should be spent.

Prior to the FY 2006 Appropriations Act, the relationship between the commuter railroads and Amtrak was governed by directly negotiated contracts under the general constraints of the Interstate Commerce Commission's (ICC) decision in Ex Parte 417.[17] In this decision, the ICC decided that commuter railroads need only compensate Amtrak for use of its infrastructure on an avoidable cost, not a fully allocated basis. It remains to be seen whether and to what degree the actual contracts between the commuter railroads and Amtrak result in contributions that cover the commuters' fully allocated costs *over time*. The lumpiness of capital projects makes one year's worth of data inadequate to truly understand the balance between costs and contributions.

[17] 367 ICC 192. (ICC Feb. 1, 1983). Commuter operations started after 1983 were not covered by Ex Parte 417.