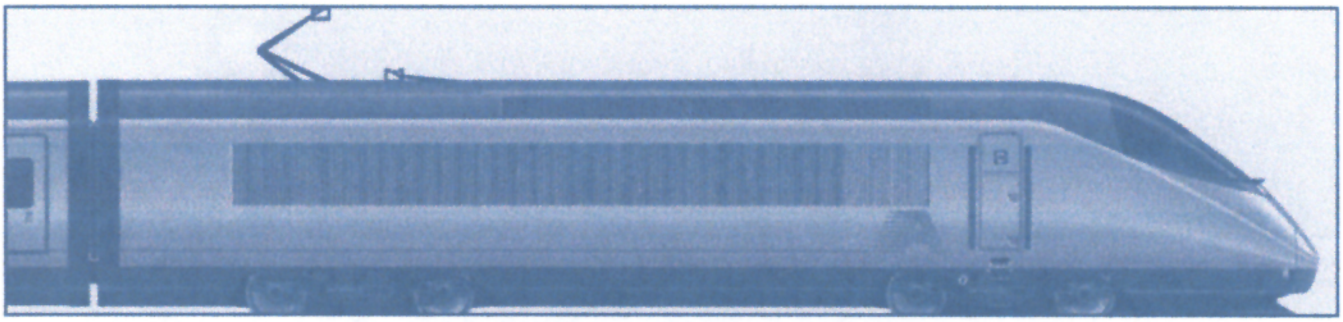
Report on the 1999 Assessment of Amtrak's Financial Needs Through Fiscal Year 2002



Office of Inspector General

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NOTE:

Following this is the Executive Summary to the Report on the 1999 Assessment of Amtrak's Financial Needs Through Fiscal Year 2002 (Report No. CE-1999-116).

Due to the extensive length of the full report, we have not placed it on the OIG Web page. Copies of the full report will be available on Friday, July 23rd, 1999, 10 a.m. Please call Robin Redd-Miller in the Communications Office of the Inspector General at (202) 366-6872 to obtain a copy of the full report.

Executive Summary

1999 Assessment of Amtrak's Financial Needs Through 2002

In 1971, the National Railroad Passenger Corporation (Amtrak) was created by Congress to ensure that modern, efficient intercity passenger rail service would remain an integral part of the national transportation system. Since its creation, Amtrak has received $22.7 billion in Federal operating and capital subsidies. Despite this assistance, Amtrak has made only moderate progress in its attempts to eliminate dependence on Federal operating support.

In 1997, Congress passed the Amtrak Reform and Accountability Act (ARAA), which established certain limits on Amtrak's liability exposure, revised the bargaining relationship between Amtrak and its employees with respect to contracting out and labor protection, and eliminated most statutory constraints on Amtrak's ability to restructure train routes. These changes eased constraints on Amtrak's ability to improve its financial condition.

ARAA also established a deadline of 2002 for Amtrak to improve operations sufficiently to eliminate its need for further Federal operating subsidies.[1] After 2002, no funds authorized for Amtrak can be used for operating expenses,[2] except for expenses associated with liabilities for Amtrak's railroad retirement taxes that exceed the amount needed for the benefits of Amtrak retirees ("excess RRTA payments").

Through 2002, the Administration has proposed funding Amtrak with only a capital appropriation even though it is clear that much needs to be done before Amtrak is operationally self-sufficient. Amtrak has acknowledged that it will require continuing operating assistance until it achieves operating self-sufficiency by 2003. In order to make capital-only appropriations available to cover operating losses, the Administration has also proposed allowing the funding of maintenance of equipment and infrastructure (which are operating costs not capital costs) from the capital appropriation.[3] Congress approved using the capital appropriation for

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[1] Unless otherwise stated, all years are fiscal years based on Amtrak's fiscal year of October 1 to September 30, the same as the Federal fiscal year.

[2] Amtrak has never interpreted its congressional mandate, nor does it believe it will ever be feasible, to eliminate its need for Federal funding for capital investment. Congress, however, has not directly addressed the question of whether Amtrak would receive, or could count on receiving, long-term Federal funding for capital investment.

[3] Such authority would align the eligibility restrictions on Amtrak's spending of its capital grant with those for recipients of capital grants from the Federal Transit Administration (see 49 U.S.C. 3302(a)(1)).

maintenance of equipment in this fiscal year and may approve funding for maintenance of infrastructure as well for next year. This funding approach does not change the definition, under generally accepted accounting principles, of what constitutes operating costs. We have stated and Amtrak agrees that, after 2002, all expenses for maintenance of equipment and infrastructure must be funded by Amtrak directly and not from Federal appropriations.

ARAA authorized $5.2 billion for both the operating and capital expenses of Amtrak through 2002. Prior to the enactment of ARAA in 1997, Congress passed the Taxpayer Relief Act (TRA), which provided Amtrak with $2.2 billion for capital expenditures with the goal of enabling Amtrak to make the investments necessary for it to reduce its reliance on Federal operating support and thus meet its mandate.[4] TRA funds, together with Amtrak's actual 1998 and 1999 appropriations, and the Administration's proposed funding for 2000 through 2002, total an amount slightly below Amtrak's $5.2 billion authorization in ARAA.

In response to the congressional mandate for self-sufficiency, Amtrak developed a plan of operating improvements intended to phase out its dependence on Federal operating support by the end of 2002. The plan assumes that Federal assistance will be available in an amount consistent with the funds authorized under ARAA and provided annually during the appropriations cycle. Without this assistance, Amtrak cannot survive until 2003.

In ARAA, Congress directed the Secretary of Transportation to contract for an independent assessment of Amtrak's financial requirements through 2002. Congress directed the Office of Inspector General (OIG) to oversee this contract. The assessment was completed in November 1998, and we issued a report summarizing our findings and conclusions.[5] Section 408 of ARAA requires the Inspector General to reassess Amtrak's financial performance and needs for every year after 1998 in which Amtrak requests Federal assistance. Because Amtrak requested and received $609 million in Federal funding in 1999, the Office of Inspector General initiated an assessment of Amtrak's current financial status and plans. This report details the findings of our review and provides an update on Amtrak's progress in 1999 towards meeting its goal of operating self-sufficiency.

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[4] For example, Amtrak projects that its capital investment in point-of-sale technology will reduce labor costs by reducing the number of clerks needed to manually control inventory, and improve food and beverage revenues by as much as 10 percent by eliminating unreported on-board sales.

[5] Report No. TR-1999-027, November 23, 1998. *Summary Report on the Independent Assessment of Amtrak's Financial Needs through Fiscal Year 2002,* Office of Inspector General, U.S. Department of Transportation.

Results In Brief

Amtrak's Financial Outlook Is Improving But Challenges to Self-Sufficiency Remain

Amtrak's operating results for 1998 showed improvement in revenue, but because of increases in depreciation, interest, and labor costs, the operating loss increased. Amtrak's cash loss remained relatively stable. Operating revenues increased in 1998 by 2 percent over 1997, from $1,674 million to $1,708 million.[6] This growth was led by a 3.8 percent growth in passenger revenue, from $964 million to $1,001 million (a $37 million increase). Ridership increased as well, from 20.2 million passengers in 1997 to 21.1 million in 1998. Non-passenger revenues remained essentially stable, decreasing by $3 million, from $710 million to $707 million.

Operating expenses increased by 3.9 percent, from $2,471 million to $2,568 million.[7] The largest sources of growth in operating expenses were depreciation, labor, and interest expenses. The resulting operating loss increased by $63 million, from $797 million to $860 million, due largely to the increased depreciation expenses. However, the cash loss increased by $12 million, roughly equal to the growth in interest expenses. *The growth in depreciation and interest expenses is directly related to Amtrak's ongoing program of capital investments that is designed to improve revenue-generating ability in the long term.*

First-Half 1999 Results Are Positive

For the 6 months ended March 1999, systemwide passenger revenue and ridership improved from last year, continuing the upward swing of the past few years. Ridership was up by almost 4 percent, and passenger revenue was up by 8 percent. Total revenues were up 8.2 percent and operating expenses grew by 8 percent. However, Amtrak recorded an operating loss of $483 million, $34 million greater than for the same period last year although it was ahead of Amtrak's 1999 budget. Amtrak had projected a first-half operating loss of $497 million versus the actual loss of $483 million, a difference of $14 million. Operating losses and expense

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[6] Amtrak's reported operating revenue in 1998 included, as required by generally accepted accounting principles, $542 million of Federal payments received including TRA funds and $35 million in interest earnings on temporarily invested TRA funds. Because the TRA funds and the interest earnings will be spent on capital investment, they have been excluded from our reporting of operating revenue.

[7] Amtrak has recently settled negotiations with most of its workforce for wage increases covering the period from 1996 through 2000. Within these agreements are provisions for retroactive payment of the higher wage rates for the years 1996 through 1998. We have revised Amtrak's reported expenses for these years to reflect the estimated cost of labor incurred in each year.

increases in 1999 are being driven by the same underlying factors as in 1998: depreciation expenses, interest costs, and labor costs.

Amtrak's key operating indicators show the continuation of a positive trend in terms of revenue growth. *However, Amtrak management must stay focused on achieving the cost containment goals set forth in the Business Plan Actions of the 1999 Strategic Business Plan (SBP).*

Several Key Expense Factors Will Continue to Contribute to Amtrak's Losses

As Amtrak works toward its goal of operating self-sufficiency, its operating and cash losses have been consistently high and will remain so in 1999 and 2000. Although this seems to be counterintuitive, that Amtrak's losses are growing as it strives to achieve operating self-sufficiency, there are a number of key factors at work producing this result. Labor settlements have increased wage rates and, therefore, the cost of labor. Other factors include growth in depreciation and interest expenses, and the operating expenses that Amtrak is incurring to improve its future financial performance.

Depreciation expenses will continue to grow over the next 4 years as the new capital investments financed by TRA, Federal appropriations, and private borrowing increase the value of Amtrak's capital assets. Amtrak projects depreciation expenses to increase to $360 million in 1999 and peak at about $489 million in 2001, more than double the level of the mid-1990s.

Amtrak began a program of refleeting its Intercity[8] passenger trains in 1994. As a result, depreciation increased from $206 million in 1993 to an annual average of about $240 million over the next 4 years. The increase in 1998 to $294 million and growth thereafter reflect the acquisition of high-speed rail equipment and related maintenance facilities in the NEC, and completion and capitalization of NEC infrastructure projects. Although depreciation expenses are projected to constitute an increasingly larger proportion of the overall operating loss over the next 4 years, *this growth in depreciation will not pose a problem for Amtrak's goal of reaching self-sufficiency because it is a non-cash charge. On the contrary, this growth is a result of the investments Amtrak has made to achieve that goal.*

[8] Amtrak has three Strategic Business Units (SBUs): Northeast Corridor (NEC), Intercity, and Amtrak West; and a separate Corporate Business Unit that includes Business Service Centers. NEC includes all the routes in the Northeast between Virginia and Maine, with the spine between Boston and Washington. Amtrak West incorporates the West Coast routes in California and the Pacific Northwest, extending to Vancouver, British Columbia, and the routes in between. Intercity is the remainder of the system across the middle of the country, including most long-distance trains.

The large majority of Amtrak's interest expenses is for interest on equipment that has been financed. Because of the low levels of Federal capital support throughout the 1980s and early 1990s, Amtrak needed to secure outside financing for its refleeting and high-speed rail programs. Interest costs are projected to rise from $96 million in 1999 to $145 million in 2002. *If Amtrak's interest costs had remained at the $25 million per year level, the level before the refleeting and high-speed rail programs, Amtrak's projected cash losses over the 1999 through 2002 period would be reduced by $384 million.*

This counterintuitive result is also explained, in part, by the non-capital investments that Amtrak is making to achieve operating self-sufficiency. These "operating expense investments" include such things as service standards training, marketing and branding program development, the Market-Based Network Analysis and other strategic planning, severance payments and up-front costs of the food service contracting-out program, and start-up costs for the Express program. If these efforts are successful, they will start to repay Amtrak with increased revenues and expense savings over the long term. Some of the pay-offs are uncertain at this time, but many are likely to generate vitally needed revenue by the time Amtrak must be operationally self-sufficient.

Amtrak's 1999 Strategic Business Plan Projects Operating Self-Sufficiency in 2002

Amtrak's 1999 Strategic Business Plan projects that Amtrak will achieve operating self-sufficiency one year ahead of its mandate. Amtrak projects that its cash losses will decline from $560 million in 1999 to $265 million in 2002, a nearly $300 million improvement, and will total $1.6 billion over the period 1999 through 2002. Of the $265 million cash loss in 2002, $80 million is for equipment overhauls that Amtrak intends to fund with its capital subsidy, and the remaining $185 million is equal to Amtrak's estimates of excess RRTA payments in 2002, which by law can also be funded from its Federal appropriation. As a result, the SBP predicts operating self-sufficiency in 2002 rather than 2003.

We have identified $695 million in Amtrak's projections that are at risk of not being achieved and have, therefore, restated the total projected cash loss over the period from $1.6 billion to $2.3 billion. The restatement of $695 million is the additional cash loss that Amtrak could face in this period if the risky elements of the SBP were to perform as we expect and *if no corrective action were taken to compensate for them.*

Amtrak's Outlook Has Improved Compared to Our Prior Assessment But More Progress Is Still Needed

Compared to our prior assessment, Amtrak's outlook has improved, but significant risks to self-sufficiency remain. We have seen improvement in the outlook for passenger-related revenue, Express shipments, and commercial development. Whereas we reduced these projections by $311 million in our prior assessment, we have only reduced them by $213 million in this assessment, an improvement of $98 million. However, we have reduced Other Business Plan Actions (BPAs) by $136 million more than we did for this category of BPAs in last year's assessment ($483 million this year compared to $347 million in the prior assessment). The result is a $37 million higher restatement this year, $695 million versus $658 million, for the period 1999 through 2002.

Although this appears to be a deterioration of Amtrak's financial outlook, it is not. Amtrak's 1999 Strategic Business Plan included more ambitious financial targets than the prior SBP so that our higher restatements are against even higher financial targets. In particular, Amtrak projected a decrease in its cash loss for the period from $1,713 million in the 1998 SBP to $1,584 million in the 1999 SBP, a $129 million improvement. Our restatement projects a cash loss for the period of $2,279 million, a $92 million improvement compared to the projection in our prior assessment of a $2,371 million cash loss.

The 2000 Strategic Business Plan Will Be Critical to Amtrak's Achievement of Operating Self-Sufficiency

A well-defined and realistic 2000 Strategic Business Plan will be critical to Amtrak's achievement of operating self-sufficiency. This is plainly evident in our restatements for Other Business Plan Actions. Almost 80 percent of our $483 million reduction in the impact of these BPAs is in only five BPAs totaling $379 million in reductions. Three BPAs serve as placeholders for management actions that are to be developed for the 2000 SBP. Clearly, with no specific actions to analyze, we reduced the expected $169 million impact of these BPAs to zero.

The two other BPAs, each with a projected value of $105 million in revenue increases and expense savings, were also reduced to zero. One BPA is for the impact of actions that Amtrak intends to take as a result of its Market–Based Network Analysis. The other is for the results of the Service Standards initiative. Both initiatives are likely to produce benefits for Amtrak. However, Amtrak has not detailed the linkage between the actions contemplated (where known) and the value of the dollar impacts that it has projected from these two BPAs. Before we can adjust our restatements, Amtrak must develop these links in the 2000 SBP. In order for our restatements to be significantly smaller, the connections between actions and impacts must be realistic and well defined.

Amtrak Would Likely Be Able to Fund Our Projections of Increased Cash Losses But Only at the Expense of Capital Investment

If no action were taken by Amtrak to address our concerns, Amtrak could, nevertheless, fund our additional projected cash loss out of available resources, but could do so only at the expense of $595 million in foregone capital investment through 2002. Amtrak would be able to fund the additional $695 million cash loss by: (1) deferring the retirement of its $100 million in short-term debt, (2) eliminating the repayment of the $412 million in TRA borrowings by converting the borrowing for maintenance of equipment into outlays for that purpose (which is permitted by TRA), and (3) using $183 million more of its annual Federal appropriation for operating expenses rather than for traditional capital investment.

However, Amtrak cannot afford to forego this additional $595 million in capital investment in light of our finding that Amtrak will have a capital funding shortfall, just to meet its minimum needs level of capital investment, of $244 million in 2001 and 2002. This shortfall would occur even if Amtrak's 1999 SBP operating projections were achieved. If Amtrak's cash losses are no higher than those projected in the SBP, we estimate that Amtrak will have sufficient capital funding to meet its minimum needs and complete its investment in high-speed rail in 1999 and 2000. In 2001 and 2002, Amtrak would have capital funding shortfalls of $139 million and $105 million, respectively.

A minimum needs capital spending scenario is not adequate to enable Amtrak to make the types of investments necessary for it to maintain the physical state of the railroad in the long term or to make the investments that will contribute to sustaining Amtrak's financial viability beyond 2003. Our definition of minimum capital spending requirements is only the capital spending required to meet legal obligations and to continue the safe, reliable operation of the national system over the short term. Our minimum needs estimate does not include costs for ongoing projects beyond 2000, such as facility upgrades or station improvements, that do not contribute directly to the short-term goal of safe and reliable operations.

High-Speed Service in the Northeast Corridor Must Begin on Schedule

The successful and timely commencement of high-speed rail service in the Northeast Corridor is critical to Amtrak's prospects for self-sufficiency. Because the 20 high-speed trainsets will be delivered and introduced into service on a staggered schedule over a 6-month period ending in June 2000, short delays in either electrification or delivery will not have a large impact on revenue. However, both our projections and Amtrak's projections assume that electrification between New Haven and Boston and the start-up of high-speed rail service occur as scheduled this fall and winter. A delay that reaches into late spring would start affecting a significant portion of the revenue growth we are projecting for the NEC, and our cash loss projection for 2000 would increase from the levels shown in this report. Similarly, both our projections for NEC revenue and Amtrak's projections assume specific trip times between destinations. *If Amtrak is not able to make the infrastructure investments necessary to maintain reliable on-time service, ridership and revenue are likely to fall short of projections.*

Amtrak Must Develop a Realistic Plan for Addressing Long-Term Capital Needs

Beyond Amtrak's immediate need to complete its investment in high-speed rail in the NEC, Amtrak has substantial, additional long-term investment needs in the Corridor. *Amtrak and the Federal Railroad Administration (FRA) owe the Congress a detailed plan that identifies these needs and provides a proposed timetable for meeting them*. Amtrak has indicated that the plan is scheduled for completion during the summer of 1999. Amtrak and FRA must proceed expeditiously to finalize this capital investment plan for the NEC so that the results can be incorporated into a realistic, 5-year, systemwide capital investment plan in conjunction with the development of the 2000 SBP.

Amtrak's own estimates have varied for the long-term, steady-state capital funding stream necessary to eliminate the backlog of investment on the NEC and throughout its system. If the $521 million Federal appropriation that the Administration has proposed for 2003 were continued at that level thereafter and $260 million per year of this amount were required to finance excess RRTA payments and overhauls of equipment, then Amtrak would have about $260 million per year for capital investment. Over half of this amount would have to go to mandatory expenses including debt principal payments, environmental mitigation, and other legally required spending. Thus, Amtrak is likely to require annual funding that is between $200 million and $300 million more than that proposed for 2003 in order to reduce its investment backlog.

Either Amtrak must work with the Department of Transportation, the Office of Management and Budget, and the Congress to identify a reliable capital funding stream that is adequate to reduce this backlog and that can be accommodated in the tight transportation budgets expected over the next 5 years, or it must redefine the system that available funding can support. Such decisions are better made sooner rather than later, before additional capital investments are made in parts of the system that may not be sustainable because of capital funding constraints.

Amtrak Has Responded to Our Prior Recommendations

Amtrak has responded to the recommendations we made in the prior assessment. That assessment made six recommendations, such as performing a depreciation study and building a variable cost model, to strengthen Amtrak's financial management and improve Amtrak's ability to clarify its capital needs as it moves toward operational self-sufficiency. Amtrak has taken steps to address each of these recommendations, and we commend Amtrak on its responses to these items. Many of the items, however, still require follow-up action to achieve their intended benefits and, therefore, require continued attention by Amtrak management.

Prior Assessment Findings

A critical element of our prior assessment of Amtrak's financial requirements through 2002 involved determining the reasonableness of Amtrak's projected "glidepath" to self-sufficiency, as portrayed in the 1998 Strategic Business Plan. Based on our assessment, we concluded that if Amtrak followed its 1998 Strategic Business Plan, without modification, an additional $823 million in cash operating losses would be sustained between 1999 and 2003 ($658 million between 1999 and 2002). Table 1 identifies the areas where our prior assessment projected Amtrak's proposed actions were likely to fall short of projected goals.[9]

Table 1 OIG Reductions of Amtrak's Projections in the Prior Assessment ($ in millions)

Categories	Amtrak	OIG	Difference
NEC Passenger Revenue	$3,719	$3,501	($219)
Intercity Passenger Revenue	2,269	2,186	(83)
Amtrak West Passenger Revenue	720	676	(44)
Express Net Revenue	104	67	(37)
Other Business Plan Actions	671	231	(440)
TOTAL All Restatements			**($823)**

[9] Numbers in the tables throughout this report may not add to totals due to rounding.

More critically, we projected that Amtrak would have an *unfunded cash loss* – the portion of the operating loss that Amtrak would have to cover from sources other than Federal subsidies – of $304 million in 2003, which is $167 million more than Amtrak forecasted. We also projected that Amtrak's available Federal funding would likely fall short of meeting Amtrak's minimum capital needs between 1999 and 2003 by $492 million. Further, if Amtrak's operating losses were greater than those projected in Amtrak's SBP, as we projected they would be, Amtrak's capital shortfall would be even greater as more of Amtrak's appropriations would be needed to cover the losses. More details on the findings of our prior assessment are included in Part I of the report that follows this Executive Summary.

Objectives and Scope

The assessment summarized in this report responds to our mandate as defined in Section 408 of ARAA. The report contains all of our findings concerning Amtrak's financial plans and the analyses necessary to support those findings. This report relies on work performed by us and by our consultants who performed part of the analysis under our supervision. All analyses and supporting data that contain proprietary information have been omitted from this report. As required by Section 408, this report will be provided to the President of Amtrak; the Secretary of Transportation; the Senate Committee on Commerce, Science, and Transportation; the House Committee on Transportation and Infrastructure; the Senate Committee on Appropriations; and the House Committee on Appropriations. We also will provide copies to the Amtrak Reform Council.

This year's assessment has three components: an update of Amtrak's current financial status, an assessment of Amtrak's 1999 Strategic Business Plan, and an assessment of Amtrak's current capital investment plans and requirements. The specific objectives for each component are described below.

Amtrak's Current Financial Status. The objective of this task was to assess Amtrak's current financial condition, incorporating final 1998 and first half of 1999 operating and financial performance. We also compared 1998 operating results to operating trends for the last 10 years. The goal was to identify trends in performance and what these might suggest in terms of opportunities for Amtrak to improve its future financial condition. We also examined Amtrak's plans for temporary TRA borrowing. Our results are discussed in Part II of this report.

Amtrak's 1999 Strategic Business Plan. The 1999 Strategic Business Plan includes new projections and BPAs geared toward achieving operating self-sufficiency by 2003. We reviewed the SBP to determine whether Amtrak's projections for operating costs, revenues, and ridership are reasonable and likely to improve Amtrak's financial condition sufficiently to eliminate Amtrak's need for operating support beyond 2002. As part of our analysis, we incorporated Amtrak's criticisms of our methodology in the 1998 Assessment. Our results are discussed in Part III of this report.

Amtrak's Capital Investment Plans and Requirements. Our objective was to assess Amtrak's current capital investment program, funding sources, and capital needs to determine Amtrak's ability to meet business plan goals. Amtrak must balance its investment expenditures among mandatory spending requirements, life safety needs, reinvestment in its current capital assets, and investment in new business projects that will yield future revenues. In doing so, Amtrak must be certain that the necessary investments are made that will prevent deterioration of the infrastructure and maintain the operational reliability of its services beyond 2003. Our results are discussed in Part IV of this report.

The methodology employed in the analysis of each of the components of this assessment is detailed in the report that follows this Executive Summary.

Summary of Findings

Amtrak's Current Financial Status

Amtrak's operating results for 1998 showed improvement in revenue, but because of increases in depreciation, interest, and labor costs, the operating loss increased. Amtrak's cash loss remained relatively stable. Operating revenues increased in 1998 by 2 percent over 1997, from $1,674 million to $1,708 million. This growth was led by a 3.8 percent growth in passenger revenue, from $964 million to $1,001 million (a $37 million increase). Non-passenger revenue remained essentially stable, decreasing by $3 million, from $710 million to $707 million.

Operating expenses increased by 3.9 percent, from $2,471 million to $2,568 million. The largest sources of growth in operating expenses were depreciation, labor, and interest expenses. The resulting operating loss increased by $63 million, from $797 million to $860 million, due largely to the increased depreciation expenses. However, the cash loss increased by $12 million, roughly equal to the growth in interest expenses. The growth in depreciation and interest expenses is directly related to Amtrak's ongoing program of capital investments that is designed to improve revenue-generating ability in the long term.

For the 6 months ended March 1999, systemwide passenger revenue and ridership improved from last year, continuing the upward swing of the past few years. Ridership was up by almost 4 percent, and passenger revenue was up by 8 percent. Total revenues were up 8.2 percent and operating expenses grew by 8 percent. However, Amtrak recorded an operating loss of $483 million, $34 million greater than for the same period last year although it was ahead of Amtrak's 1999 budget. Amtrak had projected a first-half operating loss of $497 million versus the actual loss of $483 million or a difference of $14 million. Operating losses and expense increases in 1999 are being driven by the same underlying factors as in 1998: depreciation expenses, interest costs, and labor costs.

Amtrak's key operating indicators show the continuation of a positive trend in terms of revenue growth. *However, Amtrak management must stay focused on achieving the cost containment goals set forth in the Business Plan Actions of the 1999 SBP*.

Key Expense Factors Contributing to Amtrak's Losses

As Amtrak works toward its goal of operating self-sufficiency, its operating and cash losses have been consistently high and will remain so in 1999 and 2000. Although this seems to be counterintuitive, that Amtrak's losses are growing as it strives to achieve operating self-sufficiency, there are a number of key factors at work producing this result. Labor settlements have increased wage rates and, therefore, the cost of labor. Amtrak has achieved some labor-saving productivity agreements to offset about 20 percent of the incremental cost, but the bulk of the cost will flow through to Amtrak's expenses. This makes it crucial for Amtrak to further identify expense-saving opportunities in its next SBP. Other factors include growth in depreciation expenses, interest expenses, and the operating expenses that Amtrak is incurring to improve its future financial performance.

Depreciation expenses will continue to grow over the next 4 years as the new capital investments financed by TRA, Federal appropriations, and private borrowing increase the value of Amtrak's capital assets. Amtrak projects depreciation expenses to increase to $360 million in 1999 and peak at about $489 million in 2001, more than double the level of the mid-1990s.

Amtrak began a program of refleeting its Intercity passenger trains in 1994. As a result, depreciation increased from $206 million in 1993 to an annual average of about $240 million over the following 4 years. The increase in 1998 to $294 million and growth thereafter reflect the acquisition of high-speed rail equipment and related maintenance facilities in the NEC, and completion and capitalization of NEC infrastructure projects. Although depreciation expenses are projected to constitute an increasingly larger proportion of the overall operating loss over the next 4 years, *this growth in depreciation will not pose a problem for Amtrak's goal of reaching self-sufficiency because it is a non-cash charge. On the contrary, this growth is a result of the investments Amtrak has made to achieve that goal.*

The large majority of Amtrak's interest expenses is for interest on equipment that has been financed. Because of the low levels of Federal capital support throughout the 1980s and early 1990s, Amtrak needed to secure outside financing for its refleeting and high-speed rail programs. Interest costs are projected to rise from $96 million in 1999 to $145 million in 2002. *If Amtrak's interest costs had remained at the $25 million per year level, the level before the refleeting and high-speed rail programs, Amtrak's projected cash losses over the 1999 through 2002 period would be reduced by $384 million.*

This counterintuitive result is also explained, in part, by the non-capital investments that Amtrak is making to achieve operating self-sufficiency. These "operating expense investments" include such things as service standards training, marketing and branding program development, the Market-Based Network Analysis and other strategic planning, severance payments and up-front costs of the food service contracting-out program, and start-up costs for the Express program. If these efforts are successful, they will start to repay Amtrak with increased revenues and expense savings over the long term. Some of the pay-offs are uncertain at this time, but many are likely to generate vitally needed revenue by the time Amtrak must be operationally self-sufficient.

Amtrak's borrowing of funds from TRA for maintenance of equipment is consistent with the requirements of TRA. The borrowing reflects Amtrak's commitment to spending TRA funds only on high-rate-of-return investments rather than on capital maintenance, as is permitted in TRA. If Amtrak were not able to repay the borrowings, Amtrak could simply convert them to outlays for maintenance of equipment, and this is a permitted use of TRA funds. The borrowing and repayment procedure is merely an internal accounting device for Amtrak so it can trace the expenditure of TRA funds and show that the funds have been spent on the uses to which Amtrak has committed.

Amtrak's 1999 Strategic Business Plan

Amtrak's 1999 Strategic Business Plan is the second strategic plan Amtrak has adopted in its efforts to achieve operating self-sufficiency by 2003. This SBP is more ambitious than the 1998 SBP in that it seeks to achieve operating self-sufficiency in 2002. Our analysis of the plans, projections and assumptions in the 1999 SBP indicate that a number of its financial projections are at risk of not being achieved unless changes are made to it. We have restated these projections to indicate the magnitude of the potential risk they represent to Amtrak's goal of achieving operating self-sufficiency by 2003.

Over the 4-year period 1999 through 2002, Amtrak's projected cash losses total $1.6 billion, while our restatement of those losses totals $2.3 billion. The difference of $695 million is the additional cash loss that Amtrak could face in this period if the risky elements of the SBP were to perform as we expect and *if no corrective action were taken to compensate for them.*

Restatements

There are a number of key restatements that account for nearly 90 percent ($616 million) of our total $695 million restatement for the SBP period, 1999 through 2002. They are:

- $154 million in NEC passenger revenue that is at risk of not materializing because of lower-than-forecasted diversion of passengers from air and automobile travel to the new Acela Express service.
- $44 million in NEC revenue in 2000 that is attributable to our forecast that revenue from Acela Express will experience a lag in revenue growth that will delay the full impact of high-speed service on Amtrak's bottom line.
- $39 million in two NEC Business Plan Actions (BPAs) for wholesaling of power ($21 million) that will require changes in Federal law and for increased freight usage fees in the NEC ($18 million) that have been delayed by the delays in the Conrail sale and breakup.
- $169 million in BPAs for undefined management actions that are to be developed for the 2000 Strategic Business Plan. This includes $104.5 million in Corporate, $47 million in NEC, and $17.7 million in Intercity. Because these actions have yet to be defined, we have restated them to zero.
- $105 million in expected benefits from Amtrak's ongoing Market-Based Network Analysis, which is designed to refine Amtrak's route structure, frequency of service, and fare structure to maximize the revenue potential of its network. Because this analysis is still ongoing and no actions have been proposed, we did not have a sufficient basis to credit any of the proposed benefits.
- $105 million from systemwide efforts to improve the revenue prospects of all product lines and services by improving customer perception and satisfaction through a nationwide rebranding effort and through the establishment of uniform service standards. We have eliminated all of the benefits from this BPA because of a lack of a clearly defined linkage between the proposed

actions and the associated revenue and expense projections. Amtrak expects to define this linkage in its next SBP.

There are likely to be significant benefits from the network analysis and subsequent action plans, but because they have not been defined, we could not credit any of the proposed benefits. Similarly, we have eliminated all of the benefits from the Service Standards BPA until a clearly defined linkage is completed between the dollar amounts projected and the business actions contemplated. Amtrak expects to have defined these actions and linkage for both BPAs, as well as for the undefined management actions, in its next SBP. Our expectation is that any restatement in these areas would be smaller next year because the resulting BPAs are likely to have revenue growth and expense-saving potential.

Table 2 shows our net restatements grouped into nine categories: passenger revenue for each of the SBUs (NEC, Intercity, and Amtrak West); Express revenues; commercial development revenues; and Other BPAs for each of the SBUs (NEC, Intercity, and Amtrak West) and Corporate. The total restatement is $695 million. Our restatements are either decreases in projected revenue or increases in projected expenses. As such, they represent amounts by which Amtrak's cash losses will be higher than Amtrak has projected. Negative amounts (numbers in parentheses) indicate higher revenues than Amtrak projected and commensurate reductions in cash losses compared to Amtrak's projections.

Table 2 OIG 1999 Net Restatements ($ in millions)

	1999	2000	2001	2002	Total
Passenger Revenue					
Northeast Corridor	$(21)	$105	$49	$44	**$177**
Intercity	10	9	4	(1)	**23**
Amtrak West	2	2	4	4	**12**
Express Revenue					
Intercity	8	0	1	6	**14**
Other Non-Passenger Revenue					
Commercial Development	(13)	0	0	0	**(13)**
Other Business Plan Actions					
Northeast Corridor	6	17	38	31	**92**
Intercity	5	11	9	8	**34**
Amtrak West	1	0	0	0	**1**
Corporate	5	48	115	188	**356**
Total OIG Restatements	**$3**	**$192**	**$220**	**$280**	**$695**

Amtrak has had a solid first half of 1999, and that is reflected in our net restatement of only $3 million for 1999. We project that for passenger revenue, Amtrak is likely to be ahead of its SBP based on strong NEC performance. We continue to believe that Express shipments represent a strong growth market for Amtrak, but it will continue to show a slower rate of growth this year than Amtrak has projected, resulting in an $8 million restatement. Better-than-planned performance for commercial development revenues (mainly from lease revenue from telecommunications companies and for other Amtrak real estate) should nearly offset our restatements of $16 million for Other Business Plan Actions.

Table 3 compares our restatements of Amtrak's 1999 SBP to the restatements we made in our prior assessment to the 1998 SBP for the period 1999 through 2002. We have seen improvement in the outlook for passenger-related revenues. Whereas we reduced these projections by $275 million in 1998, we have only reduced them by $212 million for this SBP.

Table 3 OIG 1999 Net Restatements for 1999 through 2002 Compared to 1998 Net Restatements for the Same Period ($ in millions)

	1998	1999	Difference
Passenger Revenue			
Northeast Corridor	$192	$177	**($15)**
Intercity	60	23	**(37)**
Amtrak West	23	12	**(11)**
Passenger Revenue Subtotal	275	212	**(63)**
Express			
Intercity	36	14	**(22)**
Other Non-Passenger Revenue			
Commercial Development	0	(13)	**(13)**
Other Business Plan Actions			
Northeast Corridor	276	92	**(184)**
Intercity	68	34	**(34)**
Amtrak West	(4)	1	**5**
Corporate	7	356	**349**
Other BPA Subtotal	347	483	**136**
TOTAL	**$658**	**$695**	**$37**

We have also seen improvements in Amtrak's prospects for Express shipment traffic and believe that Amtrak's forecast for this market is reasonable after 1999. We have only restated Express to reflect the slower-than-expected ramp-up this year and for train-length constraints that will be binding in 2001 and 2002 unless Amtrak can negotiate longer train lengths with the freight railroads.

The improvements in passenger revenue ($63 million), Express ($22 million), and commercial development ($13 million), which total $98 million, are offset by the ambitious Other BPA projections that we have reduced by $136 million more than last year. The largest restatements are for the Market–Based Network Analysis

($105 million), Service Standards ($105 million), and Management Actions to be Developed[10] ($169 million) described previously. When these actions are developed or more fully defined, the restatements in the 2000 SBP are likely to be smaller, assuming the BPAs are realistic and well defined.

Elements of the Strategic Business Plan Not Requiring Restatement

Many elements of the SBP did not require restatement, and some that we did restate were restated upward, indicating revenue increases or expense reductions greater than Amtrak estimated. The elements of the 1998 SBP that we did not restate continue in the current 1999 SBP to be reasonable. These include the projections for:

- Costs associated with Amtrak's labor agreements;
- Commuter revenues and expenses;
- Mail revenues and expenses;
- Reimbursable revenues and expenses for providing services to non-Amtrak agencies;
- Non-Transportation revenues and expenses for providing freight railroads access to Amtrak facilities and for other activities including one-time revenues and expenses;
- Other Transportation revenues and expenses for supplying commuter railroads and others access to Amtrak infrastructure, electric power, and services;
- Commercial development revenues and expenses for property sales and rents (no restatement after an upward restatement in 1999);
- NEC, Intercity, and Amtrak West passenger expenses; and
- Most Business Plan Actions, 152 out of 233 were not restated or were restated upwards.

Amtrak's 1999 Strategic Business Plan Projects Operating Self-Sufficiency in 2002

Amtrak's 1999 Strategic Business Plan anticipates reducing its cash loss to $265 million by 2002. Of this amount, $80 million is for equipment overhauls that Amtrak intends to fund with its capital subsidy, and the remaining $185 million is equal to its estimates of excess RRTA payments in 2002 which by law can also be funded from its Federal appropriation. As a result, the SBP predicts operating self-sufficiency one year ahead of Amtrak's mandate.

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[10] Represents three BPAs: Corporate ($104.5 million), NEC ($47 million), and Intercity ($17.7 million).

The SBP assumes that annual Federal appropriations will be equal to those proposed by the Administration ($571 million in 2000, $521 million in 2001, and $521 million in 2002) and that Amtrak will receive authority to use its Federal capital subsidy for maintenance of both equipment and infrastructure. These assumptions, along with a continued strong economy, underpin both Amtrak's and our forecasts of revenue and financial results.

Table 4 presents Amtrak's projections for 1999 through 2002. Amtrak projects an operating loss that declines from $930 million in 1999 to $752 million in 2002. Amtrak's results for its cash loss improve to a greater degree because of a large increase in depreciation, a non-cash charge, which is incorporated in the operating loss. After subtracting the non-cash cost of depreciation, the cash loss is projected to decrease from $560 million in 1999 to $265 million in 2002, a nearly $300 million improvement. The total cash loss for the 4-year period is $1.6 billion.

Table 4 Amtrak's 1999 SBP Forecast ($ in millions)

Component	**1999**	**2000**	**2001**	**2002**	**Total**
Operating Revenues	$1,866	$2,184	$2,396	$2,501	$8,946
Less Operating Expenses	2,796	3,092	3,215	3,253	12,356
Operating Profit (Operating Loss)	(930)	(908)	(820)	(752)	(3,410)
Plus Non-cash Items	370	470	499	487	1,826
Cash Profit (Cash Loss)	**(560)**	**(438)**	**(321)**	**(265)**	**(1,584)**
Plus TRA Funds—Overhauls	76	77	78	80	311
Plus Federal Appropriated Funds	194	544	501	235	1,473
Plus TRA Borrowings (Repayments)	312	(190)	(222)	0	(100)
Plus Changes in Working Capital[11]	(46)	7	7	7	(25)
Budget Result (Unfunded Cash Loss)	**($25)**	**$0**	**$43**	**$57**	**$75**

Amtrak intends to finance its cash losses by applying TRA funds for its equipment overhaul expenses (about $300 million). Amtrak will also use $1.5 billion of its $1.9 billion in Federal appropriations in this period to cover the remainder of its cash losses, to retire its short-term debt of $100 million, and to repay TRA borrowing of $100 million from 1998. Because of Amtrak's agreement to limit the amount of its Federal capital subsidy that it draws in fiscal year 1999, Amtrak borrowed $100 million in 1998 and will need to borrow an additional $312 million in 1999 from its TRA funds. These borrowings are temporary and Amtrak plans to repay them in 2000 and 2001.

[11] The $46 million in 1999 includes the cash impact of labor settlements.

Amtrak's Outlook Has Improved But Significant Risks To Self-Sufficiency Remain

Table 5 shows Amtrak's SBP financial projections adjusted for our restatements of Amtrak revenues and expenses that are shown in Table 2. Our restatements result in increases in the operating loss, cash loss, and unfunded cash loss of $695 million. Amtrak would be able to fund this additional cash loss by: (1) deferring the retirement of its $100 million in short-term debt, (2) eliminating the repayment of the $412 million in TRA borrowings by converting the borrowing for maintenance of equipment into outlays for that purpose (which is permitted by TRA), and (3) using $183 million more of its annual Federal appropriation for operating expenses instead of for traditional capital investment. The net result would be a $595 million reduction in funds available for traditional capital investment (not capital maintenance) through 2002.

Table 5 OIG Restatement of Amtrak's 1999 SBP Forecast ($ in millions)

Component	1999	2000	2001	2002	Total
Operating Revenues	$1,853	$2,012	$2,249	$2,331	$8,445
Less Operating Expenses	2,787	3,112	3,288	3,363	12,550
Operating Profit (Operating Loss)	(933)	(1,100)	(1,039)	(1,032)	(4,105)
Plus Non-cash Items	370	470	499	487	1,826
Cash Profit (Cash Loss)	**(563)**	**(630)**	**(540)**	**(545)**	**(2,279)**
Plus TRA Funds—Overhauls	76	77	78	80	311
Plus Federal Appropriated Funds	194	544	501	235	1,473
Plus TRA Borrowings (Repayments)	312	(190)	(222)	0	(100)
Plus Changes in Working Capital	(46)	7	7	7	(25)
Budget Result (Unfunded Cash Loss)	**($28)**	**($192)**	**($177)**	**($223)**	**($620)**

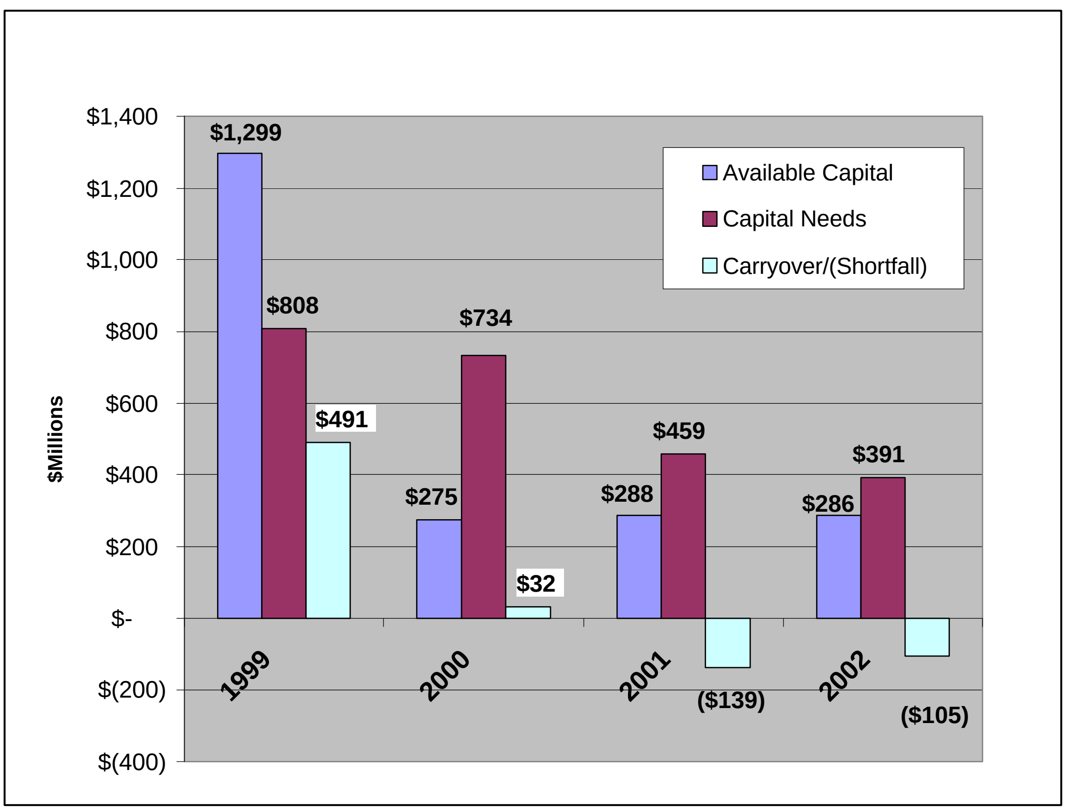
Amtrak has identified but not fully developed actions that are likely to result in significant benefits and offset a portion of this shortfall. The 2000 SBP should provide the detail and analysis that will allow us to identify the dollar value of these benefits and estimate the remaining gap that Amtrak must address in the 2000 through 2002 period in order to achieve its mandate of operating self-sufficiency.

Amtrak's Capital Funding Is Likely to Fall Short of Minimum Needs Through 2002

In 2001 and 2002, Amtrak's available Federal funding is likely to fall short of meeting our estimates of Amtrak's minimum capital needs by $244 million. Figure 1 illustrates the available funds, the annual needs, and the subsequent shortfalls for 1999 through 2002.

If Amtrak's operating losses are higher than Amtrak projects in its 1999 SBP, Amtrak will need to use more of its funding to cover maintenance costs, resulting in fewer dollars to make the kinds of capital investments Amtrak believes will result in higher operating revenues. Our definition of minimum capital spending requirements is the capital spending required to meet legal obligations and to continue the safe, reliable operation of the national system over the short term. Our minimum needs estimate does not include costs for ongoing projects such as facility upgrades or station improvements beyond 2000 that do not contribute directly to the short-term goal of safe and reliable operations.

Figure 1 Capital Funding Shortfalls, 1999 Through 2002 ($ in millions)



Despite Amtrak's projected capital funding shortfall for even minimum needs, Amtrak's 1999 capital plan includes funding for projects that fall outside of the minimum classification. *We are concerned that Amtrak is spending capital funds in 1999 and 2000 on projects that go beyond minimum needs, while a gap in meeting minimum needs exists for 2001 and 2002. We believe that Amtrak's strategy is shortsighted in its failure to anticipate and set aside currently available funds as a contingency for what it knows to be future funding shortfalls. We recommend that, in preparing its 2000 capital plan, Amtrak identify means for covering minimum needs beyond 2000 before approving spending on projects that fall outside this category.*

Findings

Amtrak Has Responded to the Recommendations We Made in the Prior Assessment

Our 1998 Assessment made six recommendations to strengthen Amtrak's financial management and improve Amtrak's ability to clarify its capital needs as it moves toward operational self-sufficiency. Amtrak has taken steps to address each of these recommendations and we commend Amtrak on its responses to these items. We have grouped the six recommendations into four categories.

Category	Recommendation	Action	Completion Date
Depreciation	In order to provide Amtrak with a more accurate picture of the annual consumption of track assets and the related depreciation expenses, we recommended Amtrak perform a comprehensive depreciation study on the entire inventory of non-equipment physical assets currently owned by Amtrak.	Amtrak awarded a contract in March 1999 for a thorough depreciation study and assessment of the current physical condition and remaining life of Amtrak's entire inventory of non-equipment physical assets.	August 1999
Variable Cost Data	In order to report the type of variable cost data necessary to support management decision-making, we recommended that Amtrak modify its Route Profitability System (RPS) or develop a separate system to report such data.	Amtrak has recently completed development of a variable cost-based financial model that estimates the costs of changing a particular route or service.	Completed June 1999
Capital Planning	We recommended that Amtrak (1) use the results of its market-based study to refine and justify the future capital needs for Amtrak's national system; and (2) expeditiously complete its comprehensive plan for addressing both short-term and long-term corridor needs to provide better justification for future estimates of the Northeast Corridor capital investment requirements.	Amtrak plans to complete the Market-Based Network Analysis (MBNA) this summer and will use the results to identify opportunities for network redesign and capital investment requirements. The Southend Transportation Plan is being completed by Amtrak, FRA, and private consultants.	MBNA: October 1999 Southend Plan: July 1999
Bidding Practices	In order to ensure consistent, organization-wide bidding practices that fully reflect costs, including up-to-date overhead cost allocations, we recommended that Amtrak (1) establish a formal bidding process that includes uniform guidelines for its bid preparation and submittal activities for all SBUs, and (2) periodically update overhead rates to ensure appropriate cost allocations.	Amtrak is in the process of refining and formally documenting its bidding process using the Northeast Corridor procedures as a model. Overhead rates for the entire corporation will be updated with actual 1999 audited data and applied to the January 2000 contract billings. Thereafter, Amtrak intends to update these rates annually.	January 2000

Many of the items, however, still require follow-up action to achieve their intended benefits and, therefore, require continued attention by Amtrak management.

Amtrak's Financial Outlook Is Improving But Challenges to Self-Sufficiency Remain

Amtrak's operating results for 1998 showed improvement in revenue, but because of increases in depreciation, interest, and labor costs, the operating loss increased. Amtrak's cash loss remained relatively stable. Operating revenues increased in 1998 by 2 percent over 1997, from $1,674 million to $1,708 million. This growth was led by a 3.8 percent growth in passenger revenue, from $964 million to $1,001 million (a $37 million increase). Non-passenger revenue remained essentially stable, decreasing by $3 million, from $710 million to $707 million, even though commuter operating revenues grew by $18 million (7.4 percent).

Operating expenses increased by 3.9 percent, from $2,471 million to $2,568 million, when both 1997 and 1998 labor costs are adjusted for retroactive labor settlements. The largest sources of growth in operating expenses in 1998 were depreciation, $52 million (21.5 percent higher); labor expenses, $44 million (3.3 percent higher); and interest expenses, $12 million (15.8 percent higher). The resulting operating loss increased by $63 million, from $797 million to $860 million, due largely to the increased depreciation expenses. However, the cash loss increased by $12 million, roughly equal to the growth in interest expenses. The growth in depreciation and interest expenses is directly related to Amtrak's ongoing program of capital investments that is designed to improve revenue-generating ability in the long term.

First-Half 1999 Operating Results

For the 6 months ended March 1999, systemwide passenger revenue and ridership improved from last year, continuing the upward swing of the past few years. Ridership was up by almost 4 percent, and passenger revenue was up by 8 percent. NEC passenger revenues grew a strong 10 percent from a 5 percent ridership increase and Amtrak West passenger revenue increased 15 percent from a 4 percent ridership increase. Amtrak Intercity improved moderately over last year, but not to the extent projected in the SBP.

Total revenues were up 8.2 percent and operating expenses grew by 8 percent. However, Amtrak recorded an operating loss of $483 million, $34 million greater than for the same period last year. According to Amtrak's budget plan, results for the first 6 months of 1999 are better than projected. Amtrak had projected a first-half operating loss of $497 million versus the actual loss of $483 million, a difference of $14 million. However, the favorable comparison to its plan is due to commercial development revenue, most of which is for a one-time sale of commercial property. Operating losses and expense increases in 1999 are being driven by the same underlying factors as in 1998: depreciation expenses are rising, interest costs are up, and the higher wage rates from the labor settlements are increasing labor costs.

Although first-half results are a good indicator of performance throughout the year, Amtrak's busiest months are not included in the first-half results. The summer months present both the greatest opportunity and the greatest challenge to the continuation of this forward progress. At this point in time, though, Amtrak's key operating indicators show the continuation of a positive trend in terms of revenue growth. Nevertheless, *Amtrak management must stay focused on achieving the cost containment goals set forth in the Business Plan Actions of the 1999 SBP*.

Key Expense Factors Contributing to Amtrak's Losses

As Amtrak works toward its goal of operating self-sufficiency, its operating and cash losses have been consistently high and will remain so in 1999 and 2000. Although this seems to be counterintuitive, that Amtrak's losses are growing as it strives to achieve operating self-sufficiency, there are a number of key factors at work producing this result. Labor settlements have increased wage rates and, therefore, the cost of labor. Amtrak has achieved some labor-saving productivity agreements to offset about 20 percent of the incremental cost, but the bulk of the cost increases will flow through to Amtrak's expenses. This makes it crucial for Amtrak to further identify expense-saving opportunities in its next SBP. Other factors include growth in depreciation and interest expenses, and the operating expenses that Amtrak is incurring to improve its future financial performance.

Depreciation expenses will continue to grow over the next 4 years as the new capital investments financed by TRA, Federal appropriations, and private borrowing increase the value of Amtrak's capital assets. Table 6 shows actual depreciation levels since 1993 and levels projected for 1999 through 2002. As shown, Amtrak projects depreciation expenses to increase to $360 million in 1999 and peak at about $489 million in 2001, more than double the level of the mid-1990s.

Table 6 Amtrak's Depreciation Expenses ($ in millions)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
$206	$245	$230	$238	$242	$294	$360	$460	$489	$477

Amtrak began a program of refleeting its Intercity passenger trains in 1994. The increase in depreciation from $206 million in 1993 to an annual average of about $240 million over the following 4 years reflects this fleet renewal program. The increase in 1998 and the continued high rate of growth to 2001 reflect the acquisition of high-speed rail equipment and related maintenance facilities in the NEC and completion and capitalization of NEC infrastructure projects.

The growth in depreciation expenses will increase Amtrak's reported operating losses, but because these are non-cash expenses, they will not affect annual cash losses.[12] Depreciation expenses are projected to constitute an increasingly larger proportion of the overall operating loss over the next 4 years because of the large number of capital purchases that Amtrak has recently made and plans to make in this period. *However, this growth in depreciation will not pose a problem for Amtrak's goal of reaching operating self-sufficiency. On the contrary, this growth is a result of the investments Amtrak has made to achieve that goal.*

The large majority of Amtrak's interest expenses are for interest on equipment that has been financed, although some station and other facility improvements have also been financed. Table 7 shows Amtrak's actual interest expenses from 1993 through 1998 and projections through 2002.[13] The jump in interest costs in 1995 reflects the equipment financing for the Intercity and Amtrak West refleeting programs. The equipment financed included locomotives in all three SBUs, passenger cars in Intercity and Amtrak West for the refleeting program in the mid-1990s, and material handling cars and Roadrailers (for Mail and Express) in Intercity.

Table 7 Amtrak's Interest Expenses ($ in millions)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
$20	$24	$43	$63	$74	$85	$96	$101	$142	$145

Because of the low levels of Federal capital support throughout the 1980s and early 1990s, Amtrak needed to secure outside financing for its refleeting and high-speed rail programs. The interest costs on this financing are adding about

[12] The cash loss is the part of overall losses that must be covered each year in order for Amtrak to remain a viable concern. Depreciation is a non-cash expense, and is therefore not included in the cash loss calculations.
[13] The interest expenses shown in Table 7 are on a cash interest basis, not on an accrual basis.

$100 million more to cash losses *per year* in the SBP period than in the period before these programs. *If Amtrak's interest costs had remained at the $25 million per year level, the level before the refleeting and high-speed rail programs, Amtrak's projected cash losses over the 1999 through 2002 period would be reduced by $384 million.*

The counterintuitive result that Amtrak's losses are growing as it strives to achieve operating self-sufficiency is also explained, in part, by the non-capital investments that Amtrak is making to improve financial performance. Just as capital investments involve large up-front commitments of resources with a pay-back over a number of years, Amtrak is undertaking numerous actions that involve up-front operating costs whose payback is expected to occur over the SBP period. These "operating expense investments" include such things as service standards training, marketing and branding program development, the Market-Based Network Analysis and other strategic planning, severance payments and up-front costs of the food service contracting-out program, and start-up costs for the Express program.

If these efforts are successful, they will start to repay Amtrak with increased revenues and expense savings over the long term. Many of these expenses are part of BPAs that we have analyzed in this SBP, and which we will continue to scrutinize in the 2000 SBP. Some of the pay-offs are uncertain at this time, but many are likely to generate vitally needed revenue by the time Amtrak must be operationally self-sufficient.

Amtrak's TRA Borrowing Is Consistent With TRA

Amtrak's borrowing of funds from TRA for maintenance of equipment is consistent with the requirements of TRA. The borrowing reflects Amtrak's commitment to spending TRA funds only on high-rate-of-return investments rather than on capital maintenance, as is permitted in TRA. Therefore, Amtrak is accounting for TRA funds that are spent on maintenance of equipment in 1998 and 1999 so that it can replace that spending with the high-rate-of-return investments to which it has committed, on a dollar-for-dollar basis, from its Federal capital appropriations in 2000 and 2001. If Amtrak were not able to repay the borrowings, Amtrak could simply convert them to outlays for maintenance of equipment, and this is a permitted use of TRA funds.

The borrowing stems only from the fact that Amtrak has agreed to constraints on the first-year spending of its 1999 Federal capital appropriation. If those constraints did not exist, the TRA borrowing would not be necessary. The borrowing and repayment procedure is merely an internal accounting device for

Amtrak so that it can trace the expenditure of TRA funds and show that the funds have been spent on the uses to which Amtrak has committed.

Restatements Were Necessary for Business Plan Projections in All Strategic Business Units

Northeast Corridor SBU

Passenger Revenues

The NEC is projecting passenger-related revenues of $2.94 billion over the SBP period (1999 through 2002). These revenues reflect Amtrak's baseline projections for the Acela program (Metroliner/Acela Express and Northeast Direct/Acela Regional) and four related BPAs including automated fare collection and on-board food and beverage sales.[14] Amtrak projected that revenue would grow considerably following the introduction of Amtrak's new services – with $526 million in revenues projected in 1999 growing to $852 million in 2002.

Based on our assessment of the reasonableness and consistency of Amtrak's projections of NEC passenger revenues, we project that passenger revenues will be lower than those forecast in the SBP by $177 million (6 percent) over the 4-year SBP period. *We emphasize that this restatement indicates the portion of Amtrak's revenue forecast that is at risk of not materializing.* Forecasts of a new service such as Acela Express entail much more uncertainty than forecasts of changes made to existing services such as those proposed in Intercity and Amtrak West.[15] Therefore, our forecasts, which are within 6 percent of Amtrak's, can be viewed as roughly confirming Amtrak's expectations for NEC passenger-related revenue. *Nevertheless, we believe it would be prudent for Amtrak to view our $177 million restatement as an identification of revenues that are at risk. As such, Amtrak should develop actions with impacts equivalent to this amount as a contingency against this potential revenue shortfall.*

Our ridership forecast in 2001, after full implementation of Acela Express and Acela Regional service, indicates that Acela Express ridership will be 18.5 percent less than Amtrak's projection, but that Acela Regional ridership will exceed Amtrak's projection by 4.6 percent. With both services combined, we project that

[14] Acela Express is the service that will be provided by the 20 new high-speed trainsets and is the successor to current Metroliner service, extended to Boston. Acela Regional service is the successor to current Northeast Direct service. There is a third Acela service, Acela Commuter, which will replace the current Clocker service. Acela Commuter ridership and revenue are included in our Acela Regional forecast.

[15] See the discussion of passenger-related BPAs in Chapters 3 and 4 of Part III.

ridership in 2001 will be 1.9 percent less than Amtrak projected.[16] The following tables present Amtrak's projections and our restatements, Table 8 for passenger revenue and Table 9 for ridership.

In Table 8 and throughout this report, the lines showing the difference between Amtrak's projections and ours, and the lines for the net impact on Amtrak's cash loss, indicate the additional cash loss the restatements add to Amtrak's 1999 SBP. Therefore, positive numbers indicate an increase in the cash loss, compared to what Amtrak projected, and negative numbers indicate a reduction in the cash loss.

Table 8 Amtrak's NEC Passenger Revenue Forecasts and OIG Restatements ($ in millions)

	1999	2000	2001	2002	Total
Amtrak's Forecast	$526	$ 731	$827	$852	$2,937
OIG Restated Forecast	547	627	778	808	2,760
Difference	**$(21)**	**$105**	**$49**	**$44**	**$177**
Percent Difference	(4.0)	14.3	5.9	5.1	6.0

Table 9 Amtrak's NEC Ridership Forecasts and OIG Restatements (Passengers in thousands)

	1999	2001
Amtrak's Forecast	12,072	14,456
OIG Restated Forecast	12,317	14,181
Difference	**(245)**	**275**
Percent Difference	(2.0)	1.9

The reduction in revenue in our restated projections reflects a lower forecast of Acela Express passengers that is partially offset by our higher forecast for Acela Regional passengers. In 2001, revenues from Acela Express are $81 million (19 percent) less than Amtrak's forecast, and Acela Regional revenues are $32 million (8 percent) higher than Amtrak's forecast.

This revenue shift reflects our lower projections for diversion of passengers from air and automobile to Acela Express and higher projections of diversion to Acela Regional. Our forecast estimates that some passengers will prefer to take the improved conventional service (Acela Regional) on the Northend from New York to Boston rather than the faster Acela Express service because the time savings (50 minutes) will not compensate for the fare differential. Amtrak's projected

[16] Amtrak's NEC consultant did not estimate ridership for each year of the SBP period. Rather, estimates were made for 1999 as a base year without Acela Express and Acela Regional services and for 2001 when both services will be fully implemented.

ridership increase is almost entirely on Acela Express, even though Acela Regional travel times are improved significantly in the Northend.

We reduced Amtrak's four NEC Business Plan Actions by $70 million and Acela food and beverage revenue by $2 million. These reductions are included in the restatements in Table 8. Of the $70 million in BPA reductions, $69.6 million is for ticket revenue growth based on economic growth. We concluded that our restated passenger ticket revenue forecasts already include the economic growth measured by this BPA, and to add the impacts projected in it would constitute double counting of economic growth benefits.

Amtrak has been considering operating plans that differ from those in the 1999 Strategic Business Plan. Our analysis indicates that if Amtrak is unable to operate Acela Express using the assumptions about trip-time and frequencies used to develop the projections in the SBP, it would be preferable, from a revenue point of view, to operate with higher frequencies and longer travel times. The increase in travel times (about 4 minutes per additional stop) has a much lower impact on ridership and revenue than does cutting the frequency to intermediate stations.

We also performed a revenue-maximization analysis of the NEC fare policy used in Amtrak's forecast to determine whether a different set of fares for Acela Express and Acela Regional could mitigate some of our restatement resulting in increased NEC passenger revenue. *Our analysis indicates that revenue could actually be maximized at a higher level than we forecasted using more complex fare structures to account appropriately for the variety of revenue-sensitive, competitive environments in which the different Amtrak routes operate.*

Although Amtrak's 1999 Strategic Business Plan includes projections based on the original set of fare, frequency, and trip-time assumptions, Amtrak informed us that it is performing its own revenue-maximization and operating-plan analyses to determine the most appropriate and cost-effective service profile. The results of these analyses and their subsequent revenue projections will be reflected in the 2000 SBP.

Non-Passenger BPAs

In addition to passenger revenue initiatives, the NEC developed 34 BPAs that are projected to improve bottom-line results by $222 million over the 4-year SBP period. Amtrak estimated these actions would increase revenues by $117 million and produce expense savings of $105 million. We reduced NEC's projections of revenue increases to about $96 million, a reduction of $21 million, and expense savings to $34 million, a reduction of $71 million. Overall, we projected the NEC BPAs will result in $130 million in improvements to Amtrak's bottom line for the

4-year SBP period, $92 million less than Amtrak's projection. Table 10 summarizes our restatements.

Table 10 OIG Restatements of NEC's Business Plan Actions ($ in millions)

	1999	2000	2001	2002	Total
Amtrak Revenue Increases	$37	$27	$26	$27	$117
OIG Revenue Increases	30	18	22	26	96
Difference	**7**	**9**	**4**	**1**	**21**
Amtrak Expense Savings	(6)	20	49	41	105
OIG Expense Savings	(5)	13	15	11	34
Difference	**(1)**	**8**	**34**	**30**	**71**
Net Impact on Cash Loss	**$6**	**$17**	**$38**	**$31**	**$92**

We concluded that the revenue estimates in several BPAs were overly optimistic, were duplicative of benefits already included in other BPAs or in Amtrak's baseline, or were based on assumed benefits from capital projects that will be delayed. Our largest revenue restatement was for increased access fees for freight traffic following the purchase of Conrail by Northfolk Southern and CSX. We reduced the access fees by $18.3 million because of delays in the purchase of Conrail and to account for a slower ramp-up in freight traffic than Amtrak assumed.

The NEC projected $105 million in savings from BPAs targeted at reducing expenses. Our restatement of $71 million over the 4-year SBP period includes the following two significant restatements: $47 million of the $80 million in unidentified business initiatives and $21 million of the $29 million in net power purchase savings. The undefined business initiatives have not yet been decided on. However, we have credited this BPA with $33 million in expense savings to correct for an error in the SBP projections. The power purchase initiative requires Federal action to overturn a Federal Energy Regulatory Commission decision in order for Amtrak to realize the projected savings.

However, to reduce its power expenses, the NEC is pursuing alternative actions including recent proposals from several electricity providers that could potentially reduce electric power costs by 3 percent. As a result, we concluded that NEC will likely realize power savings of about $10 million for the years 2000 through 2002. This nets to about $8 million after a reduction for commuter revenue from the resale of power to commuter agencies at the new, lower, pass-through rate.

Intercity SBU

Passenger Revenues

Amtrak's revenue and expense forecasts projected a net improvement of $136 million from the baseline financial performance anticipated for Intercity over the 1999 through 2002 period ($175 million in increased revenues minus $39 million in increased expenses). In contrast, our revised forecasts for these BPAs project a net contribution to improved bottom-line financial performance for Intercity of $113 million over the 1999 through 2002 planning period, a difference of $23 million (17 percent). The reduction in forecast passenger revenues is concentrated in the first 2 years of the SBP (1999 and 2000) and tapers off thereafter. Table 11 compares our passenger revenue and expense projections to Amtrak's projections over the SBP period.

Table 11 Amtrak's Intercity Passenger Revenue and Expense Projections and OIG Restatements ($ in millions)

	1999	2000	2001	2002	Total
Amtrak Revenue Increase	$24	$45	$51	$55	$175
OIG Revenue Increase	13	34	44	53	144
Difference	**12**	**11**	**6**	**1**	**31**
Amtrak Expense Increase	6	11	11	11	39
OIG Expense Increase	5	8	9	9	30
Difference	**(1)**	**(3)**	**(2)**	**(2)**	**(8)**
Net Impact on Cash Loss	**$10**	**$9**	**$4**	**($1)**	**$23**

Our largest restatements were in the pricing BPAs, where we reduced the revenue impact of the projected pricing actions by $40 million (57 percent). These revisions primarily result from our analyses that show that ridership will decline in some cases as fares are raised; Amtrak's projections assume ridership would not be lost because of the selective nature of these fare increases.

Our downward restatements were offset in large part by two restatements that *increased* revenues projected from BPAs. Our analyses indicated that Amtrak's projections for a 1-percent ridership growth across all routes was conservative. We have revised the forecast of increased revenues to reflect a growth rate of 2.1 percent, double Amtrak's projections. This results in an upward revenue restatement of $28 million over the SBP period. We also restated the Oklahoma service BPA upwards by $6.7 million over the SBP period to reflect the cash impact of equipment cost reimbursement and partial payment of overhead costs negotiated in the contract establishing daily Amtrak service in Oklahoma. We adjusted Amtrak's projected expenses related to these passenger actions to match our restated ridership and service levels.

Non-Passenger BPAs

Intercity developed 21 Business Plan Actions that do not relate to passenger revenue, such as increased revenue from the redevelopment of Chicago Union Station and expense savings from improving on-time performance, re-engineering of the food commissaries, and implementing more efficient maintenance practices. Amtrak expected these actions to improve bottom-line results by almost $54 million over the 4-year SBP period. Amtrak estimated these actions would increase revenues by $2.7 million and produce expense savings of $51 million. Overall, we reduced Intercity's projections of revenue increases by $988,000 (37 percent) and reduced projections of expense savings by $32.7 million (64 percent). Our total restatement is a $33.7 million reduction of Amtrak's total projected impact from these BPAs. Rather than the $54 million Amtrak projected in improvements over the 4-year SBP period, we projected improvements of $20 million.

Our largest restatements ($26.3 million) reflect adjustments to expense savings expected to result from productivity enhancements. The largest single BPA restatement related to undefined productivity enhancements, which we restated from $17.7 million to zero. At the time of our assessment, Amtrak had not yet developed specific plans to produce these savings. Table 12 summarizes the effect of the restatements to reduce projected revenue increases or reduce projected expense savings.

Table 12 OIG Restatements of Intercity's Business Plan Actions ($ in millions)

	1999	2000	2001	2002	Total
Amtrak Revenue Increases	$0.3	$0.8	$0.8	$0.8	$2.7
OIG Revenue Increases	0	0.5	0.6	0.6	1.7
Difference	**0.3**	**0.3**	**0.2**	**0.2**	**1.0**
Amtrak Expense Savings	9.8	14.4	13.7	13.1	51.0
OIG Expense Savings	5.0	3.4	4.6	5.3	18.3
Difference	**4.8**	**11.0**	**9.1**	**7.8**	**32.7**
Net Impact on Cash Loss	**$5.1**	**$11.3**	**$9.3**	**$8.0**	**$33.7**

Mail and Express

In addition to operating passenger service over its extensive route network, Intercity provides mail carriage service to the United States Postal Service (USPS), carries express cargo shipments, and offers limited package express service on some passenger routes.

Amtrak's 1999 Strategic Business Plan includes baseline amounts for continuation of its current Mail and Express service, as well as the traditional package express services. We found the forecasts for these baseline amounts to be reasonable in our last assessment and continue to hold this view. The 1999 SBP also includes projections for specific actions for Mail and Express that would result in additional incremental revenue and expense projections for Mail and Express services. We found no reason to restate the Mail BPAs, but we did restate the projections for Express, for a net impact on Amtrak's projected cash loss of $14 million over the 4-year SBP period. We based these restatements on a slower-than-expected ramp-up in 1999 and on the fact that Amtrak is projecting the operation of greater numbers of Express cars on existing routes than is allowed by current constraints, which would affect revenue in 2001 and 2002. These constraints are the result of a 1998 Surface Transportation Board (STB) decision.[17] Our restatements are summarized in Table 13.

Amtrak can circumvent these constraints by negotiating directly with the freight railroads for permission to operate trains longer than 30 cars. It can also increase the frequency of service on some routes if demand dictates. Amtrak has indicated that it is exploring both of these options, and neither of these constraints will likely pose serious obstacles to Amtrak's full achievement of projected revenues. In fact, Amtrak has recently signed such an agreement with the Illinois Central Railroad allowing access to terminals and making provisions for revenue sharing that is beneficial to both railroads.

[17] STB Finance Docket No. 33469, May 28, 1998, Application of the National Railroad Passenger Corporation under 49 U.S.C. 24308(a) – Union Pacific Railroad Company and Southern Pacific Transportation Company. In its decision, STB indicated that Amtrak could operate trains as long as 30 cars, including passenger cars, over the tracks of freight railroads, with the limitation that "(t)he prime purpose of Amtrak must be passenger service, and the service must be genuine".

Table 13 Amtrak's Projections for Mail BPA and Incremental Express Business, and OIG Restatements ($ in millions)

	1999	2000	2001	2002	Total
Amtrak Mail Revenue Increase	$6	$19	$44	$47	$116
OIG Mail Revenue Increase	6	19	44	47	116
Difference	**0**	**0**	**0**	**0**	**0**
Amtrak Mail Expense Increase	4	16	33	36	89
OIG Mail Expense Increase	4	16	33	36	89
Difference	**0**	**0**	**0**	**0**	**0**
Amtrak Express Revenue Increase	21	48	67	89	225
OIG Express Revenue Increase	13	48	62	75	198
Difference	**8**	**0**	**5**	**14**	**27**
Amtrak Express Expense Increase	11	31	43	58	143
OIG Express Expense Increase	11	30	39	51	131
Difference	**0**	**0**	**(4)**	**(8)**	**(12)**
Net Impact on Cash Loss	**$8**	**$0**	**$1**	**$6**	**$14**

Amtrak West SBU

Passenger Revenues

In the 1999 SBP, Amtrak West included 19 passenger-related BPAs projecting a total of $226 million in additional revenue over the SBP period to result from a mix of pricing initiatives, demand-related actions, marketing initiatives, and new service actions. The projected revenue increases included additional transportation revenues from sales of passenger tickets and of food and beverages aboard trains, as well as increases in reimbursements for operating losses on State-supported routes (403(b) revenues).

While it is clear that recent performance by many services in Amtrak West indicate a clear potential for significant growth, we concluded that some of Amtrak's projections may be overly ambitious. Over the 4-year SBP period, Amtrak West projected net passenger revenue increases expected to improve the SBU's bottom-line financial performance by $100 million ($226 million in increased revenues minus $126 million in increased expenses). The growth is substantial over the SBP period, beginning with $7 million in 1999 and building to $42 million by 2002.

In contrast, our revised forecasts of additional passenger revenues and incremental expenses for these BPAs project a net contribution to bottom-line financial performance for Amtrak West of $89 million over the SBP period. As Table 14 shows, our restatements reduced Amtrak West's projections by $12 million for the 4-year SBP period, which is 12 percent of the overall net benefit Amtrak expected to gain from these actions.

Table 14 Amtrak West Passenger Revenue and Expense Forecasts and OIG Restatements ($ in millions)

	1999	2000	2001	2002	Total
Amtrak Revenue Increase	$31	$56	$68	$71	$226
OIG Revenue Increase	19	40	52	65	176
Difference	**13**	**15**	**16**	**6**	**50**
Amtrak Expense Increase	24	36	37	29	126
OIG Expense Increase	13	23	25	26	87
Difference	**(11)**	**(13)**	**(12)**	**(2)**	**(38)**
Net Impact on Cash Loss	**$2**	**$2**	**$4**	**$4**	**$12**

We accepted Amtrak's projections for 4 BPAs, and we restated 15 others. Three of our restatements resulted in a positive impact on Amtrak's bottom line. Delays in implementation of new services, such as Las Vegas service and the Coast Starlight Auto Carrier, account for the much of the difference between Amtrak's revenue projections and our restatements in 1999. If the total impact of the Las Vegas project is removed from both Amtrak's original and our revised forecasts, our revision for all passenger revenue-related BPA projections during the SBP period would result in only a 6.8 percent reduction in Amtrak's BPA revenue forecast.[18]

Because we have revised the effects of many of these BPAs on passenger volumes carried on specific routes, it is also appropriate to reduce Amtrak's expense forecasts to reflect the lower passenger volumes and other expense-generating activities predicted to result from these actions. Amtrak's projected expenses related to proposed passenger BPAs is $126 million; we have restated these

[18] Financial projections for the new Las Vegas service reflect projected load factors inconsistent with Amtrak West's anticipated systemwide load factor for 2000, and historical load factors experienced for start-up service. Adjustments made to incorporate such factors would result in a restated net loss of $2.6 million for this service. Since Amtrak has stated that it will not start the service if net revenues are not expected to be positive, we assumed Amtrak would cancel this project. We restated revenues and expenses to zero.

expenses to nearly $88 million. These offsets are incorporated in our expense restatements.

Non-Passenger BPAs

Amtrak West developed 43 Business Plan Actions that do not relate to passenger revenue and which Amtrak expects to improve bottom-line results by $16.8 million over the 4-year SBP period. Amtrak estimated these actions would increase revenues by $3.4 million and produce expense savings of $13.4 million. Overall, we found these BPAs to be reasonable and attainable, though we did restate them by about 10 percent. We reduced Amtrak West's projections of revenue increases to $3.2 million, a reduction of $144,000, and expense savings to $12 million, a reduction of $1.3 million. The result is a bottom-line impact from BPAs of $15.3 million for the 4-year period 1999 through 2002. Table 15 summarizes the effect of the restatements to reduce projected revenue increases or reduce projected expense savings.

Table 15 OIG Restatements of Amtrak West's Business Plan Actions ($ in millions)

	1999	2000	2001	2002	Total
Amtrak Revenue Increases	$0	$0.7	$1.3	$1.4	$3.4
OIG Revenue Increases	0	0.7	1.3	1.3	3.2
Difference	**0**	**0.1**	**0.1**	**0.1**	**0.1**
Amtrak Expense Savings	3.0	3.2	3.6	3.6	13.4
OIG Expense Savings	2.5	2.9	3.3	3.3	12.1
Difference	**0.5**	**0.4**	**0.3**	**0.3**	**1.3**
Net Impact on Cash Loss	**$0.5**	**$0.4**	**$0.3**	**$0.3**	**$1.4**

We restated the estimates for nine BPAs. Two of these actions–one for minimizing overtime costs and one to implement new maintenance procedures–account for $1.1 million of our restatement. Two other BPAs that required small restatements included the installation of self-serve ticketing machines, which are expected to reduce station labor costs (especially overtime), and the reduction in maintenance-of-way expenses by purchasing new track maintenance equipment. We made minor adjustments to Amtrak's estimates for these two actions to reflect delays in benefits and to correct an error in Amtrak's calculations. Based on our analysis of Amtrak West's assumptions and supporting documentation, we reduced Amtrak's projected expense savings for all restated BPAs by $1.3 million.

Corporate Service Centers

Amtrak's fourth business unit – the Corporate Service Centers – includes those business centers that serve or affect the corporation as a whole. These include centers such as Sales and Marketing, Human Resources, Customer Relations, Information Technology, Chief Mechanical Office, Labor Relations, Executive Offices, and Public and Government Relations.

Our review of Corporate BPAs indicates that a significant portion of these projections are unlikely to be achieved. Nevertheless, most of these restatements relate to BPAs that have significant potential for achievement. However, they require the development of detailed BPAs with well-documented links between the action and the projected impact.

The Corporate Service Centers projected a net bottom-line improvement of $449 million between 1999 and 2002.[19] The improvements were projected in both passenger and non-passenger revenues and expenses. We have accepted BPAs valued at $92.4 million; however, we have restated the remaining $356.3 million in BPAs to zero. Three BPA restatements account for $314.5 million (88 percent) of our total restatement of Corporate BPAs. They are Market-Based Network Analysis, $105 million, restated to zero; Service Standards, $105 million, restated to zero; and Management Actions to be Developed in the 2000 SBP, $112 million, restated to $7.5 million. Table 16 shows our restatements of Amtrak's Corporate BPAs categorized by revenue increases and expense savings.

Table 16 OIG Restatements of Corporate Business Plan Actions ($ in millions)

	1999	2000	2001	2002	Total
Amtrak Revenue Increase	$28	$51	$90	$130	$298
OIG Revenue Increase	22	20	23	26	90
Difference	**7**	**31**	**67**	**104**	**209**
Amtrak Expense Savings	5	20	46	80	150
OIG Expense Savings	6	2	(2)	(4)	3
Difference	**(1)**	**17**	**48**	**83**	**148**
Net Impact on Cash Loss	**$5**	**$48**	**$115**	**$188**	**$356**

Amtrak projected significant productivity savings in all of the Corporate Service Centers, but the three individual BPAs noted, with their combination of expense

[19] Excluding labor, transfers, and baseline adjustments BPAs

savings and increased revenues, account for almost 72 percent of the total net improvement of the Corporate Service Centers over the SBP period.

Amtrak is redefining its vision for the future and identifying the steps necessary to support this vision. Amtrak anticipates that significant changes in its operating structure will occur as a result of an extensive year-long market research effort. Amtrak is also developing service standards to ensure high-quality service is provided consistently. Together, Amtrak believes these initiatives will enable the corporation to adopt a commercially oriented approach and continue to provide nationwide rail service.

Such actions are likely to improve Amtrak's customer perception and affect Amtrak's bottom line. What remains unclear at this point, however, is what exact steps Amtrak will take to achieve these improvements, and how such steps will translate into the projected dollar value of expense savings and revenue increases. Until these connections are documented and the links to the financial forecasts are fully supported, we cannot accept the reasonableness of Amtrak's projections.

Amtrak's Capital Funding is Likely to Fall Short of Needs Through 2002

Funding Shortfalls

Amtrak-financed construction of high-speed trainsets and maintenance facilities

Amtrak, as the national passenger railroad, owns substantial interests in infrastructure and equipment requiring hundreds of millions of dollars in reinvestment and maintenance annually. In November 1998, we projected that Amtrak would have sufficient capital resources through 2000 to meet all of its minimum capital needs and to complete most of its key Business Plan Actions, including implementation of high-speed rail service in the Northeast Corridor. After 2000, however, when Amtrak will have used most of its TRA funds, we anticipated that Amtrak's available Federal funds would fall short of even meeting its minimum needs by \$492 million between 2001 and 2003 (\$313 million between 1999 and 2002).[20]

Our current assessment found that Amtrak's minimum capital needs between 1999 and 2002 have increased by \$147 million compared to our prior assessment. The increases represent a growth in principal payments for debt, additional infrastructure spending, and expansion of the high-speed rail program. Despite this growth in needs, our projected funding shortfall over the SBP period is actually \$69 million less than we projected in our prior assessment. This primarily reflects a greater projected availability of capital funds as Amtrak repays TRA funds borrowed in 1998 for capital maintenance (\$100 million), plus an additional \$85 million in TRA interest that will be available between 1999 and 2001.

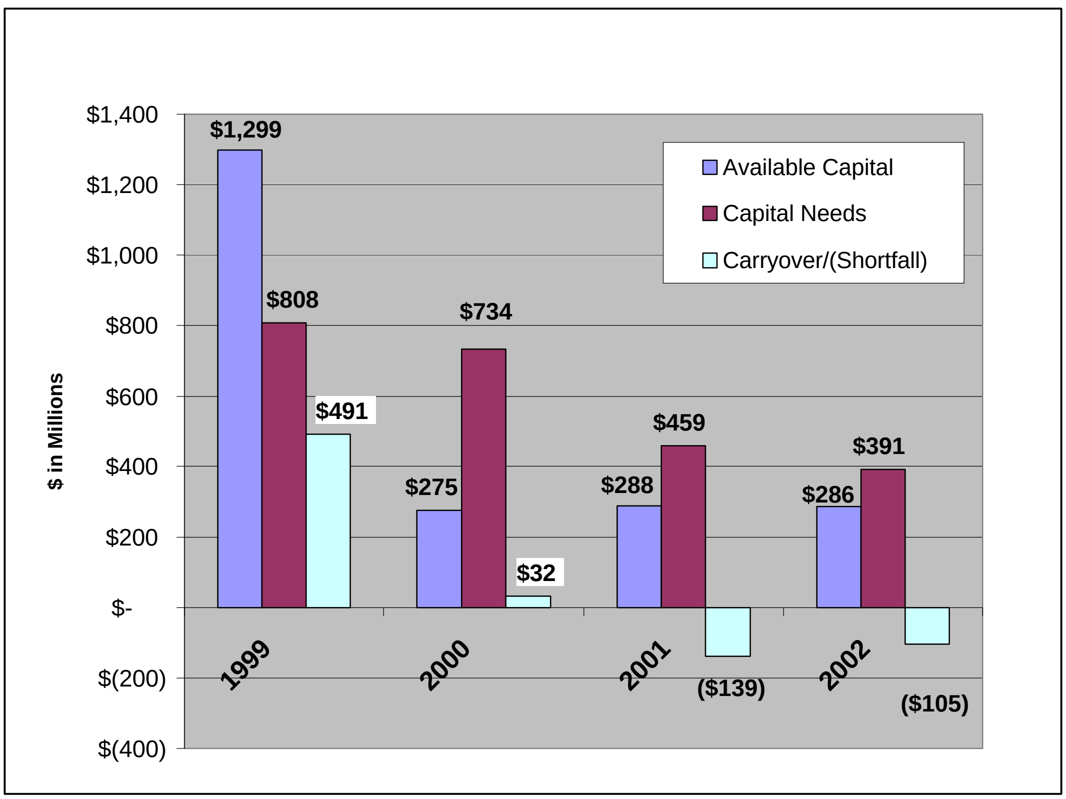
Amtrak has enough funds available to address minimum needs in 1999 and 2000, as well as to complete the \$572 million in high-speed rail projects scheduled for

[20] Amtrak's 1999 SBP extends from 1999 through 2002 in contrast to the 1998 Business Plan, which spanned the period from March 1998 through 2003. We have adjusted our restatement and discussion of needs to reflect the 1999 through 2002 period in order to compare consistently with Amtrak's current projections.

those years. In 2001, however, Amtrak is likely to face a capital funding shortfall of $139 million. Figure 2 identifies our current estimate of Amtrak's minimum needs, available funding, and subsequent shortfalls.

The projected availability of funding to meet Amtrak's minimum capital needs is based on Amtrak's projected operating results. If Amtrak's operating losses are higher than projected, Amtrak will need to use more of its funding to cover capital maintenance costs. This will result in less Federal funding being available for traditional capital investment. TRA and general capital funds can both be legally used for capital maintenance; however, every dollar used to cover maintenance costs is a dollar that will not be available to address Amtrak's minimum needs or make the kinds of investments Amtrak believes are necessary to guarantee future operating viability.

Figure 2 Capital Funding Shortfalls, 1999 Through 2002 ($ in millions)



Funding Availability

Since its creation in 1971, Amtrak has received $22.7 billion in Federal grants that have taken the form of both operating and capital subsidies. While Amtrak also relies on external financing and receives capital assistance from States and commuter agencies, the Federal Government continues to play the largest role in supporting Amtrak's capital program.

In November 1997, with the passage of Amtrak's reauthorization legislation, \$2.2 billion was made available to Amtrak under TRA for capital investment.[21] Although the range of capital investments allowable under TRA is broad, Amtrak has made an internal commitment to target TRA funds for capital projects that yield a high rate of return. In addition to TRA, Amtrak expects to receive the Administration's requested annual capital appropriations. The Administration's request totals \$2.1 billion for 2000 through 2003.

Minimum Needs

We have defined minimum capital spending requirements as the capital spending required to meet legal obligations and to continue the safe, reliable operation of the national system over the short term. Our "minimum" needs estimate does not include costs for ongoing projects beyond 2000 that do not contribute directly to the short-term goal of safe, reliable operations. Such projects include station improvements and facility upgrades.

Our minimum budget supports a level of investment that would be sufficient to maintain schedule, performance, and service in a steady state through the end of 2002, but would ultimately result in reduced reliability and higher operating costs. This budget would not be sufficient to provide for longer term rehabilitation, overhaul, or replacement of capital assets such as track, structures, or rolling stock; and would not address the backlog of state-of-good-repair needs on the Southend of the Northeast Corridor.

Some projects now underway or in the planning stage would not be funded, including the Capstone program, which funds the retrofitting of NEC passenger car interiors to be consistent with re-branding efforts and the interiors of the new high-speed trainsets. Our definition of minimum needs extends only to the operations of the railroad through 2002–it does not represent what we consider are the minimum investments necessary for Amtrak to sustain itself financially and operationally beyond 2002. Table 17 identifies the estimated minimum needs levels by category, funding availability, and projected shortfalls through 2002.

[21] TRA funds were authorized in November 1997 with one half scheduled for disbursement in April 1998 and the other half in April 1999.

Table 17 Amtrak's Projected Minimum Needs and Funding Through 2002 ($ in millions)

Spending Category	1999	2000	2001	2002	Total
Debt	$47	$62	$81	$90	**$280**
Infrastructure	323	259	187	192	**961**
Rolling Stock	141	88	90	93	**412**
Technology	33	17	16	16	**82**
High-Speed Rail	264	308	85	0	**657**
Total Minimum Needs	**808**	**734**	**459**	**391**	**2,392**
Funding Available	1,299	275	288	286	2,148
Carryover (Shortfall)	**$491**	**$32**	**($139)**	**($105)**	**($244)**

Current Plans Go Beyond Minimum Needs

Despite Amtrak's projected capital funding shortfall for even minimum needs, Amtrak's 1999 capital plan includes at least $116 million in funding for projects that fall outside of the minimum classification. These include continuation of heavy overhauls and investments in corridor development projects like the New York Empire Corridor and preliminary engineering for the Midwest Regional Rail Initiative. This is in spite of the fact that Amtrak's funds will fall short of meeting minimum needs in 2001 and 2002 by a combined total of $244 million. As such, we question the prudence of Amtrak's decision to invest in non-minimum needs during the remainder of 1999 and in 2000 before ensuring that funds will be available in 2001 and beyond to cover minimum needs in those years.

Amtrak's capital approval process gives top priority to projects that carry high-return-on-investment potential. Although these investments fall outside the scope of what Amtrak needs, minimally, to continue operations through 2002, Amtrak believes that without such investments, it will not be able to generate sufficient revenues to survive beyond 2002 when it must, by law, operate without Federal operating assistance. *Beyond high-speed rail, Amtrak's capital investment resources are insufficient to allow it to make the kinds of high-return investments it will need to improve operating performance for the years beyond 2002. At the same time, Amtrak's capital shortfall cannot be attributed solely to insufficient external funding levels. We believe that if Amtrak is able to improve its ability to contain operating costs, more of its Federal funding will be available for these kinds of investments.*

Alternative Funding Sources

In the face of Amtrak's projected Federal capital funding shortfall, Amtrak has increasingly pursued funding for its capital program from non-Federal sources such as States and commuter railroad agencies. Amtrak's 1999 capital plan includes projects with a combination of approved 1999 funding and out-year projections totaling $1.8 billion through 2002 for which States or other entities will pay part of the costs. Amtrak's 1999 share and projected funding through 2002 totals $937 million (52 percent) of the total with States contributing a projected $593 million (33 percent). The remaining $275 million (15 percent) will be financed externally.

At the same time, there are two limitations to Amtrak's reliance on State and local agency capital funding that should be noted. First, with a few exceptions, there can be no assurance that this funding will materialize. Most States and local agencies are funded on an annual cycle, and the amount of future funding can be heavily influenced by a variety of factors, including political considerations and the fiscal condition of agencies. Second, many of the proposed projects, while helpful to Amtrak, do not necessarily meet Amtrak's minimum needs.

Recommendation

We are concerned that Amtrak is spending TRA funds in 1999 and 2000 on projects that go beyond minimum needs, while a gap in meeting minimum needs exists for 2001 and 2002. We question the prudence of Amtrak's current capital planning strategy, which does not adequately anticipate the impact of future funding shortfalls on projected minimum needs. While we do not consider any of Amtrak's current capital projects to be frivolous investments, we believe that Amtrak's strategy is shortsighted in its failure to set aside currently available funds for known future funding shortfalls. We recommend that, in preparing its 2000 capital plan, Amtrak identify means for covering minimum needs beyond 2000 before approving spending on projects that fall outside this category.