**U.S. Department of Transportation**
Office of the Secretary of Transportation

The Inspector General

Office of Inspector General
Washington, DC 20590

March 28, 2012

The Honorable John D. Rockefeller, IV
Chairman
Committee on Commerce, Science, and Transportation
United States Senate
Washington, DC 20510

The Honorable John L. Mica
Chairman
Committee on Transportation and Infrastructure
United States House of Representatives
Washington, DC 20515

The Honorable Patty Murray
Chairman
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510

The Honorable Tom Latham
Chairman
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
Committee on Appropriations
United States House of Representatives
Washington, DC 20515

Dear Chairmen Rockefeller, Murray, Mica, and Latham:

This report presents the results of our review of Amtrak's 5-Year Financial Plan for fiscal years 2012 through 2016 and its revised annual budget for fiscal year 2012.[1] This review is required by the Passenger Rail Investment and Improvement Act of 2008 (PRIIA).[2] Overall, we found that Amtrak's 5-Year Financial Plan addresses most of the requirements outlined in PRIIA, but lacks some required information, most notably regarding the company's financial stability and past performance. Our previous assessments also found these deficiencies in the Plans, but, according to Amtrak officials, the company is currently addressing them. In accordance with the company's Strategic Plan, issued in 2011, Amtrak organized

[1] Amtrak revised its annual budget after the enactment of fiscal year 2012's Federal appropriations law.
[2] Pub. L. No. 110-432, Div. B (Oct. 16, 2008). PRIIA authorizes funding for Amtrak through 2013, and requires Amtrak to annually issue a 5-year financial plan. OIG reviews each plan to determine if it meets requirements outlined in PRIIA Section 204(b).

the Financial Plan around new strategic goals and revised its annual budget for fiscal year 2012 to align with the Plan. Details of our analysis are included below.

## AMTRAK'S FINANCIAL PLAN LACKS REQUIRED INFORMATION ON FINANCIAL STABILITY AND PERFORMANCE

While it includes most of PRIIA's requirements, Amtrak's 5-Year Financial Plan lacks required information on the company's overall financial stability and past performance. These deficiencies are consistent with what we have found in our assessments of Amtrak's previous two Plans. PRIIA requires us to review Amtrak's Financial Plans to determine whether they include specific financial and performance elements. Table 1 summarizes these elements and the current Plan's compliance.

### *Table 1. Amtrak's Fiscal Year 2012-2016 Financial Plan Compliance with PRIIA's Requirements*

| PRIIA Requirement | Plan's Compliance |
|---|---|
| Projected revenues, expenditures, cash flow, and ridership | Full |
| Operational and capital funding requirements and expenditures and predicted funding sources | Full |
| Estimates of long- and short-term debt and associated principal and interest payments | Full |
| Projected capital and operating requirements, ridership, and revenue for any new passenger service operations or service expansions | Not applicable† |
| Capital and operating expenditures for anticipated security needs | Full |
| Assessment of Amtrak's continuing financial stability | Partial |
| Prior fiscal year and projected operating ratio, cash operating loss, cash operating loss per passenger, and labor productivity statistics on a route, business line, and corporate basis | Partial |
| Prior fiscal year and projected costs and savings estimates resulting from reform initiatives | Partial |
| Prior fiscal year and projected equipment reliability statistics | Full |
| Specific measures that demonstrate measurable improvement year over year in the financial results of Amtrak's operations | Full |
| A statement describing methods of estimation and significant assumptions | Full |

Source: PRIIA and OIG analysis of Amtrak data.
†: The Financial Plan does not indicate that Amtrak will be providing any new passenger service operations or service expansions.

The current Financial Plan indicates that there are risks to Amtrak's financial stability due to factors such as employee health care costs and volatile fuel prices, but it does not include a comprehensive evaluation of the company's financial stability. For example, the Plan describes Amtrak's human capital plan framework, including workforce planning and talent management, but does not provide implementation details or discuss how the framework will impact the company's financial stability. PRIIA explicitly calls for an assessment of Amtrak's continuing financial stability, and indicates the factors to consider: anticipated Federal funding of capital and operating costs; Amtrak's ability to efficiently recruit, retain, and manage its workforce; and Amtrak's ability to effectively provide passenger rail service. The Plan does not evaluate Amtrak's overall financial stability incorporating the impact of these factors.

In addition, the current Financial Plan does not report prior fiscal year performance data, including fiscal year 2011's costs and savings resulting from improvement initiatives, and cash operating loss and labor productivity on a route-level basis.[3] The omission of performance data not only constitutes non-compliance with PRIIA, but also does not allow for a comparison of the budget to actual performance. This is an important comparison, one Amtrak itself noted by stating that its budget numbers must be rational and defensible when compared to actual performance.

Our assessments of Amtrak's previous Financial Plans have revealed that the Plans have consistently lacked required information about Amtrak's financial stability, actual costs and savings of reform initiatives, and cash operating loss and labor productivity for individual routes. Amtrak officials informed us that they are currently working on a more comprehensive assessment of the company's financial stability and performance data. In response to this report, Amtrak officials stated that future financial plans will include assessments of continuing financial stability. According to budget and finance officials, the company has recognized the need to conduct a broader risk assessment, and has an enterprise risk management initiative underway. However, the officials did not provide an implementation timeline. Amtrak officials also stated that the company should be able to include more performance data in its future Financial Plans because they expect the company's new data systems to be fully operational in fiscal year 2012. However, despite the availability of more robust data, Amtrak budget officials also informed us that they do not have a standard procedure for tracking the performance of all reform initiatives.

---

[3] Although the current Plan is the first to include Amtrak's current fiscal year budgeted and projected cash operating loss and labor productivity at the route level, it does not include these statistics for the previous fiscal year, as PRIIA requires.

The Financial Plan does include other PRIIA-required components, including figures for revenues and ridership, projections for operating losses, and information on Key Performance Indicators. Amtrak projects revenues and ridership to increase steadily through fiscal year 2016. The projections for operating losses increase as well, mainly due to growing expenditures on salaries, wages, and benefits. Amtrak projects capital spending to vary year-to-year, with $1.1 billion budgeted in fiscal year 2012 and between $1.5 and $2.0 billion in fiscal years 2013, 2014, 2015, and 2016. To demonstrate financial results of Amtrak's operations, the Financial Plan includes Key Performance Indicators (KPI), which project that operating revenues should cover nearly 83 percent of operating expenses in fiscal year 2012. Although PRIIA requires that the Plan contain measures that demonstrate year-over-year improvement in the financial results of Amtrak's operations, the current Plan's KPI projections for operations do not show net improvement through fiscal year 2016.

## AMTRAK DEVELOPED ITS CURRENT FINANCIAL PLAN AROUND NEW STRATEGIC GOALS

Amtrak issued a Strategic Plan in October 2011, in response to recommendations from the Government Accountability Office and Amtrak's Office of Inspector General (Amtrak OIG), and organized the current Financial Plan around its new strategic goals. One of the goals is to improve financial performance and overall business results, and the Plan describes related management actions, such as establishment of business lines within the company to better manage financial performance.

According to Amtrak officials, they are using the goals, objectives, and strategies in the Strategic Plan as criteria for evaluating budget proposals. They stated further that the use of these criteria has required more disciplined decision-making and resulted in a more consistent and transparent budgeting process. Amtrak's prior Strategic Plan covered fiscal years 2008 through 2013, but remained in draft form and was never formally executed. In August 2010, Amtrak OIG recommended that Amtrak develop a strategic plan that could help the company align organizational efforts around a single vision and focus its resources on the programs and activities that will accomplish its mission.[4] In response, Amtrak officials developed a more robust and comprehensive Strategic Plan with input from across the company. It proposes corporate goals and strategies that address issues such as finances, operations, safety, security, customer and partner satisfaction, and environmental protection.

[4] Amtrak OIG, "Amtrak's Strategic Planning," E-10-01, August 17, 2010.

## AMTRAK'S REVISED ANNUAL BUDGET ALIGNS WITH ITS FINANCIAL PLAN

The revised annual budget is in line with and elaborates on the portion of the Financial Plan for fiscal year 2012. The budget provides details about Amtrak's implementation of its new Strategic Plan, such as a planned reduction in force, and new activities and initiatives, such as increased staffing on targeted long distance routes to improve route performance.

Unlike in previous years, Amtrak's budgeted net operating loss for fiscal year 2012 is significantly less than the amount the company received in Federal operating support. According to the budget, $120.7 million in operating savings are primarily from a reduced non-union workforce,[5] reduced advertising, and reductions in usage of professional services, including outside legal counsel and consultants. The budget also indicates that the company will use the $120.7 million for capital investments.

We are transmitting copies of this letter to the Ranking Members of your committees. If you have any questions, please contact me at (202) 366-1959, or Mitchell Behm, Assistant Inspector General for Rail, Maritime and Economic Analysis, at (202) 366-9970.

Sincerely,

Calvin L. Scovel III

Calvin L. Scovel III

cc: Ranking Member Hutchison, Committee on Commerce, Science, and Transportation, United States Senate

Ranking Member Rahall, Committee on Transportation and Infrastructure, United States House of Representatives

Ranking Member Collins, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, Committee on Appropriations, United States Senate

Ranking Member Olver, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, Committee on Appropriations, United States House of Representatives

[5] Amtrak employs over 20,000 people, more than 16,000 of whom are covered by labor agreements.