



U.S. House of Representatives
Committee on Transportation and Infrastructure

Washington, DC 20515

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MEMORANDUM

TO: Members, Committee on Transportation and Infrastructure

FROM: Staff, Committee on Transportation and Infrastructure

SUBJECT: Oversight Hearing on "A Review of Amtrak Operations, Part I: Mismanagement of Food & Beverage Services"

PURPOSE

The Committee on Transportation and Infrastructure will meet on Thursday, August 2, 2012, at 10 a.m. to receive testimony on Amtrak's food and beverage operation. Specifically, the hearing will investigate the monetary losses associated with Amtrak's food and beverage operations; examine management deficiencies identified by the Amtrak Office of Inspector General in reviewing Amtrak's food and beverage operations; and explore best practices and alternative options for improving the cost-effectiveness and quality of food and beverage service aboard Amtrak trains.

BACKGROUND

Current Amtrak Food and Beverage Service

In January 1999, Amtrak executed an agreement with Dobbs International Services, Inc., for the management of its commissary, logistics and supply chain operations for food and beverage services. This agreement governed only the provision of food and beverage supplies for Amtrak's on-board operations. The sale of items aboard trains is performed by Amtrak employees. Gate Gourmet International, Inc subsequently acquired Dobbs and renegotiated the contract in 2006. In 2009, Amtrak conducted an open competition for food and beverage services and awarded it to Aramark. The contract term was for five years with two options for two additional years. Amtrak service agents continue to provide on-board food service to passengers.

Amtrak provides various levels of food and beverage service ranging from snack/beverage services in lounge cars to full meals in dedicated dining cars. Prior to competing out its food and beverage service operations, Amtrak had acquired supplies and provided food and beverage services through Amtrak's own commissaries. As a result of the contract, Amtrak has outsourced its procurement of food and beverage stock as well as service supplies. In addition to procuring and delivering this stock, Aramark manages, operates, and maintains the 10 Amtrak-owned commissary facilities throughout the country.

Amtrak 10-Year Food and Beverage Operations Financial Performance

In millions of nominal dollars

FY	Total Revenue	Total Expenses	Net F&B Loss	Labor Expenses	Labor Expenses as a % of Total Expenses
2002	84.1	164.5	80.4	83.8	50.9%
2003	78.4	158.8	80.4	83.3	52.5%
2004	80.4	164.2	83.8	89.2	54.3%
2005	90.9	181.4	90.5	98.3	54.2%
2006	88.3	180.7	92.4	96.3	53.3%
2007	94.5	177.6	83.1	92.1	51.9%
2008	102.6	184.0	81.4	97.0	52.7%
2009	106.4	181.3	74.9	100.0	55.2%
2010	109.3	191.7	82.4	108.0	56.3%
2011	121.5	206.0	84.5	117.0	56.8%

Source: 2002-2005 Government Accountability Office unaudited estimates, 2006-2011 Amtrak

The Statutory Framework

Requirement to "Break Even" and Authority to Contract Out Food and Beverage Services

Under Amtrak's general authorities listed in section 24305 of title 49, United States Code, "Amtrak may...provide food and beverage services on its trains only if revenues from the services each year at least equal the cost of providing the services." (49 U.S.C. §24305(c)(4)) This provision was first added to the code as part of the Amtrak Improvement Act of 1981 to eliminate the deficit in Amtrak's onboard food and beverage operations by September 30, 1982. Therefore, for nearly 30 years, Amtrak has been statutorily banned from providing food and beverage services unless its costs at least equal its revenues of providing the services.

Contracting Authority

Amtrak has the authority to contract out its food and beverage services and that right has been preserved by Congress. Prior to 1997, Amtrak's statute contained a number of contracting bans, but did not include a ban for contracting out food and beverage services. In 1997, section 121 of the Amtrak Reform and Accountability Act of 1997 repealed prior restrictions on contracting out various functions of Amtrak (49 U.S.C. 24312(b)), and devolved all such issues to the collective bargaining process, with the exception of work related to food and beverage service. The 1997 legislation made specifically clear in section 121(d) that: "The amendment

made by subsection (a)(1) is without prejudice to the power of Amtrak to contract out the provision of food and beverage services on board Amtrak trains....”

Passenger Rail Investment and Improvement Act of 2008 (PRIIA)

In 2008, Congress passed PRIIA to, among other things, reform Amtrak’s operations. Section 209 of PRIIA directs the Amtrak Board, in consultation with the Secretary of the Transportation, to develop and implement a single methodology for allocating operating and capital costs among States and Amtrak for the 27 Amtrak routes for which States provide financial support, i.e., state-supported routes. The Section 209 cost-allocation methodology goes into effect on October 1, 2013. It will require States to reimburse Amtrak for the operational costs of providing the service, including food and beverage service, on those routes. As States take on the full financial responsibility for these routes, they will also have the flexibility to determine who should provide the food and beverage service on those routes. Some States, namely Maine and North Carolina, already provide food and beverage services on their own. While North Carolina’s Piedmont service provides vending services, the Maine’s Downeaster contracts food and beverage services out. The Committee will hear from Maine regarding its experience having food and beverage services provided by a private company.

Recent Legislative Proposals

American Energy & Infrastructure Jobs Act (H.R. 7)

On February 3, 2012, the Committee on Transportation and Infrastructure reported a 5-year surface transportation authorization bill, H.R. 7, which included a rail title. Section 8106, Amtrak Food and Beverage Service, required the Federal Railroad Administration to request competitive proposals for the provision of food and beverage services on Amtrak trains. A winning bid was to be selected based on lowest cost and the greatest revenue to Amtrak. This provision was based on legislation introduced by Rep. Jean Schmidt, the Amtrak Food and Beverage Service Savings Act (H.R. 3362). H.R. 7 was favorably reported by a vote of 29-24.

Amtrak Inspector General’s Report on Food and Beverage Operations

In June 2011, the Amtrak Inspector General issued report E-11-03 entitled “Food and Beverage Service: Further Actions Needed to Address Revenue Losses Due to Control Weaknesses and Gaps.” The report examines Amtrak’s performance of food and beverage service operations, specifically internal control weaknesses that allow for waste, fraud, and abuse. The report identifies opportunities to improve its operation effectiveness thereby reducing Amtrak’s reliance on federal subsidies.

The Amtrak Inspector General’s report found that Amtrak food and beverage operations contained vulnerabilities that allowed certain Lead Service Agents to falsify documents in order to hide stolen cash or inventory. Between March 2003 and January 2010, the Amtrak Inspector General identified 903 theft, dishonesty, and policy/procedure violations by 306 LSAs, and issued 447 administrative referrals to Amtrak managers. Schemes included:

1. Inflating first-class meal checks
2. Selling complimentary items
3. Selling non-Amtrak items
4. Shorting cash register sales
5. Stealing Inventory
6. Providing items at no cost

The nature of these crimes are difficult to measure, however, restaurant-industry estimates of losses for a typical independent restaurant due to theft range from four to seven percent of sales. At these levels Amtrak's on-board food and beverage sales could be at risk of theft for between \$4 million and \$7 million annually.

The Amtrak Inspector General recommended establishing a pilot project of cashless food and beverage sales on selected routes and trains, establishing a loss prevention unit, and implementing a plan to address the control weaknesses and gaps.

GAO Review of Food and Beverage Operations

In 2005, at a hearing before the Subcommittee on Railroads, Pipelines and Hazardous Materials of the Committee on Transportation and Infrastructure, GAO testified that from 2002 to 2004 Amtrak food and beverage expenses were \$487 million while food and beverage revenues were approximately \$243 million. GAO testified that Amtrak spent two dollars for every dollar it received in revenue.

Best Practices and Contract Renewal

Finally, both the Amtrak Inspector General and General Accountability Office have found that Amtrak does not utilize industry best practices in its food and beverage operations and needs to dramatically change how it delivers those services to the traveling public. According to both the Amtrak IG and GAO, Amtrak needs to determine the best practices that are appropriate for Amtrak's operations, and implement them. Additionally, Amtrak must reform its Food and Beverage management to address its fragmented leadership.

WITNESSES

Joseph Boardman
President
Amtrak

Mr. Ted Alves
Inspector General
Amtrak Office of Inspector General

Ms. Patricia Quinn
Executive Director
Northern New England Passenger Rail Authority

Dwayne Bateman
Amtrak Food and Beverage Employee