Before the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
Committee on Appropriations
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Amtrak's Future Outlook and Budgetary Needs

Statement of

David Tornquist
Assistant Inspector General
Rail and Maritime Program Audits and Economic Analysis

U.S. Department of Transportation, Office of Inspector General

Chairman Murray, Ranking Member Bond, and Members of the Subcommittee:

I appreciate the opportunity to present the views of the Office of the Inspector General on Amtrak's Fiscal Year (FY) 2009 financial needs and the future of intercity passenger rail. My statement today will draw upon the work we have ongoing for your subcommittee on Amtrak's financial performance and labor agreement costs, its efforts to achieve operating reform savings, and the causes of its on-time performance (OTP) problems, as well as other work we have ongoing on Amtrak's capital plan.

Despite Recent Progress, Amtrak Still Faces Challenges. Once again, Amtrak's 2007 ridership and ticket revenue records set new records. Amtrak also improved its OTP on about two-thirds of its routes, implemented an expanded capital program, and continued to pay down its debt. In addition, the labor agreement now in the ratification process holds the promise of allowing both Amtrak management and employees to focus on the business of running a passenger railroad.

At the same time, Amtrak is seeking to increase its Federal subsidy by 35 percent in a very difficult budget environment while continuing to incur unsustainably large and potentially growing operating losses. We believe Amtrak can do more to minimize its costs and dependence on Federal subsidies and that its spending initiatives need to make a demonstrable contribution to its bottom line.

Amtrak Requires a Modest FY 2009 Funding Increase. We believe that Amtrak's FY 2009 legislative and grant request understates Amtrak's likely FY 2009 revenues, overstates its costs, and ignores its significant cash balance. As a result, we believe that Amtrak needs $475 million in FY 2009 for operations, $675 million for capital, and $266 million for debt service. Furthermore, the FY 2009 share of retroactive wages included in the pending labor agreement[1] can be accommodated within Amtrak's projected cash balances without additional appropriations.

Our recommended operating grant level would allow Amtrak to operate a nationwide system. When combined with Amtrak's likely increase in FY 2009 revenues, our recommendation would cover an approximately 3.5 percent increase in Amtrak's operating expenses. Regarding these revenues, we believe that Amtrak's forecast is understated because it was arbitrarily reduced below the levels projected by its econometric models. The expense forecast is likely overstated because it includes the cost of significant hiring in FY 2008 and 2009

[1] This agreement would grant full retroactive pay raises back to 2002 to all agreement employees onboard on December 1, 2007. The payment would be split, with 40 percent being paid in FY 2008 and 60 percent in FY 2009.

and other cost increases which Amtrak need not incur, and no additional operational reform savings.

Table 1. Federal Appropriations					
($ in millions)	***FY 2007***	***FY 2008***		***FY 2009***	
	Appropriated	Appropriated	Forecasted Use	Request	Recommend
Operating	$485	$475	$454	$525	$475
Capital	495	565	564	801	675
Debt service	277	285	285	345	266
Retroactive wages for labor settlement				114	0
Total	**$1,257**	**$1,325**	**$1,303**	**$1,785**	**$1,416**

Source: Amtrak data and OIG analysis.

The $675 million for capital would allow Amtrak to fund legal, safety, and security requirements and continue to make progress towards a "state of good repair". The $266 million for debt service is the minimum needed to fund Amtrak's FY 2009 debt obligations. Amtrak's proposal to pay off debt early is linked to a plan to borrow funds in the future for rolling stock replacement. However, significant issues still need to be resolved regarding states' willingness to pay the full costs of state services not covered by ticket revenues which may impact the overall demand for new rolling stock.

Finally, Amtrak could fund the unbudgeted $114 million in FY 2009 retroactive wage costs and $11.3 million in other planned pay–related costs within its anticipated $269 million end of FY 2008 cash balance. The resulting $119 million cash balance would be less than Amtrak's preferred $150 million level, but consistent with the $103.9 million cash balance that would have resulted in FY 2007 from Amtrak's spending decisions.

Achieving Reliable On-Time Performance Could Substantially Improve Amtrak's Finances. We recently reported that improving OTP to 85 percent on all routes outside the Northeast Corridor in FY 2006 would have generated a net gain of $136.6 million for Amtrak. However, there is little agreement between Amtrak and the host railroads on whose track Amtrak operates regarding the cause of this poor OTP, and, therefore, no consensus on how to improve it.

In work we have ongoing at the request of this subcommittee, we have found that Amtrak trains are delayed by insufficient track capacity; host railroad operating practices, including dispatching; and external factors beyond the host railroads' control, such as weather and derailments. Amtrak's data on delays does not allow us to quantify the relative share each cause contributes to delay. Disagreement also exists regarding the precise nature of Amtrak's right to "preference over freight transportation in using a rail line, junction, or crossing".[2] We believe the issue of improving Amtrak's OTP can best be addressed through collaboration between Amtrak, the host railroads, and the executive branch which balances the enforcement of rights with incentives for cooperation. The state capital matching grant program can play an important role in this effort.

Reauthorization Remains Key to Amtrak's Long-Term Outlook. As we have testified previously, we believe that Amtrak's long-term outlook would be improved through a reauthorization that focused on three goals: (1) continuous improvements in the cost-effectiveness of services provided, (2) devolution of the power to determine those services to the states, and (3) adequate and stable sources of Federal and state funding.

Absent a reauthorization, it will continue to fall to the Appropriations Committee to maintain fiscal discipline at Amtrak while providing the tools to improve their performance. At the same time, as we reported last year in our audit of the Amtrak Board's activities, the Board plays a key role in setting a strategic direction for Amtrak within the statutory parameters set by Congress. The Board and Amtrak management currently are developing a new strategic plan, which, if accompanied by implementation plans, will be very helpful in guiding Amtrak's decision making.

I will now discuss these issues in greater detail.

Despite Recent Progress, Amtrak Still Faces Challenges

Operating Losses

Amtrak ended FY 2007 with a net operating loss of $1.0 billion and a cash operating loss, excluding interest and depreciation, of $486.3 million.[3] Amtrak currently projects a cash operating loss of $454.3 million in FY 2008,[4] $21 million below its original budgeted loss, and $525 million in FY 2009. The increase in

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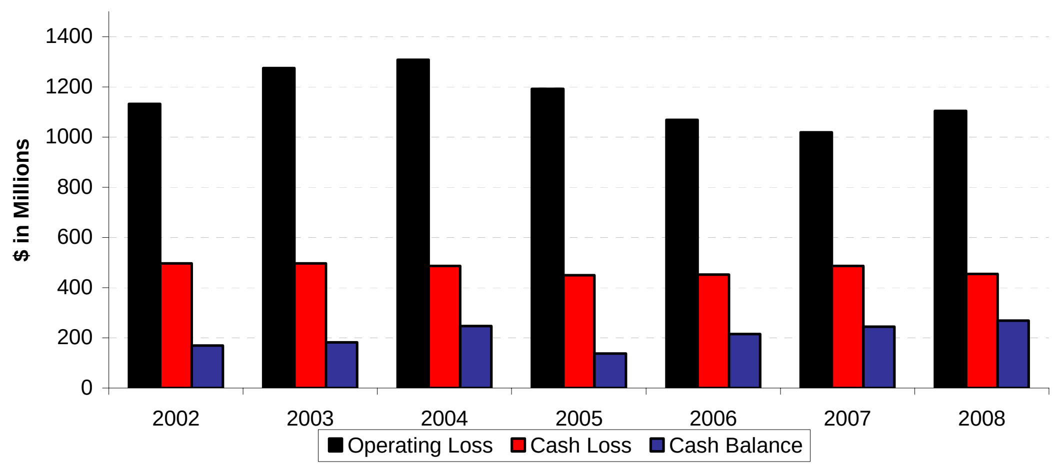
[2] Section 24308c of Title 49 of the United States Code.

[3] Amtrak's FY 2007 cash operating loss includes $190 million in accrued expenses from the pending labor settlement.

[4] Amtrak originally budgeted for a $475 million cash operating loss in FY 2008. However, based on actual revenues and expenditures through January, this loss has been revised downward by $21 million to $454.3 million.

FY 2009 is due largely to fuel, benefits, and labor settlement costs, and the impact of a projected economic slowdown on revenues.

Figure 1. Amtrak's Operating and Cash Losses and Cash Balances



Note: Cash loss is measured on an earnings before interest, taxes and depreciation basis.

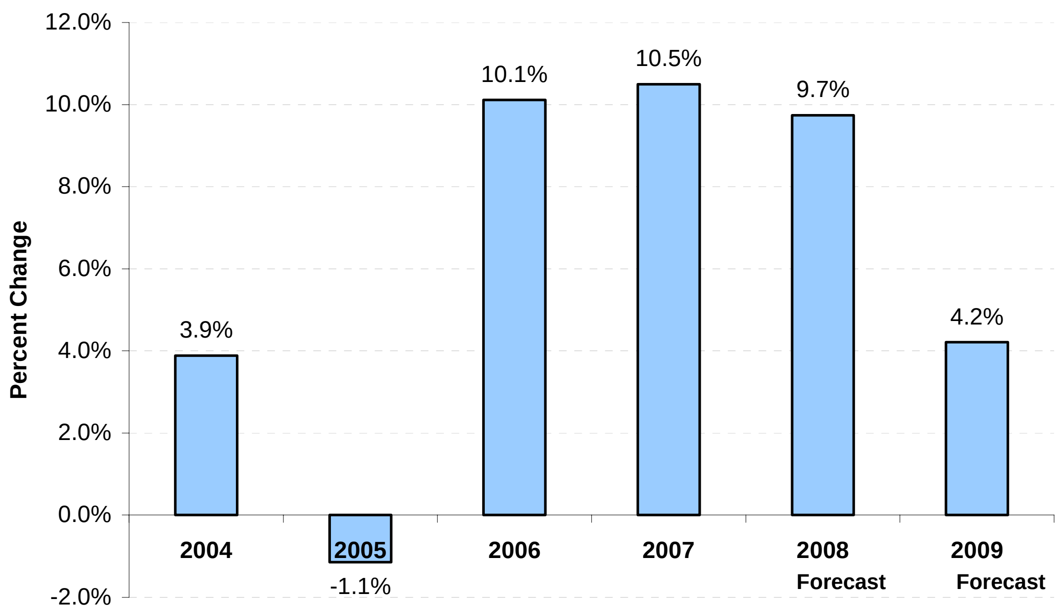
Source: Amtrak.

Based on the information available today, we believe Amtrak could manage with $475 million for its FY 2009 operating subsidy instead of the $525 million requested. We differ with Amtrak's estimates of likely FY 2009 revenues, expenses, and operating reforms. Our recommended operating grant level would provide Amtrak with an increase of almost $100 million and cover an approximately 3.5 percent increase in operating expenses as a result of likely revenue increases. We strongly urge the Subcommittee to reexamine Amtrak's funding requirements after Amtrak completes its more detailed, bottom up budget projection in July.

We are concerned about the seemingly arbitrary manner in which Amtrak management revised its FY 2009 revenue estimates developed using their econometric models to reflect a potential recession. While we understand the desire to be conservative in light of economic uncertainty, we believe that the tight budget environment calls for a more scientific and supportable approach to revenue forecasting.

In this regard, we note that both the Federal Reserve's Federal Open Market Committee and the Blue Chip consensus forecast call for economic growth in FY 2009 at a level commensurate with that in FY 2007, not a decline as Amtrak projects. Growth in the gross domestic product, a measure of overall economic activity, began to slow in 2007, and projected to slowdown further in 2008 before picking up in 2009. Despite the current slowdown, Amtrak's FY 2008 passenger related revenues are projected to be $170 million above FY 2007 and $71 million above the level Amtrak originally projected in its FY 2008 budget.

Figure 2. Amtrak's Passenger Related Revenues



Source: Amtrak.

In addition, we believe that Amtrak should take a more restrained approach regarding expenditures given the large uncontrollable cost increases Amtrak anticipates for wages, benefits, and fuel costs. Amtrak's budget estimates anticipates hiring about 200 employees which might be aggressive considering the tight budget environment. Finally, since Amtrak forecasts its FY 2008 cash operating loss will be about $21 million below the amount it used as a starting point to build its FY 2009 request, its FY 2009 expenses are likely to be less than reflected in Amtrak's budget request.

Finally, Amtrak anticipates achieving no savings from operating reforms in FY 2009. Amtrak saved $61.3 million from operating reforms in FY 2006, $52.8 million in FY 2007, and anticipates saving $40.3 million in FY 2008. The current estimate of FY 2008 savings is just half of the amount Amtrak originally anticipated it would save. The Amtrak Board of Directors, in the FY 2008 Action Plan, established as one of its seven corporate goals, to "contain cost growth through productivity and efficiency improvements". We strongly support this goal and believe it should be reflected in the FY 2009 budget.

As shown in Table 2, Amtrak anticipates achieving $17.0 million in FY 2008 savings through revenue enhancements and $23.3 million through expense reductions. The revenue enhancements include improvements to both *Acela* and long-distance services and additional food and beverage sales. The expense reductions include reducing energy costs, increasing use of credit cards on-board trains, and implementing several productivity improvements in Amtrak's Environment, Transportation, Mechanical, and Engineering departments. Through January, Amtrak has achieved $6.3 million of these projected savings.

Table 2. Amtrak's FY 2008 Cost Savings From Reform

($ in millions)	**Annual**	**Budget YTD**	**Actual YTD**	**YTD Variance**
Revenue Enhancements	**$17.0**	**$4.5**	**$4.4**	**$(0.1)**
Food and Beverage	0.9	0.9	0.5	(0.4)
Overhead Functions	2.4	0.4	0.4	0.0
Customer Service	1.3	0.4	0.9	0.5
Marketing and Sales	1.8	1.2	0.2	(1.0)
NEC Operations	7.6	1.4	2.3	0.9
Long Distance Services	3.2	0.2	0.2	0.0
Expense Reductions	**23.3**	**5.3**	**1.9**	**(3.4)**
Mechanical	(7.2)	(2.1)	(1.7)	0.4
Overhead Functions	11.0	0.7	(0.1)	(0.8)
Customer Service	17.7	6.2	4.9	(1.3)
Ongoing Efficiencies	1.8	0.5	(1.2)	(1.7)
Total	**$40.3**	**$9.8**	**$6.3**	**$(3.5)**

Columns may not sum due to rounding.
Source: Amtrak.

Labor Settlement Costs

Amtrak anticipates the FY 2008 and FY 2009 cost of the labor agreement currently in the ratification process will be $412.2 million for both the operating and capital accounts. As shown in Table 3, Amtrak's estimate of $148.9 million in FY 2008 costs includes $52.4 million for the prospective FY 2008 pay raise, $94.4 million for the FY 2008 share of the retroactive FY 2002-2008 pay raise, and $2.1 million for management pay raises to supervisors to maintain an appropriate pay differential relative to their employees. The $263.3 million in FY 2009 costs include $117.4 million for the prospective FY 2009 pay raise, $141.6 million for the FY 2009 share of the retroactive pay raise, and $4.3 million for management pay raises.

We believe that Amtrak does not require a separate $114 million appropriation in FY 2009 to cover the partial costs of the retroactive wages resulting from the pending settlement ratification. Based on actual revenues and expenditures through January, Amtrak forecast that its cash balance at the end of FY 2008 would be $268.7 million. According to Amtrak, paying off the unbudgeted labor settlement costs would reduce this cash balance to $118.7 million. While this cash balance is below the $150 million level Amtrak stated they prefer to have on hand, it is 14 percent more than the $103.9 million cash balance that would have resulted in FY 2007 from Amtrak's spending decisions. Amtrak is currently refining these estimates as it determines the amounts due on an employee-by-employee basis.

Table 3. Estimated Labor Settlement Costs

($ in millions)	**Due in FY 2008**	**Due in FY 2009**	**Total**
Retroactive Wage Payment (2002-2008)	$94.4	$141.6	$236.0
Management Pay Raise	2.1	4.3	6.4
Prospective Pay Raises	52.4	117.4	169.8
Total	**$148.9**	**$263.3**	**$412.2**

Source: Amtrak.

Capital

Amtrak's infrastructure continues to suffer from the effects of years of underinvestment, and its estimated backlog of infrastructure projects needed to attain a "state of good repair"[5] is $4.8 billion. The $675 million recommended for capital would allow Amtrak to fund legal, safety, and security requirements and continue to make progress to achieving a "state of good repair".

Amtrak initiated a new capital planning process in FY 2008 that prioritizes capital projects across different departments. We believe this planning process is an important step forward. As it matures, we would like to see greater reliance on return on investment analyses for projects, when appropriate. This analysis would facilitate the comparison and prioritization of projects and would demonstrate how projects contribute to meet Amtrak's business goals, i.e., increasing ridership and revenues, reducing costs, improving OTP, and reducing trip times.

[5] Amtrak uses a component life cycle replacement approach to defining "state of good repair". Amtrak defines being in a "state of good repair" when each of its infrastructure assets is maintained and replaced within the design life of that component.

Debt Service

The $266 million for debt service is the minimum needed to fund Amtrak's FY 2009 obligations. This amount reflects Amtrak's minimum debt payment schedule adjusted for Amtrak's pre-payment of the $21 million on its Railroad Rehabilitation and Improvement Financing (RRIF) loan. Amtrak's proposal to pay off debt early is based on the economic benefits of paying off higher interest debt and a desire to reduce its overall debt burden to facilitate new borrowing in the future for rolling stock replacement.

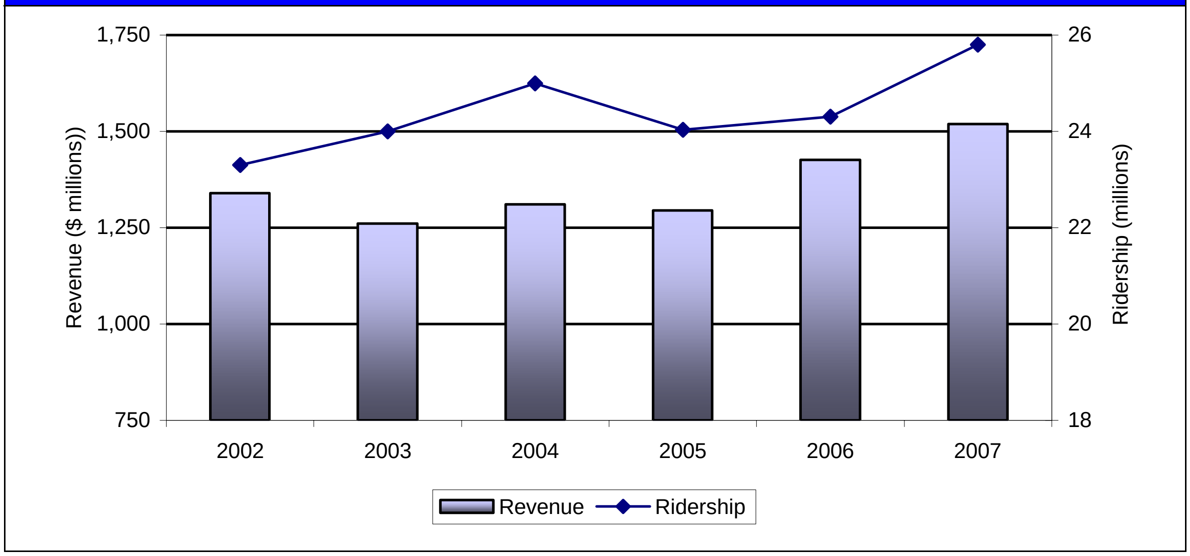
We have previously testified that from an economic standpoint, the taxpayer would benefit by the Federal government paying off Amtrak's $3.3 billion in long term debt and capital lease obligations. Currently, this debt is being paid off with Federal appropriations. Because portions of Amtrak's debt were financed at higher interest rates than what the Federal government can borrow, it would be less costly for the Federal government to payoff the entire debt at once. However, in this tight budget environment, we believe Amtrak has higher funding priorities at this time than repaying debt, such as infrastructure investment.

In addition, significant issues still need to be resolved which will affect Amtrak's rolling stock needs. In particular, Amtrak needs to develop a more equitable method of charging states for state corridor services and determine whether the states will pay the fully allocated operating costs and, over time, a growing contribution to capital costs for new and existing service. In addition, the higher labor rates resulting from the pending labor agreement will increase state costs and may affect their willingness to pay for current services, let alone expand into new services. The impact these issues will have on states' demand for new service and the need for additional rolling stock needs to be incorporated into a comprehensive fleet plan.

Revenue and Ridership

Passenger revenues increased to a peak level of $1.52 billion in FY 2007, primarily as a result of revenues from *Acela* service that were $56.7 million above budget projections. Amtrak attributed increases in *Acela* revenues and ridership to reduced trip times, improved OTP, deteriorating airline service, increased highway congestion, and higher gasoline costs. Systemwide ridership increased to 25.8 million in FY 2007. For the first 4 months of FY 2008, passenger revenues were $71.1 million higher than the same period in FY 2007, supported by strong demand for corridor trains, particularly for *Acela* and *Regional* services. Ridership grew 11.2 percent during this period.

Figure 3. Amtrak Passenger Revenue and Ridership



Source: Amtrak.

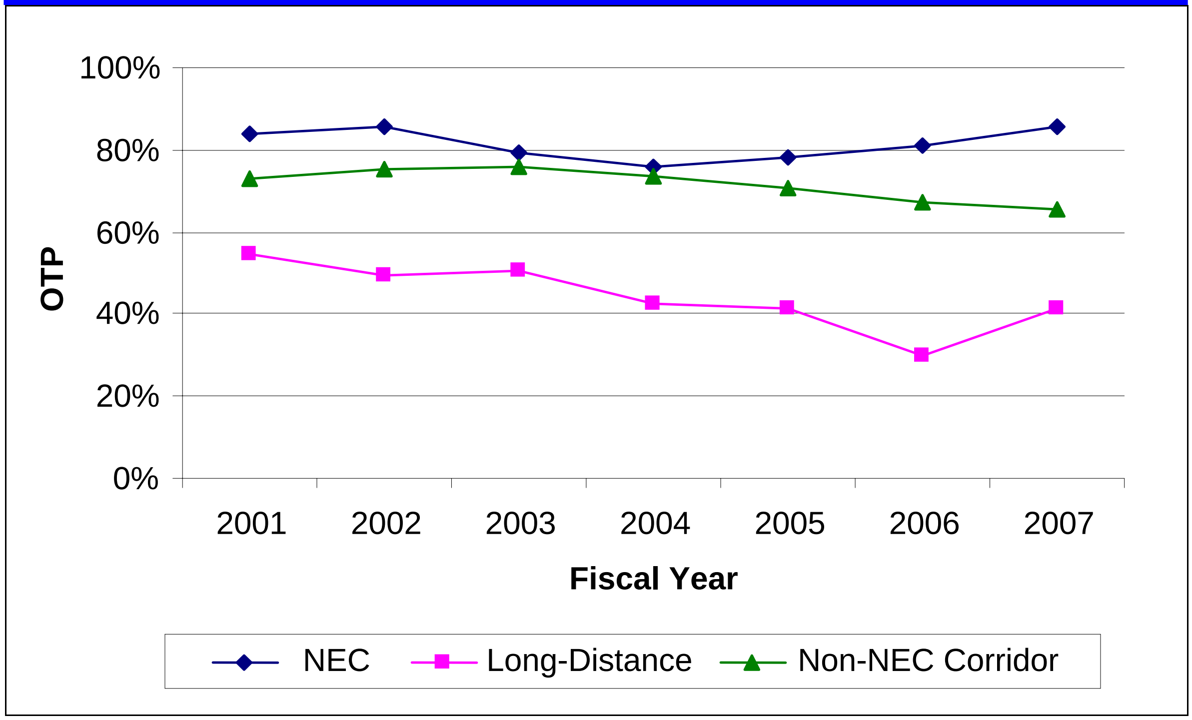
Achieving Reliable On-Time Performance Could Substantially Improve Amtrak's Finances

Amtrak's OTP had been declining steadily since FY 2002, from 77 percent to 68 percent in FY 2006. However, the OTP increased in FY 2007 to 69 percent and to 72.7 percent through January 2008. In FY 2006, average OTP across Amtrak's long-distance routes was only 30 percent. For Amtrak's corridor routes, average OTP was much higher, but still only 67 percent (excluding the NEC). In FY 2007, the OTP of a number of long-distance routes increased substantially, but only enough to raise the average for long-distance routes to 42 percent. Through January 2008, long-distance OTP increased to 59.7 percent.

We recently reported that improving OTP to 85 percent on all routes outside the Northeast Corridor (NEC) in FY 2006 would have generated a net gain of $136.6 million for Amtrak. This total net gain includes increased Amtrak revenues of $111.4 million and reduced fuel and labor costs of $39.3 million. Revenue would increase as customers become more confident in Amtrak's ability to arrive on time. Labor expenses would be reduced in part by fewer overtime hours required to staff late trains. Fuel costs would also fall with a reduction in delays as less time would be spent idling or accelerating and decelerating. The improved OTP would also require an increase in net performance payments paid to the host railroads. We estimated these would total $14.1 million. Achieving an OTP of 75 percent outside of the NEC in FY 2006 would have generated a net gain of $122.1 million and an OTP of 100 percent would have generated a net savings of

$136.4 million. This latter estimate reflects higher performance payments that exceed the revenue increase and cost reductions.

Figure 4. Average OTP of Amtrak Routes



Source: Amtrak.

However, there is little agreement between Amtrak and the host railroads on whose track Amtrak operates regarding the cause of this poor OTP, and, therefore, no consensus on how to improve it. In work we have ongoing at the request of this subcommittee, we have found that Amtrak trains are delayed by insufficient track capacity; host railroad operating practices, including dispatching; and external factors beyond the host railroads' control, such as weather and derailments. The available data does not allow us to quantify the relative share each cause contributes to delay.

The capacity of the freight rail network is insufficient to handle the mix of fast (passenger and inter-modal freight) and slow (bulk commodity freight) trains operating according to different business models, i.e., scheduled versus unscheduled or loosely scheduled service. In this network, passenger trains frequently catch up with slower moving freight trains, or other passenger and commuter trains. In addition, most Amtrak trains outside the NEC operate over single tracks with bi-directional traffic, which requires trains to be held on sidings until they can pass each other. Capacity is also reduced by temporary speed restrictions, or slow orders.

Host railroad operating and dispatching practices also can delay Amtrak trains. Dispatch operations are focused on maintaining network fluidity, sometimes at the expense of Amtrak's OTP. It is difficult to determine how individual dispatching decisions impact delays simply by observing day-to-day dispatching operations. Nevertheless, we found certain practices intentionally delay Amtrak trains. In addition, a lack of management attention by a host railroad to Amtrak's performance can increase delays. Amtrak and the host railroads largely attribute recent OTP improvements on the *Auto Train* and other Florida services, the *California Zephyr*, *Crescent*, *Capitol Limited* and *Lake Shore Limited* trains to more focused and cooperative management efforts. Each of these root causes contributes to Amtrak's delays, often in combination with each other. As delays accumulate, it can be difficult to separate the relative impact from each other.

Disagreement also exists regarding the precise nature of Amtrak's right to "preference over freight transportation in using a rail line, junction, or crossing".[6] Amtrak views the legislation as granting an absolute right to run unimpeded on the freight network and, as such, considers all freight train interference a violation of its right of preference. In Amtrak's view, host railroads need to proactively manage operations on their rail lines to avoid interference-related delays. The host railroads we met with did not offer us a legal definition of preference, but generally viewed their responsibility to grant preference relative to their ability to manage congestion levels and maintain "fluidity" in the overall system.

We believe the issue of improving Amtrak's OTP can best be addressed through collaborative interactions between Amtrak, the host railroads, and the executive branch which balances the enforcement of rights with incentives for cooperation. The state capital matching grant program can play an important role in this effort in terms of providing an incentive to freight railroads for cooperation. In addition, the quarterly reporting requirements regarding host railroad OTP Congress established last year will also focus the Department and host railroad management's attention on this issue.

Reauthorization Remains Key to Amtrak's Long-Term Outlook

As we have testified previously, we believe that Amtrak's long-term outlook would be improved through a reauthorization that focused on three goals: (1) continuous improvements in the cost-effectiveness of services provided, (2) devolution of the power to determine those services to the states, and (3) adequate and stable sources of Federal and state funding.

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[6] Section 24308c of Title 49 of the United States Code.

Absent a reauthorization, it will continue to fall to the Appropriations Committee to maintain fiscal discipline at Amtrak while providing the tools to improve their performance. At the same time, as we reported last year in our audit of the Amtrak Board's activities, the Amtrak Board of Directors plays a key role in setting a strategic direction for Amtrak within the statutory parameters set by Congress. The previous Board set a strategic direction for Amtrak with its April 2005 *Amtrak Strategic Reform Initiatives and FY 2006 Legislative Grant Request*. However, this plan's broad long-term objectives were not fully translated into a detailed plan with outcomes, milestones, and performance measures. As a result, the Board and Amtrak management lacked a comprehensive standard against which to evaluate how Amtrak's day-to-day activities are addressing the Board's strategic vision for Amtrak.

The current Board and Amtrak management are developing a new strategic plan, which if accompanied by implementation plans, will be very helpful in guiding Amtrak's decision making.

Madam Chairman, this concludes my statement. I would be happy to answer any questions at this time.

Addendum:

The following 2 pages contain textual versions of the graphs and charts contained in this document. These pages were not a part of the original document but have been added here to accommodate assistive technology.

Figure 1:Operating and Cash Losses and Cash Balances FY 2002 - FY 2008 (Amtrak Data)

	Operating Loss	Cash Loss	Cash Balance
2002	1132	497	169
2003	1274	496	182
2004	1308	486	247
2005	1192	450	138
2006	1068	452.3	215
2007	1019	486.3	244
2008 (forecast)	1104	454.3	268.7

Figure 2: Amtrak's Passenger Related Revenues
Percentage Change in Passenger Related Revenues (from previous year) for Fiscal Year 2004 through Fiscal Year 2009 (Amtrak data)

Fiscal Year	Percent Change in Passenger Related Revenues (from previous year)
2004	3.9 %
2005	-1.1%
2006	10.1%
2007	10.5%
2008 Forecast	9.7%
2009 Forecast	4.2%

Note: The percentage change in Amtrak's passenger related revenues for Fiscal Year 2008 and 2009 are based on forecasted numbers.

Figure 3. Passenger Revenues and Ridership Fiscal Year 2002 through Fiscal Year 2007 (Amtrak data)

Year	Revenue	Ridership
2002	1.340 billion	23.3 million
2003	1.261 billion	24.0 million
2004	1.311 billion	25.0 million
2005	1.295 billion	24.0 million
2006	1.426 billion	24.3 million
2007	1.519 billion	25.8 million

Figure 4. Average On-Time Performance of Amtrak Routes FY 2001 to FY 2007 (percent)

	Fiscal Year						
	2001	2002	2003	2004	2005	2006	2007
NEC	83.76	85.52	79.29	75.78	78.17	81.00	85.51
Long-Distance	54.38	49.51	50.84	42.56	41.38	29.99	41.60
Non-NEC Corridor	73.25	75.49	75.65	73.51	70.44	67.33	65.50

Source: Amtrak
NEC: Northeast Corridor