

**ASSESSMENT OF AMTRAK'S 2003 AND
2004 FINANCIAL PERFORMANCE AND
REQUIREMENTS**

National Railroad Passenger Corporation

Report Number: CR-2005-013

Date Issued: November 18, 2004



Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: INFORMATION: Assessment Report on
Amtrak's 2003 and 2004 Financial Performance
and Requirements
Report No. CR-2005-013

Date: November 18, 2004

From: Kenneth M. Mead
Inspector General

Reply to
Attn. of: J-1

To: The Secretary

This report presents the results of our assessment of Amtrak's 2003 and 2004 financial performance and requirements. The objective of the assessment was to evaluate Amtrak's current financial condition and the status of its capital plans and programs.

We provided a draft of this report to Amtrak and its Board of Directors, and their comments have been incorporated, as appropriate. We also considered a letter from Amtrak's President and Chief Executive Officer, Mr. Gunn, dated October 4, 2004, commenting on our report (see Appendix). Although agreeing with our assessment of the critical state of infrastructure renewal at Amtrak, Mr. Gunn stated "that it will not be possible [for Amtrak] to live within a \$1.2 billion appropriation without deferring essential capital investment once again." This was in response to our observation that Amtrak received a Federal appropriation of \$1.2 billion in fiscal year 2004 and funding proposed by the House and Senate for fiscal year 2005 is \$900 million and \$1.2 billion, respectively.

When Mr. Gunn assumed management of Amtrak in 2002, he implemented a strategy of maintaining and rebuilding the existing Amtrak system. However, due to insufficient revenue from passengers, state contributions, and Federal subsidies, this approach required further deferral of needed capital investment. While this may have appeared reasonable for a short period of time with the expectation that reauthorization would validate Amtrak's strategy and was just around the corner, after more than 2 years, this approach is no longer workable. Unsustainably large operating losses, poor on-time performance, and increasing levels of deferred

infrastructure and fleet investment are a clarion call to the need for significant changes in Amtrak's strategy. Continued deferral brings Amtrak closer to a major point of failure on the system but no one knows where or when such a failure will occur. Amtrak's management must find ways to reduce its need for operating subsidies and set better priorities for its capital dollars. For instance, programming millions of scarce capital dollars for fixing long-distance sleeper cars when bridges that Amtrak owns are beyond their functional and economic lives and must be refurbished or replaced is unacceptable.

Since it appears that Amtrak's management plans to continue operating the status quo system, Congress needs to provide clear direction for Amtrak's operating and capital investment priorities as well as Federal funding levels in reauthorization legislation. Such direction could take a variety of forms including (1) a requirement to focus development on corridors where passenger rail service can make economic sense, (2) decreased funding and elimination of certain operations, (3) increased funding for further development of the existing system, (4) maintaining and funding the existing system, and (5) any combination of the above.

In the meantime, Amtrak's Board of Directors should exert its prerogatives and direct management to reduce its reliance on operating subsidies and minimize further deferral of critical capital investment. We note that Amtrak's Board recently took two actions in this area. The Board directed management to prepare a budget assuming a \$1.2 billion Federal subsidy. The Board also directed management to move repairs to the Thames river bridge to the top of the list of capital spending projects. If these actions are not successful, the Department should impose conditions, in accordance with the law, for awarding Amtrak's fiscal year 2005 operating and capital grants.

In this regard, we note that in Amtrak's appropriations for fiscal years 2003 and 2004, Congress provided new guidelines for administering grants to Amtrak. The essential design of these oversight guidelines was to strengthen financial accountability of Amtrak and required, among other things, Department approval of Amtrak's detailed operating and capital plans.

RESULTS IN BRIEF

Operating and Cash Loss. Amtrak's 2003 operating loss increased by \$144 million more than 2002 levels to \$1.3 billion, and its cash loss increased by

\$13 million to an overall loss of \$644 million. Through June 2004,¹ Amtrak's total operating and cash losses were \$945 million and \$495 million, respectively. In fact, Amtrak's cash loss has exceeded \$500 million in each of the last 10 years and is projected to do so for the foreseeable future. This is a system that, except for a handful of routes, continues to suffer operating losses on all services offered.

Although Amtrak has made progress in controlling the growth in expenses and ridership has increased to record levels, Amtrak has not been able to increase revenues enough to reduce its cash loss. For example, total revenues exceeded \$2 billion in 2003 on ridership of 24.0 million. Total operating expenses declined \$11 million between 2002 and 2003, but they were still over \$3.4 billion. It is clear Amtrak cannot save its way to financial health.

The bottom line is that the existing system is not sustainable at current funding levels, and corridor development (in addition to the Northeast Corridor) cannot progress in any meaningful way until reauthorization legislation is enacted. The corridors are the sources of greatest potential passenger benefits. They will go largely undeveloped as a viable alternative to congested roads and airports until a consensus is reached on Amtrak's role and on the direction of the nation's future passenger rail system, as well as the means to achieve them.

Amtrak's Investment Choices. Amtrak's funding was authorized through December 2002. Since that time Amtrak has operated under continuing resolutions and single year appropriations. Without clear direction from the Congress, Amtrak has taken the position that it should essentially maintain the status quo. However, given the level of income from passengers, state contributions, and Federal subsidies, that decision has resulted in a form of Russian roulette, spreading capital much too thinly and substantially increasing the amount of deferred investment. Examples of some of the capital projects that have been deferred include interlockings, bridges, and tunnels that are well beyond their economic life, as well as 125 cars and 43 locomotives that are unavailable for service. Continued deferral brings Amtrak closer to a major point of failure on the system but no one knows where or when such a failure will occur.

Reauthorization Options and FY 2005 Funding Level. Amtrak cannot continue to defer capital investment with the hope that reauthorization will eventually provide sufficient additional funding to operate the entire system in the manner Amtrak desires. Reauthorization could take a variety of forms including (1) a

¹ This assessment report covers Amtrak's financial and operating results through the first 3 quarters of fiscal year 2004. Just within the last few days, Amtrak made available its preliminary, unaudited results for the entire fiscal year 2004. Amtrak reported fiscal year 2004 operating and cash losses of \$1.3 billion and \$635 million, respectively. These results are similar to the losses reported for fiscal year 2003. We will include an analysis of Amtrak's audited 2004 results in our next report.

requirement to focus development on corridors where passenger rail service can make economic sense, (2) decreased funding and elimination of certain operations, (3) increased funding for further development of the existing system, (4) maintaining and funding the existing system, and (5) any combination of the above. Given that Amtrak is reliant on the United States Treasury for a significant portion of its revenues, Congress and the Administration must make those decisions in the course of reauthorization.

Based on funding proposed by the House and Senate for fiscal year (FY) 2005 of \$900 million and \$1.2 billion, respectively, and because there is no authorization for Federal funding in 2005, it seems likely that Amtrak will receive substantially less Federal funding than its request of \$1.8 billion. Because of this probable funding shortfall, Amtrak's Board should request that Amtrak management prepare a budget that does not increase its already substantial deferred capital requirements, but provides for the operation of the railroad, consistent with its likely appropriation and other available funds. Amtrak's Board provisionally approved a budget for \$1.5 billion, which is still in excess of its likely appropriation, but Amtrak's management has agreed to develop a contingency plan for Federal funding of \$1.2 billion on direction from the Board.

Ridership, Revenue, and On-Time Performance

Amtrak's systemwide ridership increased to record levels in 2003, reaching 24 million passengers. However, operating revenues decreased by more than \$155 million since 2002 and passenger-related revenue in 2003 was \$76 million less than in 2002. These decreases occurred primarily because of promotional fares and selected fare reductions on the long-distance trains as well as the termination of the commuter contract with the Massachusetts Bay Transit Authority (MBTA) in June 2003. Ridership on the Northeast Corridor fell 1.6 percent from 2002 through 2003, which also contributed to the reduced revenues. Through the first three quarters of 2004 (ending June 30), ridership was up 5.7 percent and passenger-related revenue was up 5.6 percent above 2003 levels, both slightly better than Amtrak's forecast.

The 2004 increase in passenger related revenue over 2003 is threatened, however, by the persistent unreliability of service. Systemwide on-time performance was 71.8 percent through June 2004, a slide from 74.1 percent for 2003. The on-time performance of Acela Express for 2003 was a dismal 70.7 percent, a decline of 8.6 percent from 2002 levels. Through June 2004, the reliability of Acela Express improved only slightly to 74.7 percent with average delays of 54 minutes. This poor performance is far short of Amtrak's stated on-time performance goal of 94 percent, and unacceptable for Amtrak's premier service.

Expenses, Operating Loss, and Cash Loss

Total operating expenses declined \$11 million in 2003 from 2002. Amtrak deserves credit for halting the upward spiral in expenses, which increased an average of 6.2 percent a year between 1993 and 2001. We note that the expiration of the MBTA contract contributed considerably to the small overall decrease in expenses in 2003. Total cash operating expenses have continued to decline in 2004 and are 6.7 percent below comparable 2003 levels through June. Nevertheless, Amtrak's 2003 overall operating loss increased to \$1.3 billion, and its cash loss increased to \$644 million.² Through June 2004, Amtrak's total operating and cash losses were \$945 million and \$495 million, respectively. The 2004 operating loss through June was \$14 million more than in 2003 but \$87 million better than Amtrak's 2004 budget forecast. The cash loss was \$4 million less than the comparable period in 2003 and \$72 million better than Amtrak's 2004 budget forecast.

Fundamental Mismatch Between Available Funds, the Current System Structure, and the Future of Intercity Passenger Rail

The mismatch between the public resources made available to fund intercity passenger rail service, the total cost of maintaining the system that Amtrak continues to operate, and proposals to restructure the system comprise the dysfunction that must be resolved in the reauthorization process of the nation's intercity passenger rail system. Amtrak receives direct funds from fare box revenues, state operating support, and Federal subsidies. It also receives contributions from the states for projects on rail infrastructure, stations, and passenger equipment. For example, the California Intercity Rail Capital Program, dated March 2004, shows a total capital spending of \$107 million in 2003-2004 for rail infrastructure. Of this amount, \$104 million comes from state and local sources and the remaining \$3 million comes from Federal sources. In spite of these multiple sources of funds, the total funding Amtrak receives from all sources is not sufficient to maintain the current system in a state of good repair.

The Administration is willing to provide additional Federal funds if Amtrak restructures operations to focus on developing short-distance corridors (routes with end-to-end distances of less than 500 miles), targeting improvements to the services that hold the greatest potential for future passenger growth. However, continuing the stalemate in reauthorization will delay implementation of this or any other restructuring options. In addition, the lengthy delay in finding and confirming nominees to Amtrak's Board of Directors diminishes the ability of the Board to perform needed oversight and meet its corporate responsibilities as well

² The operating loss includes depreciation and other non-cash items that are subtracted to determine the cash loss.

as work with Congress and the Administration to plan for the future of the passenger rail system.

In the meantime, the current grant process established by appropriation has been positive for maintaining discipline in Amtrak's budgeting and spending within available funds, and the Department should maintain a strong oversight presence to assure this discipline continues. However, this should not be relied upon as a long-term solution.

BACKGROUND

In 1997, Congress passed the Amtrak Reform and Accountability Act (ARAA), which established a deadline of 2002 for Amtrak to improve operations sufficiently to eliminate its need for further Federal operating subsidies.³ After 2002, no funds authorized for Amtrak were to be used for operating expenses,⁴ 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). Amtrak did not meet this mandate.

In ARAA, Congress also directed the Secretary of Transportation to contract for an independent assessment of Amtrak's financial requirements through 2002 with oversight by the Department of Transportation (DOT) Office of Inspector General (OIG). The assessment was completed in November 1998, and we issued a report summarizing our results and conclusions.⁵

Section 409 of ARAA requires the OIG to reassess Amtrak's financial performance and needs for every year after 1998 in which Amtrak requests Federal assistance. We conducted assessments in 1999,⁶ 2000,⁷ 2001,⁸ and 2002.⁹ Because Amtrak requested Federal assistance and was appropriated \$1.043 billion in Federal funding in 2003 and \$1.218 billion in 2004, we performed this

³ 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.

⁴ 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 could receive long-term Federal funding for capital investment.

⁵ OIG Report Number TR-1999-027, "Summary Report on the Independent Assessment of Amtrak's Financial Needs through Fiscal Year 2002," November 23, 1998.

⁶ OIG Report Number CE-1999-116, "Report on the 1999 Assessment of Amtrak's Financial Needs through Fiscal Year 2002," July 21, 1999.

⁷ OIG Report Number CR-2000-121, "2000 Assessment of Amtrak's Financial Performance and Requirements," September 19, 2000.

⁸ OIG Report Number CR-2002-075, "2001 Assessment of Amtrak's Financial Performance and Requirements," January 24, 2002.

⁹ Our work was included in testimony before the Senate Appropriations Committee in the summer of 2002, and in a series of briefings to congressional staffs and the Office of Management and Budget.

assessment of Amtrak's financial status and plans. This report details the results of our review and provides a summary of Amtrak's 2005 grant request.

SCOPE AND METHODOLOGY

This assessment report responds to our mandate as defined in Section 409 of ARAA. The report contains our observations and comments concerning Amtrak's 2003 and 2004 year-to-date financial status, capital investment plans, and requirements. It also summarizes Amtrak's 2005 grant request. All analyses and supporting data that contain proprietary information have been omitted from this report. As required by Section 409, 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 assessed Amtrak's 2003 and 2004 year-to-date financial status by collecting and reviewing Amtrak's financial reports and business planning documents, interest projections and depreciation forecasts, and by interviewing Amtrak staff. We also reviewed Amtrak's Monthly Performance Reports and grant agreements provided by the Federal Railroad Administration (FRA). In addition, our assessment results considered Amtrak's 2002 and 2003 Independent Auditors' Reports performed by KPMG LLP. We also considered information included in KPMG's management letter to Amtrak regarding the effectiveness of its internal control. This assessment is based on historical financial data through June 2004.

Amtrak submitted abbreviated Business Plans for 2004 and 2005 along with its grant requests for \$1.812 billion and \$1.798 billion, respectively. We evaluated Amtrak's 2003 and 2004 plans; year-to-date operating results (including ridership and on-time performance); and capital plan progress by comparing plans and results to prior time periods and trends, reviewing Amtrak's assumptions underlying its budget forecasts, and reviewing supplemental data provided by Amtrak. We interviewed Federal Railroad Administration staff responsible for approval of Amtrak's capital projects and senior Amtrak officials to assess the reasonableness of these requests. We also held several meetings with senior officials at Amtrak's Engineering and Mechanical Departments to understand the goals of the 2004 plan. In addition, we provided a draft copy of this report to Amtrak officials and Amtrak's Board, and their comments have been incorporated, as appropriate.

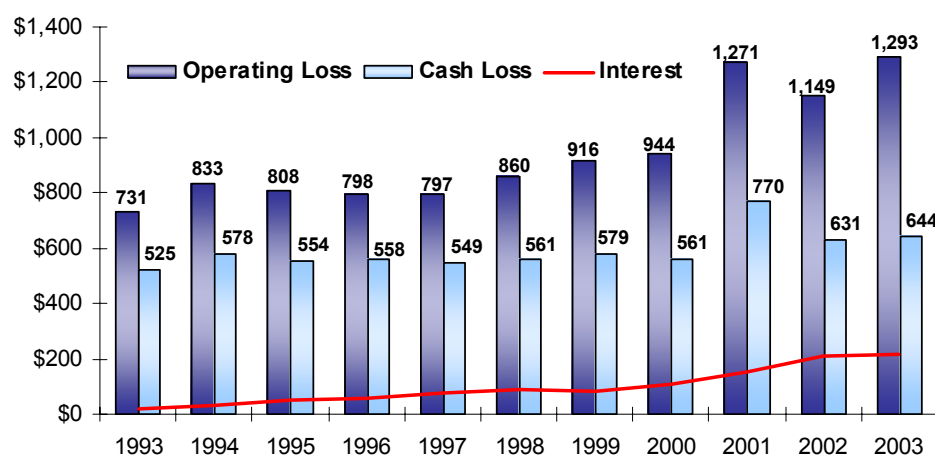
RESULTS

Amtrak's 2003 Operating and Cash Losses Remained High

Despite Record Ridership, Revenue Shortfalls Cause Operating and Cash Losses to Remain High

Amtrak's systemwide ridership increased to record levels in 2003 but operating revenues decreased by more than \$155 million from their 2002 levels. As a result, Amtrak's 2003 operating loss increased by \$144 million more than 2002 levels to \$1.3 billion, and its cash loss increased by \$13 million to an overall loss of \$644 million.¹⁰ Figure 1 shows Amtrak's operating and cash losses as well as interest for the period from 1993 to 2003.

Figure 1. Operating and Cash Losses, and Interest 1993 Through 2003 (\$ in Millions)



Increases in depreciation and interest account for much of the increase in operating losses during this period, while increases in interest alone are driving the increase in cash loss. In 1993, depreciation and interest totaled \$227 million (\$206 million and \$21 million, respectively); in 2003, depreciation and interest expenses totaled \$825 million (\$606 million and \$219 million, respectively) an increase of \$598 million.

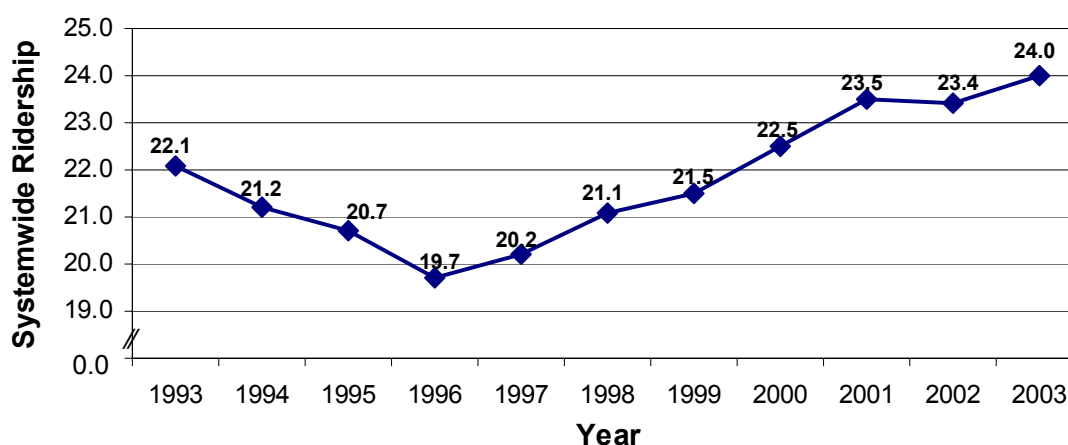
SYSTEMWIDE RIDERSHIP EXCEEDED AMTRAK'S BUDGET FORECAST IN 2003

Systemwide ridership was nearly 500,000 above Amtrak's budget forecast in 2003. With an increase of 2.7 percent over 2002 levels, ridership rose from

¹⁰ The operating loss includes depreciation and other non-cash items that are subtracted to determine the cash loss.

23.4 million to 24.0 million, despite a decline in Acela Express/Metroliner ridership. Although Amtrak's Eastern Region ridership was 1.0 percent below 2002 levels and 1.3 percent below budget, ridership in the Western Region increased 10.4 percent over 2002 and was 9.4 percent over budget. Ridership on the short-distance trains increased 2.2 percent above 2002 and 1.6 percent above budget, with an increase from 19.8 million to 20.2 million riders. Long-distance train ridership of 3.8 million was 5.2 percent above 2002 ridership of 3.6 million. Amtrak's 2003 budget anticipated 3.7 million long distance riders. Figure 2 shows the trend in Amtrak's systemwide ridership from 1993 through 2003.

Figure 2. Systemwide Ridership Trends, 1993 Through 2003 (in Millions)



In 2003, Amtrak's Northeast Corridor ridership fell 1.6 percent below 2002 levels and was 1.9 percent below Amtrak's forecast. The downturn in ridership was led by an 8.6 percent decline in Acela Express/Metroliner riders, which was attributed to the following.

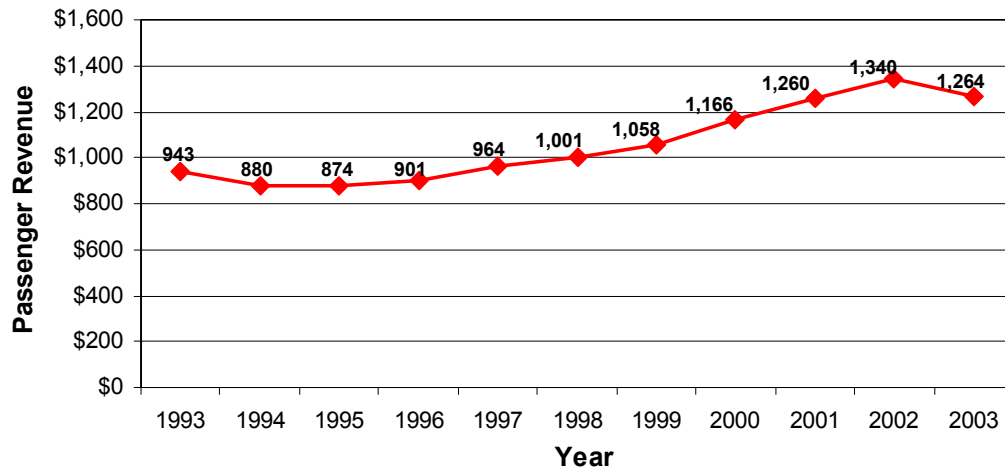
- Reliability and on-time performance issues resulting from the yaw damper problem that sidelined Acela trains in the beginning of the fiscal year along with hurricane Isabel and rail replacement between New York and Boston.
- The economy was weak.
- Competition from the airlines increased, as they returned to pre-September 11, 2001 service schedules. Additionally, a third air shuttle service between Washington, D.C., New York, and Boston was added.

OVERALL REVENUES DECLINED IN 2003

Amtrak's overall operating revenues for 2003 decreased 6.8 percent from 2002, dropping from \$2,288 million to \$2,132 million. This decline is attributable to a 5.7 percent decrease in passenger-related revenue and an 8.4 percent decline in non-passenger revenue. For 2003, passenger-related revenue was \$145 million less than budget and \$76 million less than passenger-related revenue for 2002

(\$1,264 million versus \$1,340 million). Non-passenger revenue¹¹ was \$27 million above budget but \$80 million less than 2002. Figure 3 shows the trend in Amtrak's systemwide passenger revenue for 1993 through 2003.

Figure 3. Systemwide Passenger Revenue Trends, 1993 Through 2003 - (\$ in Millions)



Passenger Revenue

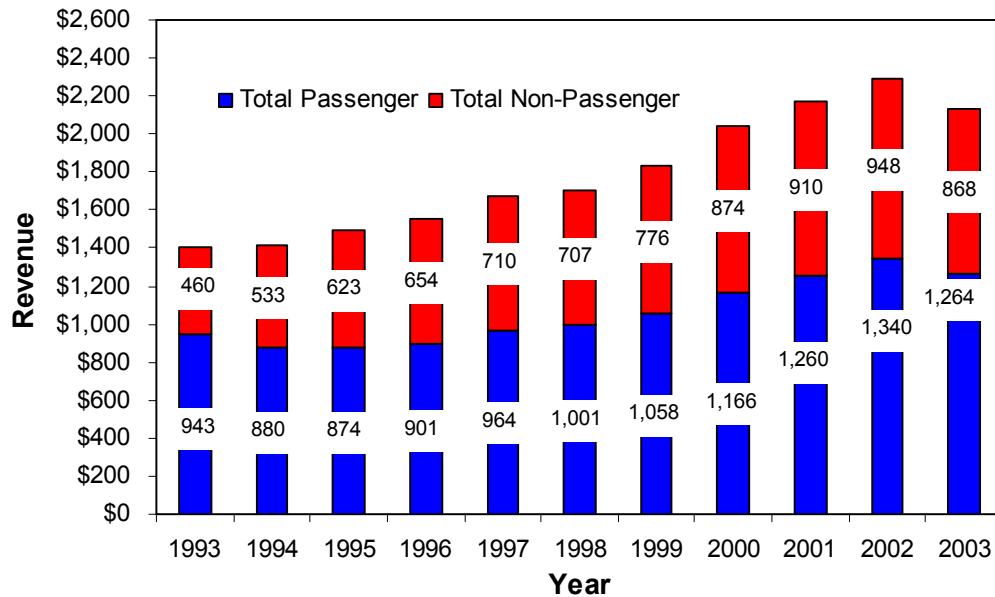
Despite the record increase systemwide in ridership, passenger revenues were down in part due to introductory promotional fares and fare reductions. Yields on long-distance trains declined due to an overhaul of the long-distance fare structure in January 2003. Northeast Corridor passenger revenue, at \$746 million, was 4.3 percent below 2002 revenues of \$780 million and 9.5 percent below Amtrak's budget of \$824 million. The downturn was led by an 8.6 percent decline in Acela Express/Metroliner revenues that was precipitated, in part, by its disappointing on-time performance.

Non-Passenger Revenue

In 2003, non-passenger revenues declined for the first time since 1998 primarily due to termination of the MBTA contract and management's decision to exit Mail and Express. However, because passenger revenue also fell during 2003, non-passenger revenues remained at about 41 percent of Amtrak's total revenues. Of the 41 percent, 13 percent was attributed to commuter service, and reimbursable, commercial and Mail and Express each contribute 4 percent. The remaining 16 percent came from state support and other. Figure 4 shows the change in Amtrak's passenger and non-passenger revenue from 1993 through 2003.

¹¹ Commuter services, reimbursable work, commercial development, Mail and Express, state support for train services, and other revenue.

Figure 4. Change in Amtrak's Passenger and Non-Passenger Revenue, 1993 Through 2003 (\$ in Millions)



Commuter Service

Commuter revenues totaled \$269 million of which \$228 million was allocated for expenses. After expenses, Amtrak's commuter service contributed \$41 million to Amtrak's bottom line, \$7 million more than budgeted. Higher base revenues for some commuter services, although partially offset by higher fuel and material repair costs, made up this contribution. Amtrak's termination of its contract with the MBTA reduced 2003 revenue and expenses in this category.

Reimbursable Work

Actual revenue from reimbursable activities was \$94 million, but \$82 million of that amount was reimbursement for Amtrak's expenses. Consequently, the resulting contribution to Amtrak's bottom line exceeded its \$2 million budget forecast by \$10 million. The higher than anticipated revenues resulted from additional New Jersey Transit work and lower labor costs.

Commercial Development

Commercial activities (real estate sales, parking lot fees, retail rental) contributed \$75 million to Amtrak's bottom line, \$39 million more than budgeted. Revenues of \$85 million were \$38 million more than budgeted largely due to the one-time sale of air rights leases at Chicago Union Station. Expenses for Amtrak's commercial activities were \$1 million less than budgeted, at \$10 million.

Mail and Express

Amtrak's strategy for Mail and Express for 2003 included:

- Eliminating services with inadequate returns,
- Streamlining the mail network to improve productivity,
- Redesigning schedules to improve on-time performance, and
- Redefining the commercial relationship with the United States Postal Service (USPS).

Amtrak projected savings from these actions primarily through the reduction of labor and equipment maintenance. As of May 2004, Amtrak had eliminated 340 management and craft positions, and equipment and locomotive needs were reduced along with the maintenance associated with that equipment. However, these changes, along with changes in the USPS contract, and the USPS shift to FedEx for some mail shipments, reduced Amtrak's revenues from these services. Combined revenue for Mail and Express in 2003 equaled \$77 million, \$48 million below 2002 revenue and \$45 million below budget.

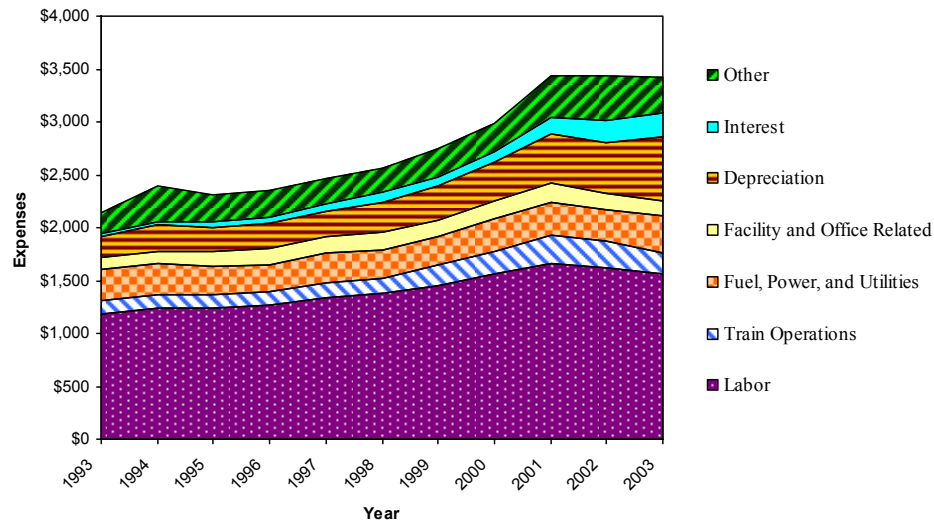
State Support and Other

State support increased almost \$8 million in 2003 to \$136 million, right on budget. This increase was due to the initiation by Amtrak of an effort to have states cover 100 percent of the direct train and route operating loss of state supported trains. Other revenue includes interest, non-transportation, and other transportation. Interest revenue declined \$2 million in 2003, but was \$2 million higher than budgeted. Non-transportation and other transportation revenue declined \$6 million from 2002 levels but were \$19 million higher than budget.

TOTAL OPERATING EXPENSES REMAINED UNCHANGED IN 2003

Management attention to curtailing expense growth has been successful for 2 consecutive years. From 1993 through 2001, total operating expenses grew an average of 6.2 percent each year, while in 2002 and 2003 these same expenses declined 0.2 percent and 0.3 percent, respectively. Increases in depreciation, fuel, power and utilities, and interest costs were offset by decreases in labor, train operations, facility and office related, and other expenses. Labor remains Amtrak's largest operating expense, with annual total wages, salaries, and benefits of \$1,557 million. This expense, however, must be contained to hold down any future expense growth. Depreciation and interest must also be monitored because they contribute \$825 million of Amtrak's operating loss. Figure 5 illustrates the change in all categories of expense between 1993 and 2003.

Figure 5. Amtrak's Expense Categories, 1993 Through 2003 (\$ in Millions)



Labor Costs

Labor costs are Amtrak's largest operating cost and should be one of Amtrak's key focal points for cost reduction. About 90 percent of Amtrak's workforce is covered by labor agreements. Labor costs of \$1.56 billion for 2003, which include salaries, wages, overtime, and benefits, accounted for 45.5 percent of Amtrak's total costs. This is down from 47.1 percent in 2002 at \$1.62 billion, and 48.4 percent in 2001 at \$1.67 billion. Amtrak attributed a significant portion of its decrease in operating expenses to reduced labor costs through the reduction of redundant and underused positions. Specifically, from 2002 through 2003, Amtrak reduced its total workforce of more than 20,000 by 1,179 employees in 2002 and by an additional 492 in 2003. Of those reductions, 455 were management employees and 1,216 were agreement covered employees. An additional 1,514 MBTA agreement employees were terminated in December 2003.

Amtrak's existing labor agreements expired at the end of 1999, but will remain in effect until new agreements can be reached or the Railway Labor Act's procedures are exhausted. Amtrak did reach an agreement with the Transportation Communication Workers International Union (TCU) in September 2003. This agreement included no retroactive pay, various work rule changes, and some medical cost containment measures. TCU members were also given wage parity with freight rail workers and received a 6.6 percent wage increase. The agreement forms the basis for Amtrak's 2004 labor cost projections, and negotiations continue with Amtrak's other union workers.

Depreciation Expenses

As expected, depreciation expenses increased in 2003. Table 1 shows actual depreciation expenses from 1998 through 2003 and projected expenses for 2004 through 2009. Depreciation expenses for 2003 were \$628 million, \$127 million more than in 2002.

Table 1. Amtrak's Depreciation Expense (\$ in Millions)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
\$294	\$329	\$371	\$489	\$501	\$628	\$574	\$594	\$600	\$602	\$605	\$607

Since 1998, Amtrak acquired its fleet of high-speed passenger rail equipment and related maintenance facilities in the Northeast Corridor as well as completed and capitalized related Northeast Corridor infrastructure upgrades, particularly between New York and Boston. These investments steadily increased its depreciation expense.

Amtrak's depreciation projections for 2004 through 2009 are based on the capital investment included in its 5-year strategic plan. These estimates reflect a capital program designed to stabilize the current structure and return plant and equipment to a state of good-repair. If Amtrak does not make capital investments at the level anticipated in the strategic plan, actual depreciation will be lower than projected. Depreciation expenses increase Amtrak's reported operating losses, but because these are non-cash expenses, they do not affect annual cash losses.¹²

Interest Expenses

Amtrak's interest expense is primarily for high-speed rail equipment that has been financed, as well as for the financing of stations and other facility improvements. Table 2 shows Amtrak's actual interest expenses from 1998 through 2003 and projections through 2009.¹³

Table 2. Amtrak's Interest Expenses (\$ in Millions)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
\$85	\$85	\$86	\$85	\$160	\$164	\$166	\$149	\$151	\$138	\$126	\$117

With low levels of Federal capital support throughout the 1980s and early 1990s, Amtrak needed to secure outside financing for its re-fleeting and high-speed rail

¹²The 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.

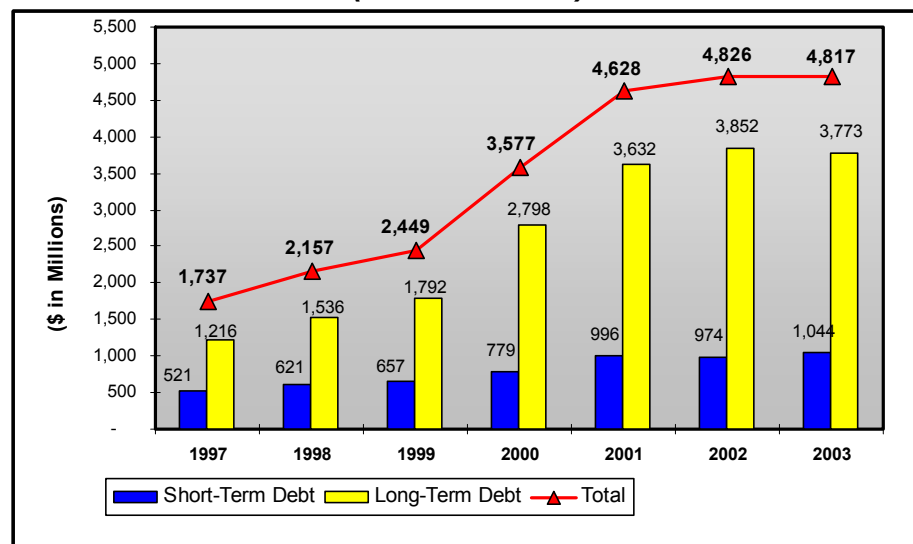
¹³ The interest expenses shown in Table 2 are on a cash basis, not on an accrual basis.

programs. Amtrak also chose to secure outside financing to support its attempt to reach operating self-sufficiency. The large increase in interest expense in 2002 is attributable to the external financing of the new Acela Express train-sets, high-horsepower locomotives, associated maintenance facilities, and mortgaging portions of Penn Station-New York.

Amtrak's Total Debt and Capital Lease Obligations Remained at \$4.8 Billion in 2003

As a consequence of Amtrak's external financing of its cash losses as well as new train equipment and related maintenance facilities, long-term debt and capital lease obligations increased dramatically from 1997 through 2002. However, they remained virtually unchanged in 2003. As of September 30, 2003, Amtrak's total debt equaled \$4.8 billion. Figure 6 illustrates the growth in Amtrak's short-term liabilities, as well as long-term debt and capital lease obligations since 1997.

Figure 6. Amtrak's Short-Term Liabilities and Long-Term Debt and Capital Lease Obligations From 1997 Through 2003 (\$ in Millions)



Note: Amtrak's Consolidated Balance Sheet also lists deferred credits and other liabilities such as casualty and environmental reserves as well as postretirement employee benefits obligations totaling an additional \$1.3 billion.

AMTRAK'S 2003 CAPITAL SPENDING WAS BELOW BUDGET

In October 2002, prior to receiving its FY 2003 appropriation, Amtrak developed a capital budget of \$698 million. Amtrak modified the budget in February 2003 when the appropriation was enacted. The revised capital budget totaled \$679 million and included \$525 million of new Federal capital funding. From

October 2002 through February 2003 Amtrak operated under a continuing resolution and did not fully implement its capital plan.

In 2003, Amtrak spent \$417 million on capital expenditures and project-related costs. Of this amount, \$268 million was funded from Federal grants and the remainder was funded from state and local sources, financing related to the high speed trainsets, and special Federal grants related to the New York tunnels. Amtrak spent an additional \$148 million of its capital grants for the maintenance of equipment and maintenance of way activities that were eligible for capital funding, but were included in operating results. At the end of 2003, \$92 million of Amtrak's capital funding remained to be spent, and those funds were obligated by January 2004.

Amtrak's focus during 2003 was on ramping up its 5-year capital program. Its main focus was on its engineering (infrastructure) and mechanical (fleet) work. Its investment activities in these categories accounted for more than 82 percent of Amtrak's capital program.

Engineering (Infrastructure)

Amtrak brought its track laying system out of retirement and put it to use during 2003. Table 3 highlights some of the infrastructure work Amtrak performed in 2003.

Table 3. Amtrak's 2003 Infrastructure Activities

Description	Quantity Completed
Installed concrete ties	103,573
Replaced rail	13 miles
Resurfaced track	550 miles
Replaced wood ties	46,000
Undercutting	15 miles
Installed new turnouts	12
Re-timbered bridges	20
Replaced signal cable	23 miles
Renewed catenary hardware	39 miles
Converted bridges to ballast decks	11

Source: National Railroad Passenger Corporation FYs 2004-2008 Budgets Executive Summary, February 2004.

Mechanical (Fleet)

Amtrak also made key investments in equipment. Despite difficulties in obtaining materials and filling management and labor positions, Amtrak was able to increase

production and return some cars and locomotives to service. Table 4 highlights some of the activities Amtrak's mechanical department performed during 2003.

Table 4. Amtrak's 2003 Mechanical Activities

Description	Quantity Completed
Heavy overhaul or remanufacture – cars	26
Light overhaul	384
Heavy overhauls on locomotives	50
Units repaired that had wreck damage	22
Sleeping bunks replaced	113
Toilets replaced or overhauled	54
Units sold or scrapped	268

Source: National Railroad Passenger Corporation FYs 2004-2008 Budgets Executive Summary, February 2004.

Results Through June 2004 and Outlook for the Remainder of 2004

On February 15, 2003, Amtrak submitted its fiscal year 2004 grant request to Congress requesting \$1.812 billion "...to operate the current national system and to begin to address critical deferred investment needs." Of this amount, \$768 million was for cash operating support and \$1.04 billion was for capital investment. On January 23, 2004, Congress enacted Public Law 108-199, which provided \$1.218 billion to cover Amtrak's operating losses and capital expenditures, \$756 million for operations and \$462 million for capital investment.¹⁴ The appropriation requires that the FRA reserve \$60 million of the operating funds until the fourth quarter for possible transfer to the Surface Transportation Board (STB). In the event that Amtrak has insufficient funds to continue operations, this reserve would allow the STB to direct service to maintain commuter operations on the Amtrak system.¹⁵ In addition, the Secretary of Transportation may reprogram up to \$2.5 million of the \$756 million operating grant to fund implementation of a fair competitive bidding procedure for the operation of state supported routes.

¹⁴The amount of the grant was \$1.225 billion but was subject to an across-the-board rescission of 0.59 percent.

¹⁵This requirement is a follow-up to condition 8 of Amtrak's Railroad Rehabilitation and Improvement Financing loan agreement signed June 28, 2002. We issued a letter on December 9, 2003, to Secretary Mineta, FRA Administrator Rutter, and the House and Senate Appropriations Committees on Amtrak's compliance with this condition. We found that Amtrak failed to comply with the requirements of loan condition 8. Subsequently, in April 2004, Amtrak provided information sufficient for FRA to consider this matter resolved.

Amtrak's appropriation for operating funds was close to budget. However, its appropriation for capital was substantially less than requested and consequently, Amtrak needed to revise its capital budget. This was achieved mainly by deferring work to future years. The following is a brief discussion of Amtrak's approved operating and capital budgets for 2004 and actual results through June 2004.

Passenger Related Revenue

Amtrak's 2004 budget assumes the basic national network is operated with only minor adjustments to schedules and frequencies. It also assumes ridership at levels consistent with a modest economic recovery. Passenger-related revenues (including state support) are expected to increase \$69 million over 2003 levels to \$1.469 billion.

Mail and Express

Amtrak's 2004 budget assumes a \$7 million decrease in Mail and Express revenues. This reduction is due largely to lower revenues from an express customer who declared bankruptcy in 2003 and reduced activities and from rationalizing these services.

Commuter

Amtrak's 2004 commuter revenues are budgeted to fall \$143 million below 2003 levels primarily as a result of the termination of the MBTA contract. Commuter expenses are also budgeted to decrease from 2003 levels, albeit not to the same extent as revenues. Therefore, Amtrak budgets a \$24 million contribution from commuter activities in 2004 (compared to \$42 million in 2003).

Reimbursable

Reimbursable revenues in 2004 are projected to be \$14 million lower than 2003 due primarily to several major, multi-year contracts that were completed in 2003. Reimbursable expenses are also anticipated to be lower resulting in a 2004 contribution of \$5 million (versus \$12 million in 2003). Amtrak's current focus is on rehabilitating its own infrastructure. Because maintenance-of-way resources are already programmed, Amtrak is not actively looking for work to do on behalf of others.

Commercial

Commercial activities in 2004 are expected to generate \$40 million less than in 2003, primarily because \$30 million generated in 2003 from the sale of air rights leases in Chicago Union Station will not be repeated in 2004. There is also project work planned in the Philadelphia parking garage that will reduce available parking spaces and therefore limit revenue. Expenses from these activities are

forecast to remain relatively the same as in 2003, producing an estimated contribution of \$35 million (\$75 million in 2003).

Operating Results Through June 2004

Amtrak's actual operating loss through June 2004 is less than its approved 2004 budget forecast amount for 2004 but more than the actual amount for the same period in 2003. Amtrak's actual cash loss through June 2004 is less than its budget amount for 2004 and its actual amount for the same period in 2003. Its operating loss of \$945 million is \$87 million less than budgeted but \$14 million more than 2003. Its cash loss of \$495 million is \$72 million less than budgeted and \$4 million less than 2003.

Through June 2004, systemwide ridership of 18.7 million is 5.7 percent ahead of the same period in 2003 and 1.5 percent over budget. Ridership on the short-distance trains is 5.4 percent ahead of 2003 and 0.9 percent ahead of forecast. Long-distance ridership is 7.3 percent ahead of 2003 and 5.0 percent above forecast. Table 5 summarizes Amtrak's ridership through June 2004.

Table 5. Ridership Through June (in Millions)

Ridership	2003 Actual	2004 Budget	2004 Actual	Percent from 2003	Percent from Budget
Short-distance	15.0	15.7	15.8	5.4	0.9
Long-distance	2.7	2.7	2.9	7.3	5.0
Total	17.7	18.4	18.7	5.7	1.5

Additionally, passenger-related revenue through June 2004 is 5.6 percent higher than 2003 and 0.5 percent higher than budget. Non-passenger revenue is 4.5 percent above budget but 27.6 percent less than 2003. The reasons for the large disparity in non-passenger revenue from June 2003 through June 2004 is the elimination of the MBTA contract, the occurrence of one-time real estate sales in 2003, and lower Mail and Express revenues due to the continued rationalization of these services.

Operating expenses (excluding depreciation) through June 2004 are 5.7 percent below 2003 levels and 2.2 percent under budget. Reduced labor expenses for 2004 make up most of the difference from 2003. Lower materials expense and reduced labor expense make up the majority of the difference to budget. Table 6 summarizes Amtrak's operating results for 2004 actual, 2004 budgeted and 2003 actual through June.

Table 6. Operating Results Through June 2004 (in Millions)

Component	2004 Actual*	2004 Budgeted*	2003 Actual*
Operating Loss	\$945	\$1,032	\$931
Cash Loss	\$495	\$567	\$498
Ridership	18.7	18.4	17.7
Passenger related revenue	\$981	\$976	\$929
Non-passenger revenue	\$500	\$478	\$690
Operating Expenses (excluding depreciation and OPEB)	\$1,975	\$2,021	\$2,118

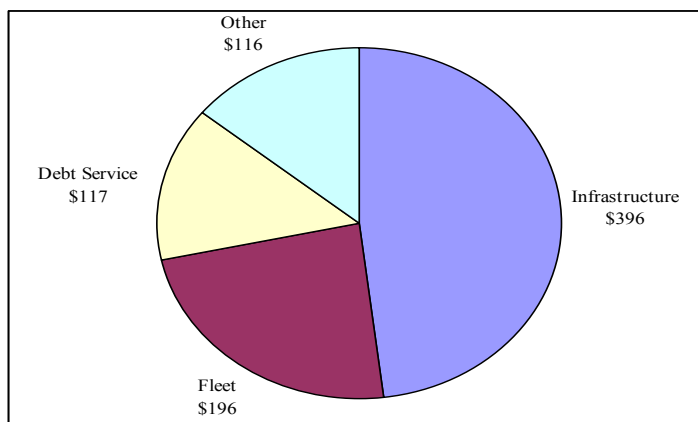
* All data presented are 9 months year-to-date.

Capital Budget and Progress Through June 2004

Amtrak reduced its capital budget and deferred needed infrastructure investment again in 2004. This continued deferral of capital reinvestment increases the likelihood of operating disruptions from infrastructure failures, yet there is no way to know when such failures might occur. Further, Amtrak cannot afford to see the reliability of its premier service, Acela Express, deteriorate any further. On-time performance is negatively impacted by scheduled maintenance as well as unscheduled outages, equipment failures, and maintenance problems. Continued deferral in needed infrastructure investment will eventually result in further deterioration in reliability from current levels and will result in lost revenues and increased costs.

Amtrak's original 2004 capital budget included \$1.04 billion of new Federal capital and was the first year of a 5-year capital program that was designed to "...ensure that Amtrak's systemwide trains and the Amtrak-owned Northeast Corridor are returned to a good condition." Its 2004 enacted appropriation however, included \$462 million of new Federal funds for capital. Amtrak's revised total 2004 capital budget, including all funding sources, is \$825 million (the total original capital budget was \$1.099 billion). The breakout of the \$825 million is shown in Figure 7.

**Figure 7. Amtrak's Revised 2004 Capital Budget
(\$ in Millions)**



In addition to funds from the 2004 Federal appropriation, Amtrak's 2004 capital budget includes special Federal grant funds for safety upgrades in the New York tunnels and development of 30th Street Station, state and local capital funds, and operating revenue to cover a portion of Amtrak's debt financing. This budget also includes \$92 million carried over from 2003 and the use of an additional \$98 million in cash reserves. According to Amtrak, capital investments that have been deferred include the diesel multiple unit (DMU) program, replacement of auto racks, and rehabilitation of bridges in Connecticut.

With this budget, Amtrak plans to stabilize the railroad's deteriorating physical plant, reduce the level of deferred investment in equipment and facilities, and achieve on-time performance on the Northeast Corridor at or above 90 percent (Acela on-time performance through June 2004 is 74.7 percent). Table 7 shows Amtrak's 2004 capital budget by major capital investment type and funding source.

Table 7. 2004 Capital Budget by Major Capital Investment Type and Funding Source (\$ in Millions)

Category	Annual Grants and Cash	Project Related Ops Costs	State & Local	Tunnels Grant	Financing	Other	Grand Total
Infrastructure	\$253	\$0	\$125	\$18	\$0	\$0	\$396
Fleet	194	1	0	0	1	0	196
Debt Service	108	0	0	0	0	9	117
Other	80	5	7	0	23	1	116
Grand Total	\$635	\$6	\$132	\$18	\$24	\$10	\$825

Source: National Railroad Passenger Corporation FYs 2004-2008 Budgets Executive Summary, February 2004.

Amtrak also breaks out its capital budget on a Departmental basis. Table 8 summarizes the components of Amtrak's revised budget by Department and shows the spending of each through June 2004.

**Table 8. Amtrak's 2004 Capital Spending through June 2004
(\$ in Millions)**

Department	Revised 2004 Budget	Actual June 2004
Engineering	\$396.0	\$271.8
Mechanical	195.6	72.9
Safety and Security	1.7	0.5
Environmental	19.0	9.0
Operations Planning	0.7	0.1
Transportation	2.3	0.4
Law – Real Estate	37.5	13.8
Technology	16.6	8.2
Procurement	9.6	4.6
Finance	118.5	102.8
Marketing and Sales	4.6	2.4
Strategic Planning	22.6	1.8
Total	\$824.7	\$488.2

Source: Amtrak's Monthly Performance Overview for June 2004

The main categories for capital investment in 2004 (excluding debt) are engineering and mechanical activities (82 percent of total excluding debt). The key components of the 2004 engineering program are investments in structures, communications and signals, electric traction, and track. Structures investment will focus on bridges, culverts, stations, and other structures such as right-of-way fences, tunnels and retaining walls. Signal investments will include interlockings, advanced civil speed enforcement (ACSES), cable, centralized electrification and traffic control (CETC), as well as radio and telecommunications upgrades. Table 9 shows some of the project targets from Amtrak's 2004 engineering program.

Table 9. Amtrak's 2004 Engineering Targets

Description	Quantity
Concrete ties to install	181,000
Rail to be replaced	101 miles
Wood ties to be replaced	35,000
Undercutting to complete	51 miles
New turnouts to install	27
Bridge ties to replace	1,666
Signal cable to replace	25 miles
Catenary hardware to renew	55 miles
Bridges to convert to ballast decks	16

Source: National Railroad Passenger Corporation FYs 2004-2008 Budgets Executive Summary, February 2004.

Amtrak's primary objectives for its mechanical program are to return the fleet to a state-of-good repair, eliminate deferred overhauls, increase equipment availability, and standardize configurations and service offerings. The 2004 program focuses on three major activities: overhaul, remanufacture, and wreck repair. Table 10 shows some of Amtrak's goals for the 2004 mechanical plan.

Table 10. Amtrak's 2004 Mechanical Goals

Description	Quantity
Heavy overhaul or remanufacture - cars	202
Heavy overhauls on locomotives	64
Units repaired that had wreck damage	12
Wheel slide upgrades	40
Coach-baggage modifications	20

Source: National Railroad Passenger Corporation FYs 2004-2008 Budgets Executive Summary, February 2004.

While 2004 operating results are close to forecast through June, a key factor for staying on budget for the remainder of the year is maintaining the current levels of equipment and infrastructure reliability. If critical systems or fleet fail, Amtrak will have to focus immediate resources on restoring those assets, and the projects envisioned in the capital program will be further deferred.

Amtrak's 2005 Grant Request

On February 10, 2004, Amtrak submitted to Congress its fiscal year 2005 Grant and Legislative Request of \$1.798 billion. The request includes \$570 million for

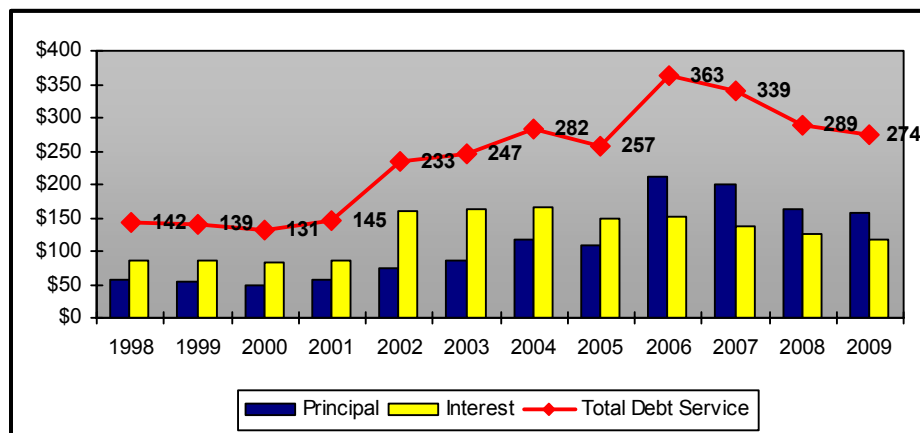
operating, \$262 million for debt service, \$791 million for capital, and \$175 million for the Railroad Rehabilitation and Improvement Financing loan repayment and working capital. The Administration's FY 2005 request included \$900 million for Amtrak, with an additional \$500 million available if significant reforms are enacted.

Amtrak assumes that its 2005 operating loss will remain at its 2004 level with no dramatic changes in service. It also assumes the capital program will be fully implemented. Amtrak expects that previous delays in hiring and in the procurement of design services and materials will be resolved and the pace of capital work will increase. This would result in spending at the higher funding level, allowing Amtrak to begin reducing the capital backlog in a meaningful way. However, it is highly unlikely that Amtrak will receive an appropriation at that level and should therefore prepare a budget to conform to the House and Senate marks of \$900 million and \$1.2 billion, respectively.

Debt Service

Many of Amtrak's assets are encumbered and are subject to capital leases, leveraged leases, long-term loans, mortgages, or defeased leases. Over the next 5 years, the principal and interest payments on this debt will be substantial. Amtrak's 5-year strategic plan assumes \$722 million of new Federal funding for debt service principal and Amtrak estimates it will need an additional \$735 million to cover interest payments. Figure 8 shows Amtrak's historical and forecast debt service principal and interest payments for 1998 through 2009.

Figure 8. Amtrak's Historical and Forecast Debt Service Principal and Interest Payments 1998 through 2009 (\$ in Millions)



Note: 2006 assumes repayment of the \$100 million RRIF loan and 2007 payments include early pay off of locomotive and Superliner Trusts which reduce later year principal and interest payments.

Amtrak's 2005 Grant Request Is Subject to Significant Risk

Amtrak's 2005 plan is subject to significant revenue and cost risks. On the revenue side, Amtrak's plan relies upon sustained economic growth that may or may not continue, to ensure fare box revenues. It also assumes Federal funding in an amount great enough to cover its operating losses. Its Federal grant must include enough capital to allow Amtrak to continue to invest in its deteriorating infrastructure and avoid failure that will cause operating delays. In addition, Amtrak's plan for restructuring its Mail and Express service requires simultaneous reductions in revenue and expense. Finally, Amtrak's monthly cash flow depends on whether it provides the FRA with sufficient information on a timely basis to evaluate its quarterly grant request.

On the cost side, Federal support to Amtrak must be sufficient to deal with unscheduled costs and infrastructure and/or equipment failures. In addition, the majority of Amtrak's labor agreements expired in 1999 and have yet to be renegotiated. It is unclear what new costs may be incurred with other settlements.

CONCLUSION

Amtrak cannot continue to defer capital investment with the hope that reauthorization will eventually provide sufficient funding to operate the entire system in the manner Amtrak desires. Reauthorization could take a variety of forms including (1) a requirement to focus development on corridors where passenger rail service can make economic sense, (2) decreased funding and elimination of certain operations, (3) increased funding for further development of the existing system, (4) maintaining and funding the existing system, and (5) any combination of the above. Congress and the Administration must make those decisions in the course of reauthorization.

Based on funding proposed by the House and Senate for FY 2005 of \$900 million and \$1.2 billion, respectively, and because there is no authorization for Federal funding in 2005, it seems likely that Amtrak will receive substantially less Federal funding than its request of \$1.8 billion. What this means is Amtrak needs to prepare a budget that does not increase its already substantial deferred capital requirements and provides for operation of the railroad, consistent with its likely appropriation and other available funds.

The mismatch between the public resources made available to fund intercity passenger rail service, the total cost of maintaining the system that Amtrak continues to operate, and proposals to restructure the system must be resolved in the reauthorization process of the nation's intercity passenger rail system. Continuing the stalemate will delay implementation of any restructuring options

and the corridors that are the sources of the greatest potential passenger benefits will languish as an undeveloped viable alternative to congested roads and airports until a consensus is reached.

AMTRAK COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

On September 27, 2004, Amtrak provided oral comments on our draft report, and on October 4, 2004, Amtrak's President and CEO provided a written response (see Appendix). In addition, on October 6, 2004, Amtrak's Chairman of the Board communicated comments on the draft report. Amtrak provided clarification of certain data and those comments were incorporated into our final report, where appropriate.

Amtrak agreed that deferred capital investment has reached critical levels and continued deferral brings Amtrak closer to a major failure somewhere in the system. Amtrak also stated (1) the employees of Amtrak have worked diligently to reduce costs, improve efficiencies and maximize revenues; and (2) the annual appropriations process hinders Amtrak's ability to plan for and undertake long-term capital projects. Lead-time for design and material acquisition for critical fleet and infrastructure projects exceeds twelve months.

Regarding Amtrak's first point, we agree that Amtrak has made progress in curtailing expense growth. However, the fact remains that Amtrak's cash losses have exceeded \$630 million for each of the last 3 fiscal years. Much more work needs to be done to contain costs, improve system performance, and grow passenger revenue. On Amtrak's second point regarding the appropriations process, we recognize that the lack of a long-term reauthorization and Amtrak's heavy reliance on Federal funds presents challenges in planning for long-term capital projects. However, as long as Amtrak needs Federal subsidies to make ends meet, whether they be capital, operating, or otherwise, Amtrak will have to go through the process of obtaining an appropriation, just like any other program that relies on Federal funding for its existence. Amtrak must reexamine how it prioritizes capital projects and improve its ability to address critical infrastructure projects in phases.

Amtrak also stated that it was impossible to reduce the level of subsidy required without reducing its capital budget given the structure of the organization and the statutory requirements imposed on the operation of the system. Further, while management is in the process of preparing a contingency plan detailing actions to be taken should Congress appropriate Federal funding of \$1.2 billion for FY 2005, it is clear that much of the reduction will come from the capital plan. As we have

stated previously, Amtrak must find ways to reduce its need for operating subsidies so it can use more of its Federal appropriations for critical capital investment. Amtrak's strategy of maintaining and rebuilding the status quo system is no longer a viable option and management must minimize further deferral of critical capital investment given the likely near-term future Federal funding levels. More immediately, Amtrak management must recognize the need to operate assuming Federal funding of no more than \$1.2 billion in FY 2005 to avoid potential funding shortfalls later in the year.

We appreciate the courtesies and cooperation of Amtrak and Federal Railroad Administration representatives during this assessment. We look forward to the opportunity to review Amtrak's \$1.2 billion contingency plan. If you have any questions concerning this report, please contact Mark R. Dayton, Assistant Inspector General for Competition and Economic Analysis, at (202) 366-9970 or Stuart Metzger, Program Director, at (202) 366-1981.

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EXHIBIT A. MAJOR CONTRIBUTORS TO THIS REPORT

THE FOLLOWING INDIVIDUALS CONTRIBUTED TO THIS REPORT.

<u>Name</u>	<u>Title</u>
Mark R. Dayton	Assistant Inspector General for Competition and Economic Analysis
Stuart A. Metzger	Program Director
Christena Nielsen	Project Manager
Debra Mayer	Economist
Lisa Mackall	Auditor
Robert Finley	Analyst
Harriet Lambert	Editor

APPENDIX. MANAGEMENT COMMENTS

David L. Gunn
President and Chief Executive Officer



October 4, 2004

Mr. Kenneth M. Mead
Inspector General
U.S. Department of Transportation
Room 9200
400 Seventh Street, S.W.
Washington, DC 20590

Dear Ken:

Thank you for your call last Friday. As you requested, I am responding to your Draft Assessment Report on Amtrak's 2003 and 2004 Financial Performance and Requirements.

Management agrees with a number of conclusions reached in your report. Chief among these are:

1. Deferred capital investment has reached critical levels and continued deferral brings Amtrak closer to a major failure somewhere in the system. We are playing Russian roulette. Management has identified the specific projects and the schedules necessary to address the most serious problems. They are contained in our Strategic Plan and Capital budget. Any significant reduction in the funding level for capital investment is quite risky.
2. The employees of Amtrak have worked diligently to reduce costs, improve efficiencies and maximize revenues.
3. The annual appropriations process hinders Amtrak's ability to plan for and undertake long-term capital projects. Lead-time for design and material acquisition for critical fleet and infrastructure projects exceeds twelve months. For example, the rebuilding of the Connecticut bridges or Northeast Corridor interlockings takes three or more years from start to finish.

However, your report's suggestion that Amtrak management must prepare a budget of \$1.2 billion is troublesome. Given the nature of this business and the requirements to begin to redress years of deferred maintenance, I believe that it is management's responsibility to inform the Board and others of the minimum federal funding required for a safe, reliable operation.



Mr. Kenneth M. Mead

October 4, 2004

Page 2

Management is preparing a contingency plan that delineates actions to be taken should Congress appropriate \$1.2 billion. This plan will be presented to the Board of Directors in November. I will share that with you once the Board has seen our plan.

Moreover, it is impossible, given the structure of this organization and the statutory requirements imposed on the operation of the system, to be able to reduce the required subsidy without reducing the capital budget. Any substantial reduction in operating cost will require extensive route and service actions, and the savings will be more than offset by restructuring costs.

You should be aware that it will not be possible to live within a \$1.2 billion appropriation without deferring essential capital investment once again. Whatever happens, we are proud of the progress we have made over the last two and a half years.

Sincerely,

A handwritten signature in black ink that reads "Dave". The signature is written in a cursive, somewhat stylized font.

David E. Gunn
President and Chief Executive Officer

cc: David M. Laney
Lisa Frace
Joseph McHugh

The following pages contain textual versions of the graphs and charts found in the preceding document. These pages were not in the original document but have been added here to accommodate screenreaders and other assistive technology.

Figure 1. Operating and Cash Losses, and Interest 1993 through 2003 - \$ in millions

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Operating Loss	731	833	808	798	797	860	916	944	1,271	1,149	1,293
Cash Loss	525	578	554	558	549	561	579	561	770	631	644
Interest	21	32	48	60	76	88	83	107	154	212	219

Figure 2. Systemwide Ridership Trends, 1993 through 2003 - in millions

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Ridership	22.1	21.2	20.7	19.7	20.2	21.1	21.5	22.5	23.5	23.4	24.0

Figure 3. Systemwide Passenger Revenue Trends, 1993 through 2003 - \$ in millions

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Revenue	943	880	874	901	964	1,001	1,058	1,166	1,260	1,340	1,264

Figure 4. Change in Amtrak's Passenger and Non-Passenger Revenue, 1993 through 2003 - \$ in millions

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Passenger	943	880	874	901	964	1,001	1,058	1,166	1,260	1,340	1,264
Total Non-Passenger	460	533	623	654	710	707	776	874	910	948	868

Figure 5. Amtrak's Expense Categories, 1993 through 2003 - \$ in millions

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Labor	1,177	1,239	1,241	1,271	1,334	1,378	1,457	1,558	1,667	1,617	1,557
Train Operations	132	133	127	125	142	150	194	216	263	252	208
Fuel, Power, and Utilities	290	288	269	258	284	264	263	312	316	298	353
Facility and Office Related	116	120	139	147	152	159	155	173	176	155	140
Depreciation	206	245	230	238	241	292	327	359	467	479	606
Interest	21	32	48	60	76	88	83	107	154	212	219
Other	192	342	251	254	241	235	264	258	399	423	342

Figure 6. Amtrak's Short-Term Liabilities and Long-Term Debt and Capital Lease Obligations from 1997 through 2003 - \$ in millions

	1997	1998	1999	2000	2001	2002	2003
Short-Term Debt	521	621	657	779	996	974	1,044
Long-Term Debt	1,216	1,536	1,792	2,798	3,632	3,852	3,773
Total	1,737	2,157	2,449	3,577	4,628	4,826	4,817

Figure 6. Amtrak's Revised 2004 Capital Budget - \$ in millions

	2004
Infrastructure	396
Fleet	196
Other	116
Debt Service	117

Figure 8. Amtrak's Historical and Forecast Debt Service Principal and Interest Payments, 1998 through 2009 - \$ in millions

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Principal	57	54	48	58	73	85	116	109	213	201	163	156
Interest	85	85	83	87	160	162	166	149	151	138	126	118
Total Debt Service	142	139	131	145	233	247	282	257	363	339	289	274