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

The Inspector General

Office of Inspector General
Washington, DC 20590

December 21, 2011

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

The Honorable Susan Collins
Ranking Member
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510

The Honorable John W. Olver
Ranking Member
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
Committee on Appropriations
United States House of Representatives
Washington, DC 20515

Dear Chairmen Murray and Latham and Ranking Members Collins and Olver:

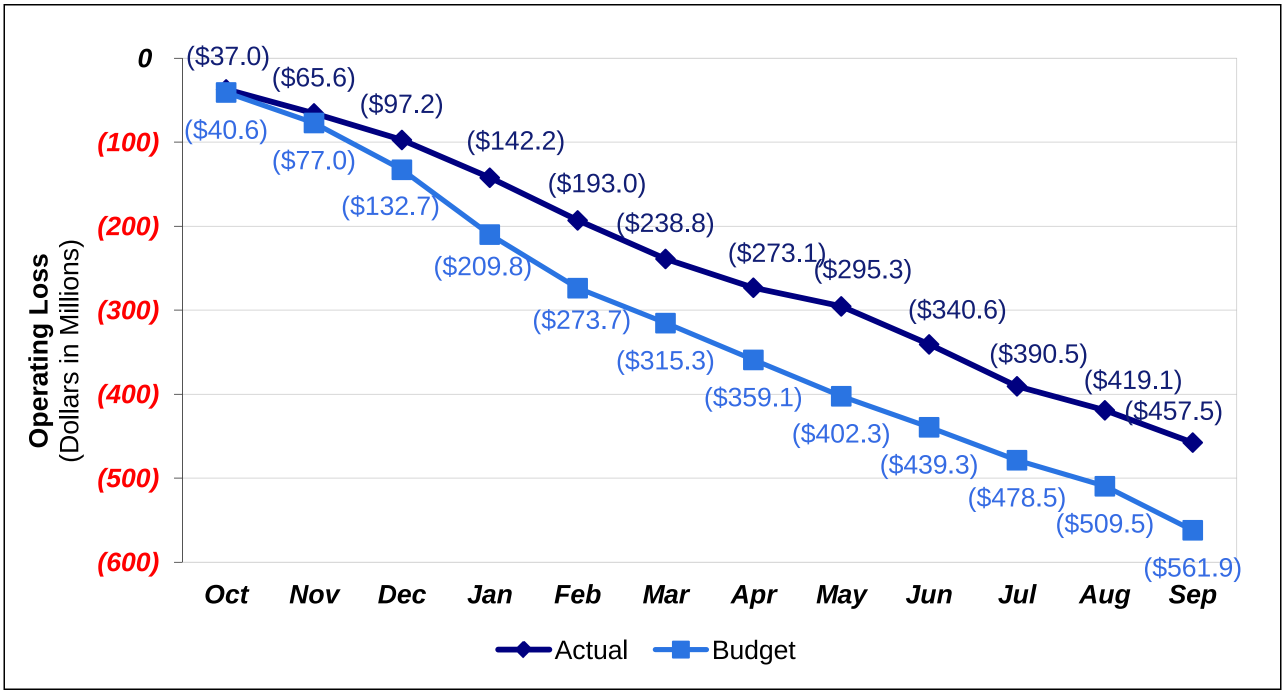
This report presents our assessment of Amtrak's fiscal year 2011 unaudited financial performance, which includes an update on Amtrak's use of its Key Performance Indicators (KPI) to improve company performance and assess progress of its improvement initiatives.[1]

[1] The Transportation/HUD Division of the Consolidated Appropriations Act of 2010, Pub.L. No. 111-117, requires OIG to report semiannually on the estimated savings accrued as a result of all operational reforms instituted by Amtrak and estimations of possible future savings.

SUMMARY

Despite records in both revenue and ridership, Amtrak's operating loss for fiscal year 2011 was $37.6 million (9.0 percent) greater than its operating loss for fiscal year 2010.[2] However, Amtrak anticipated the greater loss in its fiscal year 2011 budget projections, and the actual operating loss that resulted was $104.4 million (18.6 percent) less than the company projected. Figure 1 shows the actual and budgeted operating losses for fiscal year 2011 on a monthly basis. The year-over-year increase in operating loss was due primarily to increased expenditures on salaries, wages, and benefits, while the less-than-budgeted operating loss was due mostly to greater-than-expected ticket revenue.

Figure 1. Amtrak's Actual vs. Budget Operating Loss, Fiscal Year 2011



Source: Amtrak

Note: Amtrak revised its year-end $561.9 million operating loss in June 2011 after Congress passed a fiscal year 2011 budget for the Federal Government.

Amtrak had partial success generating new revenue from its fiscal year 2011 improvement initiatives. KPIs show that core expenditures increased as much as core revenue growth on a per-mile basis, however, the company projects

[2] Operating loss is reported on an earnings before interest, taxes, depreciation, and other post-employment benefits basis, unless otherwise noted. It is a measure of Amtrak's ability to operate within its available resources and serves as a reasonable proxy for Amtrak's Federal operating support requirements.

that its improvement initiatives will have high upfront costs but long-term benefits.

AMTRAK'S OPERATING LOSS WAS GREATER THAN IN 2010, BUT LESS THAN BUDGETED

Amtrak's operating loss for fiscal year 2011 was $37.6 million greater than the company's operating loss last year primarily due to increased expenditures on salaries, wages, and benefits. However, the operating loss was $104.4 million less than budgeted, due mainly to revenues that were $88.2 million higher than budgeted. Table 1 details Amtrak's operating revenues, expenses, and losses for fiscal year 2011 compared to the budgeted amounts and the actual amounts for fiscal year 2010. According to Amtrak officials, ridership during fiscal year 2011 was higher than anticipated because of high gasoline prices. These factors are described in more detail below.

Table 1. Amtrak's Financial Performance, Fiscal Year 2011

($ in millions)	**Actual** Fiscal Year 2011	**Variance** Favorable / **(Unfavorable)** to Fiscal Year 2011 Budget		to Fiscal Year 2010 Actual	
Operating Revenues	$2,683.5	$88.3	3.4%	$199.1	8.0%
Operating Expenses	3,141.0	16.1	0.5	**(236.7)**	**(8.1)**
Operating Profit / (Loss)	**(457.5)**	104.4	18.6	**(37.6)**	**(9.0)**

Source: Amtrak

Operating Revenues

Revenues for fiscal year 2011 totaled $2.7 billion, $88.3 million better than budget projections and $199.1 million better than actual revenues last fiscal year. These favorable results were mostly due to Amtrak reaching its highest ridership total in fiscal year 2011, with more than 30 million passengers, setting its eighth ridership record in the last 9 years. Record ticket revenue performance was driven by higher than expected ridership, as illustrated in Table 3. Overall ridership was 2.2 percent better than projected and 5.1 percent better than fiscal year 2010. This was due in part to higher ridership on State-supported and other corridors, which was 2.5 percent higher than budget projections and 6.5 percent higher than fiscal year 2010. In addition, ridership on the Northeast Corridor (NEC) was 2.4 percent higher than budget projections and 5.1 percent higher than fiscal year 2010. Amtrak officials attribute this performance to sustained high gasoline prices that continue to impact consumers who typically drive.

Table 2. Amtrak Ridership, Fiscal Year 2011

(Ridership in millions)	**Actual** Fiscal Year 2011	**Variance** to Fiscal Year 2011 Budget		to Fiscal Year 2010 Actual	
NEC†	10.9	0.3	2.4%	0.5	5.1%
Acela	*3.4*	*0.1*	*2.0*	*0.2*	*5.0*
Northeast Regional	*7.5*	*0.2*	*2.7*	*0.4*	*5.1*
State-Supported and Other Corridors	14.8	0.4	2.5	0.9	6.5
Long Distance	4.5	0.0	0.3	0.0	1.1
Amtrak Total	**30.2**	**0.6**	**2.2%**	**1.5**	**5.1%**

Source: Amtrak
†: Total includes the NEC's special trains, not shown.
Note: Totals may not add due to rounding.

Operating Expenses

Operating expenses for fiscal year 2011 totaled $3.1 billion, $16.1 million less than budget projections but $236.7 million more than the same period last year. This year-over-year increase was primarily due to increased wages and overtime payments, which exceeded the fiscal year 2011 budget by $14.9 million and fiscal year 2010 actuals by $54.4 million. Wages for employees covered by labor agreements have increased by 1.5 percent every 6 months beginning in July 2010, according to union agreements. Amtrak attributes increases in overtime to three main factors: high vacancy rates in the engineering and mechanical departments; unanticipated service outage events such as disruption on the *California Zephyr* route from June to September due to massive flooding; and increased work volume with American Recovery and Reinvestment Act (ARRA) capital improvements and cross-tie replacement. Additionally, Amtrak's initiatives to outsource its information technology services and introduce a new data management system ran significantly over budget. The costs of these information technology improvement initiatives exceeded budget projections because of multiple unforeseen challenges, such as greater-than-expected server space requirements, according to Amtrak officials.

KPI RESULTS HAVE NOT IMPROVED, BUT AMTRAK PROJECTS THAT IMPROVEMENT INITIATIVES WILL HAVE LONG-TERM BENEFITS

Amtrak's KPI results show that core expenses per seat mile increased as much as core revenue per seat mile from fiscal year 2010 to 2011, causing the proportion of expenses covered by revenues to increase about 1 percentage point. Amtrak officials reported mixed results from its fiscal year 2011 initiatives, but project that improvement initiatives will have long-term benefits, and will start to have a positive impact on its corporate-wide ability to cover expenses with revenues by fiscal year 2014.

Improvement Initiatives

We reported last year that Amtrak's fiscal year 2011 budget indicated that the company would generate a net $7.2 million from six new revenue-generating initiatives, such as new State-supported routes in Virginia. Amtrak officials provided us positive results for three of these initiatives. Officials reported that two initiatives—the revenue workbench[3] and the expansion of engineering services to improve response times—were canceled because of lack of capital funding and ongoing ARRA projects that consumed required workforce resources. For the three initiatives Amtrak was able to measure—new State-supported routes in Virginia, new third party contracts in Los Angeles, and the launch of e-ticketing—all appear to have generated more revenue than the company anticipated. However, the initiative to increase other state-supported revenue, which was expected to generate $7.4 million in fiscal year 2011, did not have the anticipated positive revenue results. Amtrak officials expect efforts to increase state-supported revenue to be successful in future years, once the new methodology for establishing and allocating operating and capital costs of state-supported routes is implemented.[4]

In addition to revenue-generating initiatives, during fiscal year 2011 Amtrak officials reported that they carried out other initiatives to improve service quality, efficiency, and safety. These initiatives were:

- Introduction of wireless internet on more NEC and California routes;
- Transformation of the High Speed Rail Department into the NEC Infrastructure and Investment Development Business Line;

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[3] The revenue workbench is a web-based alert application that would help Amtrak's Revenue Management and Pricing Department gain incremental revenue.

[4] Section 209 of the Passenger Rail Investment and Improvement Act (Pub.L. No. 110–432) requires Amtrak, in coordination with States, to develop a single, nationwide standardized methodology for establishing and allocating the operating and capital costs among the States and Amtrak.

- Continuation of the Reliability Centered Maintenance program to improve on-time performance as well as en route cleaning and maintenance of restrooms;
- Expansion of the Amtrak Police Department;
- Continuation of the Safe-2-Safer program, which promotes a culture at Amtrak that minimizes risk for passengers and employees;
- Implementation of several human capital initiatives that promote fitness, family, leadership training and performance management;
- Implementation of improved train handling and creation of a dedicated staff to reduce diesel and electric locomotives' energy consumption;
- Introduction of onboard recycling containers in café and lounge cars; and
- Continuation of support for information technology improvements to data systems, hardware, and servers.

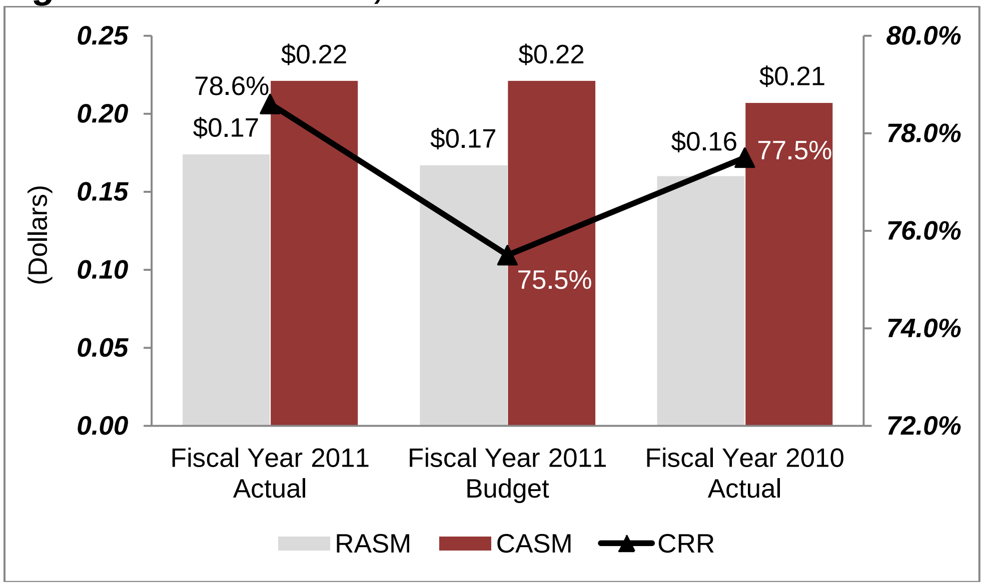
In addition to its operating improvement initiatives, Amtrak is decreasing the number of its non-agreement-covered employees[5] in order to reduce its reliance on Federal operating support. Officials informed us that the process will be completed early in the 2012 calendar year.

KPI Results

To measure the corporate-wide financial impact of Amtrak's improvement initiatives, we track three of the company's KPIs: core revenue per seat mile (RASM), core expense per seat mile (CASM), and the core cost recovery ratio (CRR). As illustrated in Figure 2, RASM increased 1 cent from fiscal year 2010 to 2011 as did CASM, while CRR rose about 1 percentage point. Compared to budget projections, however, Amtrak met its goals for RASM and CASM, and beat its goal for CRR by about 3 percentage points. Amtrak budget and finance officials explained that these trends are due to increased passenger revenues paired with significant upfront costs of certain improvement initiatives, such as the Safe-2-Safer program. In fiscal year 2011, Amtrak budgeted Safe-2-Safer to cost $9.6 million and save $0.7 million, but for fiscal year 2015, the program has a budgeted cost of $0.5 million and savings of $2.3 million.

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

Figure 2. KPI Results, Fiscal Year 2011



Source: Amtrak

In its current 5-Year Financial Plan—which covers fiscal years 2011 through 2015—Amtrak projects that costs of some operating improvement initiatives will outpace their associated revenues in fiscal years 2011, 2012 and 2013, and cause the corporate-level CRR to increase less than 1 percentage point during those years. However, in fiscal year 2014, initiatives should increase CRR by half of 1 percent as compared to the "business-as-usual" scenario. In fiscal year 2015, Amtrak projects that improvement initiatives will increase CRR by roughly a third of 1 percent above business-as-usual.

We are transmitting copies of this letter to the Secretary of Transportation and the Chairman of Amtrak's Board of Directors. If you have any questions concerning this letter, please contact me at (202) 366-1959, or Mitch Behm, Assistant Inspector General for Rail, Maritime and Economic Analysis, at (202) 366-9970.

Sincerely,

Calvin L. Scovel III

Calvin L. Scovel III
Inspector General

cc: Secretary of Transportation
Chairman of Amtrak's Board of Directors