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Report to Congressional Recipients

July 1996

AMTRAK'S STRATEGIC BUSINESS PLAN

Progress to Date

G A O

75 years 1921 - 1996

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Resources, Community, and
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Since May 1971, when Amtrak took over responsibility for operating the nation's intercity passenger trains, the federal government has provided the corporation with over $18 billion, primarily to cover annual operating losses (the difference between operating revenues and expenses, excluding federal and state subsidies) and make capital investments.[1] Despite this federal support, by 1994 Amtrak's financial and operating condition had declined to the point at which its long-term survivability was seriously threatened.[2] At the same time, federal budget considerations have been making it increasingly difficult for the Congress to provide its historic level of support. In response to this financial crisis, in 1995 Amtrak developed a Strategic Business Plan to increase revenues and cut expenses, with the goal of eliminating its need for a federal operating subsidy (i.e., achieving operating self-sufficiency) by fiscal year 2002, although Amtrak assumes that federal capital assistance would continue. Amtrak's success in implementing its Plan will go a long way toward deciding the future of intercity passenger rail service in the United States.

To assist the Congress as it determines the future of federal support for Amtrak, this report (1) describes the specific actions Amtrak plans to take and the expected results from those actions; (2) reviews Amtrak's success to date in achieving financial improvements and its progress toward realizing the longer-term goal of operating self-sufficiency; and (3) describes Amtrak's efforts in monitoring the Plan's implementation.

Background

To address its financial crisis and make its operations more efficient, in 1995 Amtrak undertook a major corporate restructuring, along with developing its Strategic Business Plan. The restructuring involved dividing Amtrak's intercity passenger service operations into three distinct operating units, called strategic business units. The Northeast Corridor Unit is responsible for operations on the East Coast between Virginia and Vermont, including high-speed Metroliner service, which currently exists between Washington, D.C., and New York and is being extended to Boston. The West Coast Unit is responsible for services in California, Oregon, and Washington. This unit operates only one long-distance

[1]If inflation is taken into account, Amtrak has received over $29 billion in real 1995 dollars since 1971.

[2]Intercity Passenger Rail: Financial and Operating Conditions Threaten Amtrak's Long-Term Viability (GAO/RCED-95-71, Feb. 6, 1995).

passenger train, and many of its services, especially in California, receive state financial support. Finally, the Intercity Unit provides the remainder of the nation's intercity rail passenger service, including most of the long-distance, cross-country trains. Each strategic business unit develops its own plan and manages its own operations, although under the direction of the corporate parent in Washington, D.C., which also provides business services, such as legal support.

Results in Brief

To eliminate the need for federal operating assistance by fiscal year 2002, Amtrak plans to reduce its annual operating loss to about $180 million by fiscal year 2001, an amount that Amtrak plans to fund primarily from other sources, including state and local contributions. Amtrak plans to almost double revenues, while holding cost increases to less than 20 percent through fiscal year 2001 to achieve its planned savings.[3]

Amtrak's actions reduced its 1995 operating loss by $171 million from what it was projected to be if operations had continued unchanged. This reduction was $3 million less than planned. The service reductions and eliminations, reductions of management staff, fare increases, and other changes made in fiscal year 1995 are projected to yield annual savings of $315 million beginning in fiscal year 1996. In fiscal year 1996, Amtrak planned additional actions to reduce its operating loss by $61.6 million in addition to the $315 million savings generated in 1996 by its fiscal year 1995 actions. However, after two quarters of operations in fiscal year 1996, revenues are below target and expenses are higher than planned because of the severe winter weather, and Amtrak has reduced its goal from $61.6 million to $5.2 million.[4] Overall, Amtrak reduced its operating loss about 29 percent through its fiscal year 1995 actions. If Amtrak meets this new lower goal, the operating loss will drop by less than 1 percent more.

While Amtrak has made progress during the first 18 months that the Strategic Business Plan has been in place, it is too early to forecast if the corporation will achieve the long-term goal of operating self-sufficiency. Meeting that goal is predicated on several critical assumptions, including continued federal capital support, which entails full funding to implement high-speed rail service between New York and Boston; large revenue

[3]Twenty percent is less than Amtrak's expected rate of inflation for its costs over the same time period. Therefore, Amtrak is forecasting that its costs will decrease in real terms.

[4]In April and May 1996, the first 2 months of the third quarter, Amtrak's expenses continued to rise and revenues again fell short of those included in the Plan. Amtrak plans to compensate for most of these problems, but it does expect that projections based on third quarter results will include an increased operating loss.

increases; improvements in productivity that require negotiations with Amtrak's labor unions; and increased state support. For example, $5.5 billion in capital investment is required by fiscal year 2001, $3.2 billion of which is expected to come from federal grants, and the balance from increased passenger revenues and state contributions.

The Northeast Corridor and Intercity units are monitoring the implementation of the specific actions outlined in the Strategic Business Plan; the West Coast Unit focuses on whether it is operating within its budget and relies on its managers to monitor the implementation of the individual actions for which they are responsible. The units report monthly to the parent corporation, which reviews the results and prepares corporationwide monthly and quarterly reports. This information will be critically important to the Congress as it evaluates Amtrak's progress toward operating self-sufficiency and determines the amount of capital and operating funds to provide to the corporation.

Amtrak Plans to Increase Revenues and State Support and Control Costs to Eliminate Need for Federal Operating Subsidy

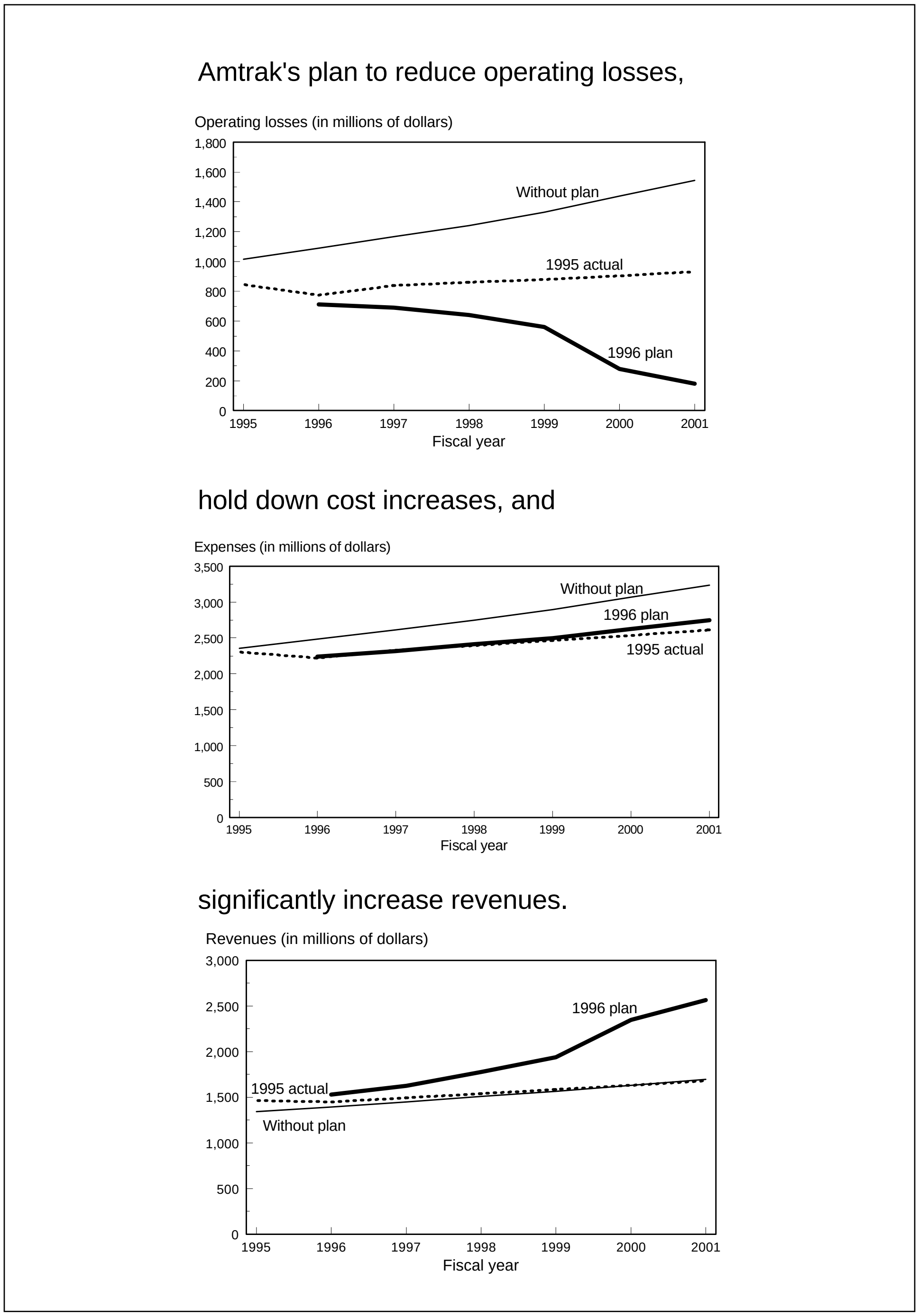
To eliminate the need for a federal operating subsidy, Amtrak plans to increase revenues, hold down costs, and increase state contributions. Amtrak's projected annual operating loss is to be reduced to $180 million in fiscal year 2001[5] in part by increasing revenues from $1.461 billion in fiscal year 1995 to $2.565 billion in fiscal year 2001.[6] During this same period, expenses are planned to increase less than 20 percent, from $2.305 billion to $2.745 billion. Increasing the portion of costs borne by each state for the services they support financially is planned to increase state funding from $36 million in fiscal year 1995 to $132 million in fiscal year 2001.

Figure 1 shows Amtrak's financial projections for reducing operating losses, holding down cost increases, and increasing revenues. In each instance, the figure presents Amtrak's financial projections based on what would occur if (1) Amtrak took no actions to address its financial condition (i.e., if it had not taken any actions in fiscal year 1995); (2) Amtrak took no further actions to improve its financial condition after fiscal year 1995; and (3) Amtrak successfully implements its Plan in fiscal year 1996 and beyond. Tables 1 through 3 show the specific amounts for each projection for each fiscal year.

[5]Over the past few years, Amtrak's operating loss, adjusted for nonrecurring charges, had been about $800 million annually. If Amtrak had not taken action to address its financial condition, it estimates that its operating loss in fiscal year 2001 would have been $1.542 billion.

[6]All revenue and expense figures are in future year dollars and are adjusted for inflation.

Figure 1: Amtrak's Financial Projections for Reducing Operating Losses, Holding Down Cost Increases, and Increasing Revenues, Fiscal Years 1995-2001



Notes: Without plan: Projections based on actual fiscal year 1994 results (before the Strategic Business Plan was developed). 1995 projected: Projections based on actual fiscal year 1995 results if no further improvements were made. 1996 plan: Projections based on successful implementation of the Strategic Business Plan in fiscal year 1996 and beyond.

Table 1: Operating Losses (Fiscal Years 1995-2001)

Dollars in millions

	1995 (actual)	1996	1997	1998	1999	2000	2001
Without plan	($1,014.5)	($1,089.7)	($1,166.1)	($1,240.7)	($1,330.7)	($1,437.4)	($1,542.1)
1995 projected	($843.8)[a]	($773.9)	($839.2)	($859.6)	($880.1)	($904.4)	($930.9)
1996 plan		($712.3)	($690.4)	($642.0)	($562.3)	($278.8)	($180.3)

[a]This amount takes into account $30 million from accelerating the revenues from a prior sale of tax benefits. Without these revenues, the fiscal year 1995 operating loss would have been $876.8 million.

Table 2: Revenues (Fiscal Years 1995-2001)

Dollars in millions

	1995 (actual)	1996	1997	1998	1999	2000	2001
Without plan	$1,339.6	$1,393.2	$1,448.9	$1,506.9	$1,567.1	$1,629.8	$1,695.0
1995 projected	$1,461.3[a]	$1,449.6	$1,493.1	$1,537.9	$1,584.0	$1,631.5	$1,680.5
1996 plan		$1,530.9	$1,625.5	$1,776.2	$1,935.7	$2,346.1	$2,564.8

[a]This amount includes $30 million from accelerating the revenues from a prior sale of tax benefits, without which the revenues would have been $1.4309 billion.

Table 3: Expenses (Fiscal Years 1995-2001)

Dollars in millions

	1995 (actual)	1996	1997	1998	1999	2000	2001
Without plan	$2,354.1	$2,482.9	$2,615.0	$2,747.6	$2,897.8	$3,067.2	$3,237.1
1995 projected	$2,305.1	$2,223.5	$2,332.3	$2,397.5	$2,464.1	$2,535.9	$2,611.4
1996 plan		$2,243.2	$2,315.9	$2,418.2	$2,498.0	$2,624.9	$2,745.1

Amtrak's ambitious plan to almost double revenues by 2001 includes several actions intended to attract more riders and increase the revenue generated by each passenger. Marketing efforts and fare increases are the bases for increasing passenger revenues. In fiscal year 1996, a $15 million advertising investment is projected to generate an additional $35 million in revenues, and fare increases are planned to generate almost $16 million in additional revenues. Other revenue-generating plans include increasing (1) the amount of service Amtrak provides under commuter rail service contracts (adding almost $9 million in fiscal year 1996), (2) reimbursable work for state departments of transportation and others (adding $16.5 million in fiscal year 1996), and (3) mail and express service (adding almost $10 million in fiscal year 1996).

Amtrak plans to control expenses through productivity improvements, operating efficiencies, and selective restructuring of routes and services. For example, Amtrak plans to save $15 million in fiscal year 1996 by better matching equipment to service needs. It also plans to reduce costs by $4 million in fiscal year 1996 by improving the productivity of Amtrak's reservations office. Improving price negotiations, specifications, and other aspects of the procurement of goods and services is projected to generate $56.9 million in savings in fiscal year 1996.

The increase in state contributions is expected to occur as Amtrak shifts an increasing portion of the costs of state-sponsored rail services to the states. Currently, the states pay only a portion of the costs, but Amtrak is increasing the portion annually and plans to receive 100 percent of these costs from the states by fiscal year 1999. State contributions are planned to almost double from $36 million in fiscal year 1995 to $67.4 million in fiscal year 1996 as this transition begins.

Amtrak Generally Met Financial Targets for Fiscal Year 1995 but Is Projecting to Be Overbudget in Fiscal Year 1996

In fiscal year 1995, the first year under its Strategic Business Plan, Amtrak reduced its operating loss from the $1.0145 billion projected without the implementation of the Plan to $843.8 million, or by $171 million,[7] which was about $3 million less than it had planned. The fiscal year 1995 savings resulted primarily from reducing and eliminating some routes and services ($54.2 million), cutting management positions ($30 million), and raising fares ($23.5 million); all of these amounts exceeded what was projected in the Plan. Retiring older equipment and negotiating productivity improvements with labor, which were planned to reduce the operating

[7]This includes $30 million from accelerating the revenues from a prior sale of tax benefits. Without these revenues, the operating loss in fiscal year 1995 would have been about $877 million.

loss by $11 million and $26 million, respectively, were elements of the Plan that were not successfully implemented. Because the states elected to "buy back" some of the services Amtrak had planned to eliminate, the corporation was not able to achieve its planned cost savings from retiring some of its oldest equipment that is used on these routes. To date, Amtrak has made little progress in negotiating new productivity improvements, such as reducing the size of its train crews, with its labor unions. Amtrak currently is purchasing new equipment so that it can retire the older equipment and has proposed legislation for contracting out and for negotiating new labor agreements. Amtrak has compensated for the savings the originally anticipated actions were to have generated.

Amtrak projects that the fiscal year 1995 actions will reduce the operating loss by $315 million beginning in fiscal year 1996 as the changes made during fiscal year 1995 are in place and accruing savings for a full year. The Plan included actions to reduce the fiscal year 1996 operating loss by an additional $61.6 million by increasing revenues $81 million while holding expenses to a net increase of only $19.8 million.[8] Thus, the operating loss was to have been reduced from $1.0897 billion projected without the implementation of the Plan to $712.3 million, but on the basis of second quarter results, Amtrak revised its fiscal year 1996 projection in April 1996. The revised projected operating loss is $768.7 million. The $56.4 million shortfall from the projected operating loss shown in table 1 was primarily due to the severe winter weather in fiscal year 1996.

West Coast and Northeast Corridor Units Are Meeting or Nearly Meeting Goals, but the Intercity Unit Is Not

The results for each strategic business unit vary. The West Coast and Northeast Corridor units both exceeded their fiscal year 1995 planned savings and are projected to meet or nearly meet their fiscal year 1996 targets. In contrast, the Intercity Unit did not meet its planned reduction in its fiscal year 1995 operating deficit by $41.7 million and is projected to end fiscal year 1996 $19.4 million overbudget. Thus, the Intercity Unit—responsible for the bulk of Amtrak's services and projected improvements—has been substantially overbudget in both years. Table 4 shows the planned and actual revenues, expenses, and operating losses for each unit.

[8] Amtrak was to incur $187.9 million in additional expenses, but productivity improvements were to reduce expenses by $107.9 million, and other actions were to reduce expenses by an additional $60.2 million.

Table 4: Strategic Business Units' Planned and Actual Revenues, Expenses, and Operating Losses, Fiscal Years 1995-96

Dollars in millions

	Fiscal year 1995			Fiscal year 1996		
	Revenues	Expenses	Operating losses	Revenues	Expenses	Operating losses
West Coast Unit						
Planned	$110.8	$239.3	($128.5)	$145.4	$272.4	($127.0)
Actual[a]	$130.5	$253.0	($122.5)	$144.2	$268.3	($124.1)
Northeast Corridor Unit						
Planned	$739.2	$961.1	($221.9)	$894.2	$1,028.0	($133.8)
Actual[a]	$827.4	$1,046.7	($219.3)	$876.8	$1,019.5	($142.7)
Intercity Unit						
Planned	$419.5	$594.5	($175.0)	$478.4	$688.7	($210.3)
Actual[a]	$456.3	$673.0	($216.7)	$464.6	$694.3	($229.7)

[a]The fiscal year 1996 figures are those currently projected on the basis of results through the second quarter.

The West Coast Unit, which operates commuter service along several routes as well as intercity service in and between California, Oregon, and Washington, had the smallest share of Amtrak's services and costs and the smallest target for fiscal year 1995 savings ($13 million). The West Coast Unit is expanding its services in fiscal year 1996, which will increase its operating deficit slightly for fiscal year 1996 but result in future savings if the projected ridership and revenues materialize. The West Coast Unit is focusing on increasing the amount of commuter service it provides under contract and on aggressive marketing and pricing strategies to reduce its share of the operating loss. Although ahead of the Plan's projections in the first half of fiscal year 1996, the West Coast Unit is now projecting a $2.9 million budget shortfall for year's end because of lost revenues and increased costs caused by the severe winter weather.

In fiscal year 1995, the Northeast Corridor Unit, which generated more than 55 percent of Amtrak's passenger revenues while incurring 45 percent of Amtrak's expenses, reduced its operating loss $2.6 million more than planned. After the first two quarters of fiscal year 1996, the Northeast Corridor's operating loss is higher than planned, but specific actions, such as productivity improvements in the mechanical shop, are under way to largely compensate for this by the year's end. However, the future success of the Northeast Corridor depends on the availability of capital to make the investments necessary to complete the electrification of the line and introduce high-speed (maximum speed of 150 mph) rail service between Boston and New York City by fiscal year 2000 and to rebuild the southern end of the corridor between Washington, D.C., and New York, which is in a serious state of disrepair.

In contrast, the Intercity Unit—which is the heart of the nationwide intercity network responsible for more than 80 percent of Amtrak's total route miles of service—was $41.7 million overbudget in fiscal year 1995. For fiscal year 1996, the Intercity Unit is not meeting its portion of the Plan's goal and after two quarters is projecting a year-end operating loss $19.4 million over its budget. For fiscal year 1995, the Plan had assumed that more than a dozen of the Intercity Unit's routes would be eliminated or subject to service reductions. But many of the proposed eliminations or reductions were "bought back" by the states in which the routes are operated, increasing the Intercity Unit's operating loss in fiscal year 1995 because the states did not fund 100 percent of the costs of these routes and services. However, the "buybacks" only account for about $10 million of the Unit's $41.7 million fiscal year 1995 budget overrun and are not a factor in the projected fiscal year 1996 shortfall because the Plan took them into account for this fiscal year. The Intercity Unit has experienced several unanticipated problems, including a high turnover of senior management, which has interrupted the Plan's implementation several times; unexpected declines in ridership as a result of fare increases; and, in fiscal year 1996, the severe winter weather that reduced ridership and increased operating costs.

Amtrak Still Has a Long Way to Go to Meet Long-Term Goals

Even though Amtrak as a whole reduced its annual operating loss by $171 million in the first year of the Strategic Business Plan, significant improvements are necessary in the remaining 5 years of the Plan for the corporation to meet its longer-term goal of operating self-sufficiency. Although Amtrak reduced its operating loss as planned in fiscal year 1995, it will not achieve its original goal for fiscal year 1996. Additionally, the future-year projections are based on several critical assumptions that may not be realized, including continued federal capital support; the introduction of high-speed rail service in the Northeast Corridor and concurrent revenue increases; improvements in productivity that require negotiations with Amtrak's unions; and increased state operating support.

To date, Amtrak has been relatively successful at reaching its financial targets by compensating for planned actions that have not materialized. For example, revenues from contracts to provide commuter rail service increased 70 percent more than planned, improved productivity for track maintenance generated 75 percent more savings than planned, and the management staff was reduced 12 percent more than planned. However, Amtrak has reduced its operating loss by about 29 percent through its fiscal year 1995 actions. Even if it were fully successful in implementing the fiscal year 1996 actions, it would reduce the operating loss by only an additional 8 percent—and second quarter revisions reduce this projection to less than 1 percent. If no further actions were taken, Amtrak would still have an operating loss in excess of $850 million in fiscal year 2001. Therefore, to meet its goal of eliminating the need for a federal operating subsidy by fiscal year 2002, Amtrak still needs to substantially increase revenues and significantly improve productivity after fiscal year 1996.

Assumptions About the Availability of Capital Are Key to Amtrak's Achieving Its Goals

The most important factor underpinning Amtrak's program for achieving its longer-term goal of operating self-sufficiency is that capital funds must be available so that it can make the investments needed to provide attractive and competitive services and thereby significantly increase its revenues. Amtrak plans to invest $5.5 billion by fiscal year 2001 in its systems, equipment, and facilities—$3.2 billion of which is expected to come from federal capital grants. Amtrak's fiscal year 1996 federal capital grant was $345 million, which slightly exceeded the amount anticipated in its Plan, but in future years Amtrak's Plan anticipates significantly increased federal capital assistance to allow it to introduce high-speed rail service in the Boston-New York market, bring the Northeast Corridor as a whole to a state of good repair, and upgrade services on other routes.

Most of the remaining capital needs are to be met through greater state contributions, increased passenger revenues, and the proceeds from the Northeast Corridor Unit's planned Power Partnership.[9] These additional moneys are critical to Amtrak as a whole because they are necessary to support the corporation's planned capital investments in the Northeast Corridor and elsewhere. Revenues have increased 6 percent since fiscal year 1994, and state shares for state-sponsored services are projected to double by fiscal year 1996; but the largest revenue increases are projected to result from electrification and the introduction of high-speed rail service from Boston to New York in fiscal years 2000 and 2001. These improvements alone are projected to increase Amtrak's total passenger revenues by 21 percent in fiscal year 2000.

[9]The Power Partnership involves Amtrak's generating revenues and reducing its own utility costs by purchasing, transmitting, and distributing electrical power.

Though Amtrak did not receive the federal legislative authority that would have allowed it to become a utility broker, it is working state by state to obtain the authority to market electricity carried over its lines, and it continues to project revenues from the Power Partnership. Even though the Power Partnership is not yet in place, the Northeast Corridor Unit estimates that it or other commercial projects will generate $100 million in fiscal year 1997. The unit has not provided any information to support this projection or to demonstrate a backup plan for generating the $100 million, which is already committed to capital improvements.

Monitoring the Plan's Implementation Is Important

Top management at the Northeast Corridor and Intercity units is systematically monitoring whether specific actions in the Strategic Business Plan are implemented and meeting financial targets; the West Coast Unit's senior management monitors whether it is operating within its budget and delegates to its department directors the monitoring of whether specific actions have been successfully taken.

The Northeast Corridor Unit has established a database that includes the specific actions to be taken, such as introducing self-service ticketing and reducing management staffing, and the monthly projected and actual financial results of each action. This system, supplemented with status reports on individual actions, is used by senior management to monitor the unit's progress, identify any problems early on, and develop ways to compensate for actions that are not generating the expected results. The Intercity Unit recently implemented a similar system for monitoring the implementation of specific actions, although financial results are not determined for each. The Intercity Unit's monitoring system focuses on the actions developed to address the fiscal year 1996 projected shortfall (based on the second quarter results) and is also being used to document whether planned actions were actually taken in fiscal year 1995 and the first two quarters of fiscal year 1996. The West Coast Unit's senior management uses monthly financial and performance reports to monitor whether it is within its budget; department directors are responsible for implementing the Plan's actions within their jurisdiction and for reporting any problems associated with these actions. Each strategic business unit reports its results monthly to the corporate level, where the results are verified and consolidated into corporationwide monthly and quarterly reports.

Amtrak's success to date in implementing the Strategic Business Plan provides the Congress with a framework for determining the level of capital and operating funds Amtrak will receive. Amtrak's future progress in implementing its Plan could be critical in determining the continued availability of intercity passenger rail service in the United States and the level of federal support necessary to maintain this service.

Agency Comments and Our Evaluation

We provided copies of a draft of this report to Amtrak for its review and comment. We met with Amtrak officials—including the Chief Financial Officer and the Vice President for Government and Public Affairs—who provided comments. Amtrak agreed with the information presented and the observations made throughout the report and considered it a well-prepared, balanced report. Technical comments provided by Amtrak have been incorporated where appropriate.

Scope and Methodology

To identify the actions Amtrak plans to take to improve its financial condition, review its progress to date towards achieving improvements and its longer-term goal of operating without a federal operating subsidy, and describe its monitoring of the Strategic Business Plan's implementation, we obtained and analyzed data from Amtrak. These data included Amtrak's Strategic Business Plan and the business plans for each unit; internal monitoring reports; and public monthly, quarterly, and annual reports. We also conducted interviews with Amtrak officials at the Northeast Corridor Unit in Philadelphia, Pennsylvania; the Intercity Unit in Chicago, Illinois; the West Coast Unit in Los Angeles and San Francisco, California; and corporate headquarters in Washington, D.C.

We conducted our review from September 1995 through June 1996 in accordance with generally accepted government auditing standards. We did not independently verify the accuracy of the data provided by Amtrak.

We are sending copies of this report to the Secretary of Transportation; the President, Amtrak; and interested congressional committees. Copies are available to others upon request and are available via the Internet.

Major contributors to this report are listed in appendix I. Please contact me at (202) 512-2834 if you or your staff have any questions.

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