

**Before the Subcommittee on Transportation and Related Agencies
Committee on Appropriations**

United States Senate

For Release on Delivery
expected at
1:30 p.m. EST
Thursday
June 20, 2002
CC-2002-181

Amtrak's Financial Condition

**Statement of
The Honorable Kenneth M. Mead
Inspector General
U.S. Department of Transportation**



Madam Chairwoman and Members of the Subcommittee:

I appreciate the opportunity to provide our views on Amtrak's current financial situation. In our January 2002 Assessment Report and again this past March in testimony before this subcommittee, we reported that Amtrak's overall financial health had deteriorated, that cash losses remained high, and that Amtrak would miss its budget targets for 2002 by more than \$200 million. To address these problems, Amtrak expanded its line of credit and announced the deferral of \$175 million in capital investments and operating cuts of approximately \$111 million. Nevertheless, we are hearing now from Amtrak that it must begin an orderly shutdown of its entire system if it can not access its short-term credit line for the more than \$200 million in cash it needs to fund its operating losses through the end of the fiscal year.

The situation is serious and Amtrak is running short of time and solutions. I want to make four points today.

- First, Amtrak's cash flow problems for the fourth quarter were not unexpected, but its loss of access to its short-term credit facility was. Because of the uncertainty over future Federal funding for Amtrak and Amtrak's technical default on its \$270 million, unsecured credit facility, the financial institutions providing the facility have asked for some type of security, either collateral or a Federal loan guarantee, before allowing Amtrak to draw against it.
- Second, Amtrak has applied for a loan guarantee through the Railroad Rehabilitation and Improvement Financing Program (RRIF) to solve its short-term cash-flow crunch. However, there are a number of difficult questions that we feel must be explicitly answered concerning the use of this program for such a purpose. For example, it is our understanding the RRIF is a mechanism for **long-term financing** of capital needs of the rail industry not available from the private sector. In contrast, the real purpose of this application is for a short-term bridge loan for Amtrak to make it through to the end of the year. Furthermore, a significant portion of Amtrak's short-term cash needs are operating in nature, which would make them ineligible to be financed under the terms of this Program.

Alternatives to using the RRIF vehicle would be to explicitly and straightforwardly create a one-time Federal loan guarantee or a direct Federal appropriation either as part of the 2002 supplemental appropriation or through some other legislative vehicle whose consideration by the Congress is imminent. We note in this regard that the Senate version of the 2002

supplemental appropriation contains a grant to Amtrak of \$55 million for current operating and capital needs related to security and passenger fleet improvements. The relationship between Amtrak's request for a RRIF loan guarantee for up to \$270 million and the \$55 million supplemental funding is unclear. Would the supplemental funds be considered an addition to the loan guarantee or would they be an offset?

- Third, all parties should recognize that providing a Federal loan guarantee in effect pushes the Amtrak problem forward to 2003. Amtrak ended fiscal year 2001 with \$85 million in short-term borrowing to cover its cash-flow deficit. At the close of 2002, if Amtrak receives a loan guarantee, that figure will be closer to \$225 million for the same purpose. Amtrak can not keep rolling forward into future fiscal years a progressively growing, cumulative cash-flow deficit. **If this is the case, Amtrak will be back before Congress next summer in a similar situation asking for additional funds.**

In a sense, in prior years Amtrak had created the illusion of progress towards meeting its glidepath to operating self-sufficiency by maximizing external financing and selling off assets, rather than significantly reducing costs. Amtrak is now burdened with a heavy debt load and substantial principal and interest payments that must be satisfied in the coming years. Between 1997 and 2001, Amtrak's total debt grew by about \$2.7 billion, from \$1.7 billion to \$4.4 billion, representing an overall increase of 155 percent. Amtrak faces formidable challenges in meeting its rapidly growing debt service requirements.

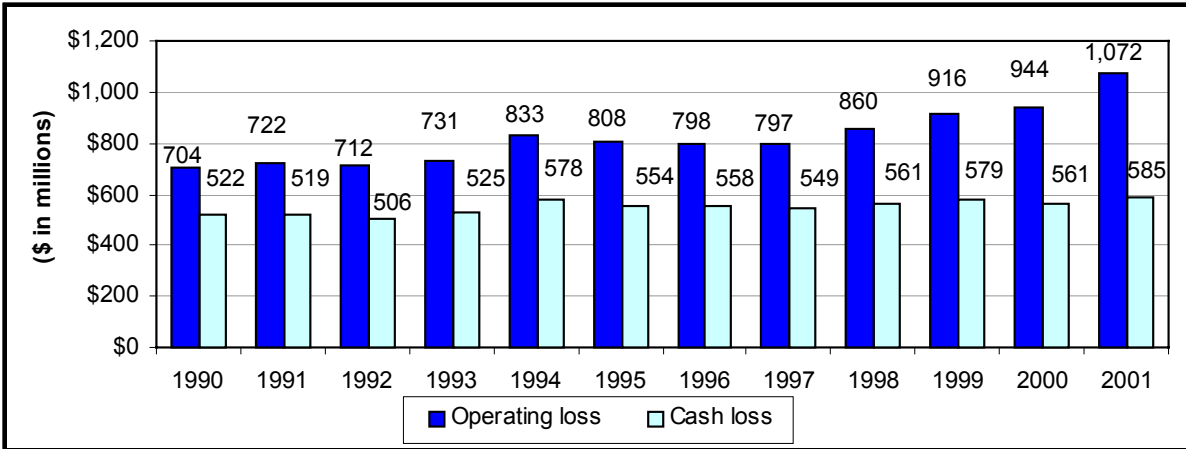
- Finally, Amtrak's current short-term funding crisis should not be allowed to obscure the equally critical and far more difficult issue of long-term capital funding. The cost of short-term operating losses pales in comparison to the multi-billions of dollars in long-term capital investment that will be needed to sustain a national, intercity passenger rail system. Amtrak's fiscal year 2003 grant request of \$1.2 billion is the minimum needed to maintain the reliability of the current system through 2003. To address the backlog of capital investment throughout the system and to finance improvements on corridors around the country will cost many hundreds of millions of dollars more each year.

FY2002 Cash Losses Were Expected

As illustrated in the following table, Amtrak's operating and cash losses have continued to increase since 1990. Its cash loss in 2001 of \$585 million was \$24 million worse than 1998, the first full year of its glidepath. The unfortunate fact is that expense growth has more than kept pace with revenue growth since

Amtrak received its self-sufficiency mandate, so that for every \$1.00 Amtrak has realized in additional revenue, cash expenses have increased by \$1.05.

Growth in Operating and Cash Losses, 1990 Through 2001



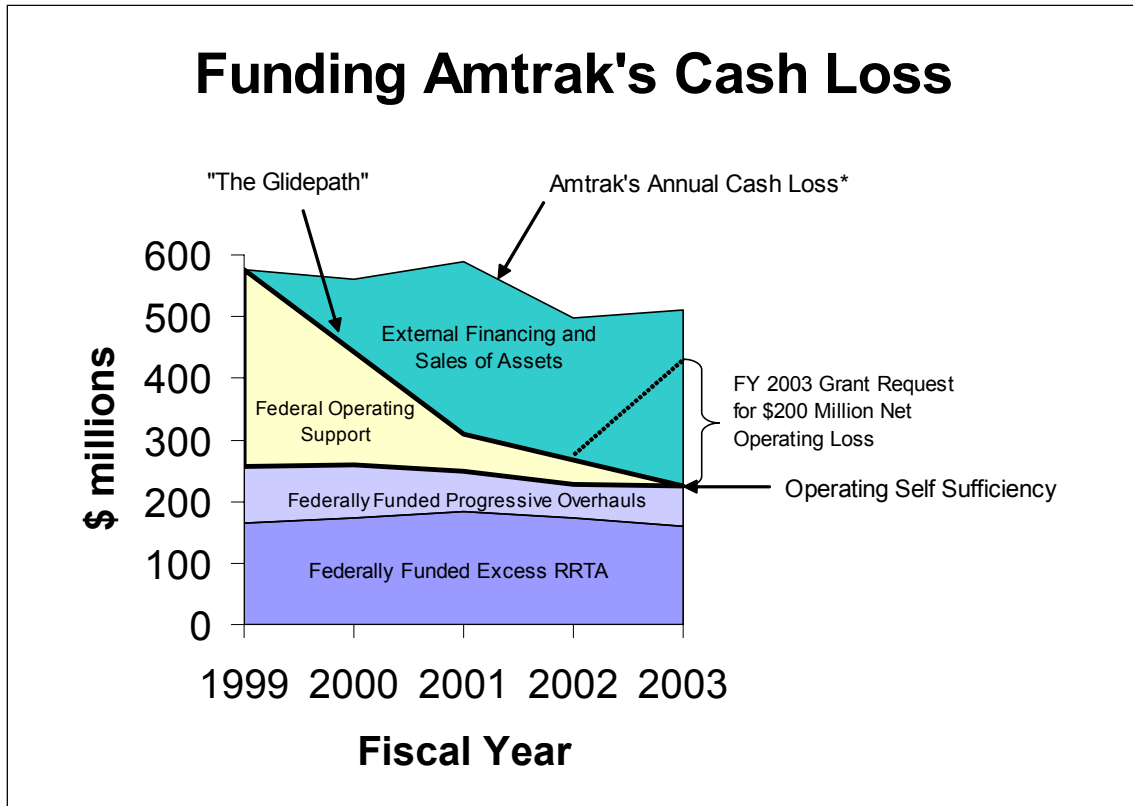
The cash problem in 2002 is not unique but continues a pattern that has existed for the last several years. In our 2001 Assessment of Amtrak’s Financial Performance and Requirements,¹ we projected Amtrak’s unfunded cash loss in 2001 to be \$277 million. Amtrak was able to cover this loss by mortgaging one of its most valuable assets, Penn Station-New York for \$300 million. For 2002, we projected Amtrak would generate \$217 million in unfunded cash losses and would, therefore, need to tap its short-term credit facility to offset the cash losses.

In a sense, Amtrak had created the illusion of progress towards meeting its glidepath to operating self-sufficiency by maximizing external financing and selling off assets, rather than significantly reducing costs. This is represented by the blue area in the chart on the following page. Amtrak is now burdened with a heavy debt load and substantial principal and interest payments that must be satisfied in the coming years.

The glidepath was based on a declining use of Federal appropriated funds to cover its cash losses. In 2000, Amtrak refinanced a portion of its fleet under a sale/leaseback agreement that provided approximately \$124 million in cash. In 2001, Amtrak mortgaged Penn Station-New York for \$300 million and borrowed \$85 million from its short-term credit facility. Each of these transactions allowed Amtrak to cover the cash-flow deficit.

¹ Report No. CR-2002-075, January 24, 2002. *2001 Assessment of Amtrak’s Financial Performance and Requirements, National Railroad Passenger Corporation, Office of Inspector General, U.S. Department of Transportation.*

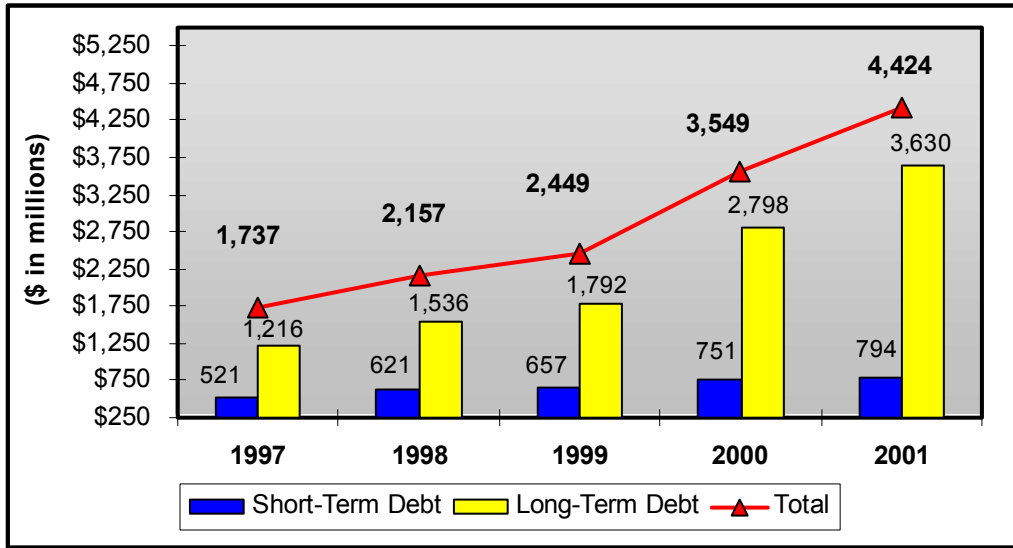
By this fiscal year, nearly all available assets have been collateralized and Amtrak has nearly exhausted its long-term, secured debt capacity. Amtrak's plan was to tap its \$270 million short-term credit facility to cover its cash losses in 2002. Unfortunately, absent audited financial statements and a long-term Federal commitment in the form of a reauthorization, Amtrak has apparently lost access to the private unsecured credit market. Essentially, the Federal Government has now become Amtrak's lender (guarantor) of last resort.



* 2002 and 2003 cash loss estimated in OIG's 2001 Amtrak Assessment.

Amtrak's debt load has grown dramatically over the last 5 years due to this external financing of its cash losses and its new train equipment. Between 1997 and 2001, Amtrak's total debt grew by about \$2.7 billion, from \$1.7 billion to \$4.4 billion, representing an overall increase of 155 percent. During the 7 months from September 30, 2001 to April 30, 2002, Amtrak's total debt grew by \$142 million to \$4.6 billion, continuing its trend of growing long-term debt obligations. The following table illustrates the growth in Amtrak's short-term liabilities as well as long-term debt and capital lease obligations since 1997.

Growth in Amtrak's Short and Long-Term Debt, 1997 Through 2001



Amtrak's Use of RRIF

Amtrak has applied for a loan guarantee through the RRIF to solve its short-term cash-flow crunch. However, there are a number of difficult questions that we feel must be explicitly answered concerning the use of this program for such a purpose. For example, it is our understanding the RRIF is a mechanism for **long-term financing** of capital needs of the rail industry not available from the private sector. The program's long-term nature can be found in its terms that prescribe a maximum repayment period of up to 25 years. In contrast, Amtrak's loan application indicates repayment within 5 months indicating that its real purpose is for a short-term bridge loan to make it through to the end of the year. Furthermore, a significant portion of Amtrak's short-term cash needs are operating in nature, which would make them ineligible to be financed under the terms of the program. Lastly, this action would likely add to Amtrak's funding needs in 2003 and defer its financial uncertainties and any resolution to 2003 or later.

Alternatives to the RRIF vehicle would be to explicitly and straightforwardly create a one-time Federal loan guarantee or direct Federal appropriation either as part of the 2002 supplemental appropriation or through some other legislative vehicle whose consideration by the Congress is imminent. We note in this regard that the Senate version of the 2002 supplemental appropriation contains a grant to Amtrak of \$55 million for current operating and capital needs related to security and passenger fleet improvements. The relationship between Amtrak's request for a RRIF loan guarantee for up to \$270 million and the \$55 million supplemental

funding is unclear. Would the supplemental funds be considered an addition to the loan guarantee or would they be an offset?

Amtrak’s Fiscal Year 2003 Legislative and Grant Request

On February 15, 2002, Amtrak submitted its grant request to the President, requesting \$1.2 billion, which it stated would be “essential for keeping a national rail service network intact” in 2003. We have reviewed Amtrak’s grant request and concluded that Amtrak will require at least \$1.2 billion to maintain its current system and minimize any negative effects on operations or safety. This does not include the need to repay any type of short-term loan at the outset of the year. We believe there is a high probability that Amtrak’s net operating cash loss will be more than the \$200 million Amtrak anticipates. **If this is the case, Amtrak will be back before Congress next summer in a similar situation asking for additional funds.** Therefore, Amtrak should reserve something on the order of 20 percent of its capital appropriation for 2003 until the fourth quarter to keep open the option to request permission from Congress to reprogram the money to cover operating shortfalls.

It is important to note that if the 2003 capital appropriation is less than requested, the likelihood of reliability problems in the Northeast Corridor increases in 2003 and beyond. A summary of our recommendation and Amtrak’s fiscal year 2003 grant request is shown below.

**Amtrak’s FY 2003 Grant Request and
OIG’s Recommendation
(\$ in millions)**

Component	Amtrak Grant Request	OIG Recommendation
Capital Investment	\$ 840	\$ 787*
Operating Subsidy	200	265
Excess RRTA	160	160
Total Funding Required	\$1,200	\$1,212

* We have recategorized \$65 million for progressive overhauls as operating expense.

This request does not cover the majority of safety and security improvements Amtrak identified in various proposals following September 11. Amtrak has made the decision to seek funding for these projects separately.

Madam Chairwoman, this concludes our statement. I would be pleased to answer any questions.