U.S. Department of Transportation

Office of the Secretary of Transportation

The Inspector General

Office of Inspector General
Washington, DC 20590

May 31, 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:

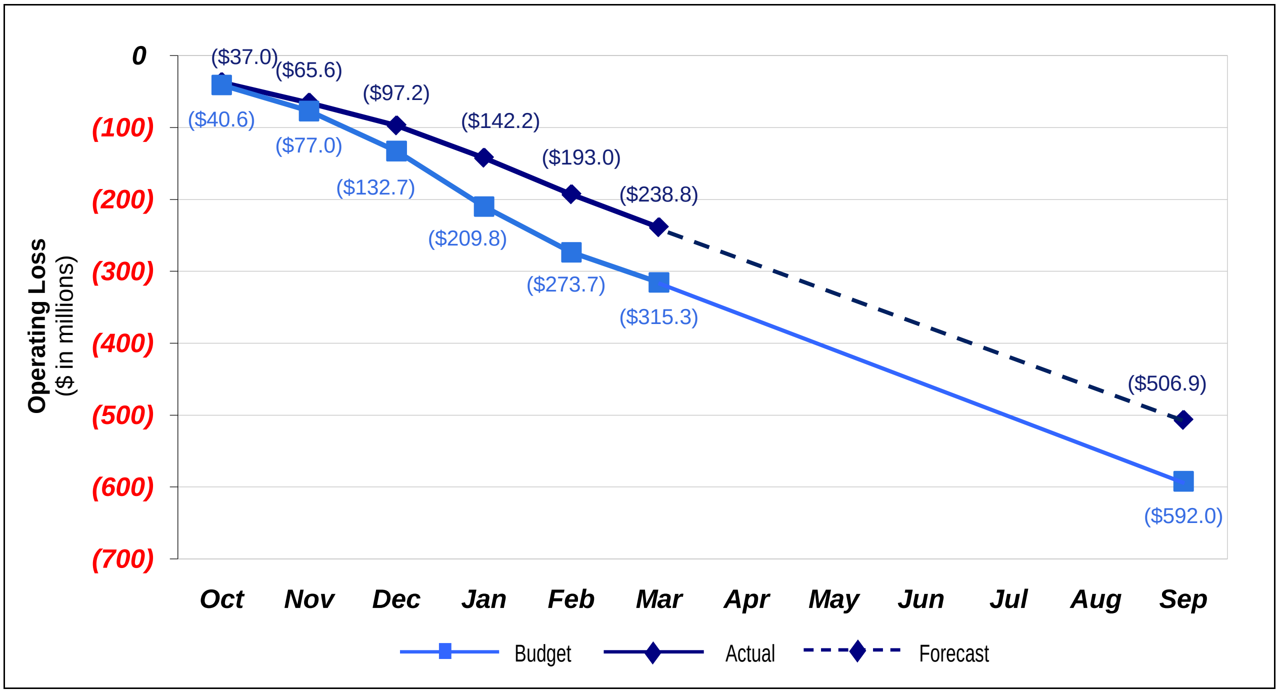
This report presents our assessment of Amtrak's financial performance for the first half of fiscal year 2011 (year-to-date) and Amtrak's forecasted end of fiscal year 2011 financial performance.[1] The report also includes an update on Amtrak's use of its Key Performance Indicators (KPIs) to improve company performance and assess progress of their improvement initiatives.

[1] The Transportation/HUD Division of the Consolidated Appropriations Act of 2010, Pub.L. No. 111-117 requires the OIG to report semiannually on Amtrak's savings.

SUMMARY

In the first 6 months of fiscal year 2011, Amtrak's operating loss of $238.8 million was $76.4 million (24.2 percent) less than budget projections,[2] and $24.4 million less than its actual operating loss for the first 6 months of fiscal year 2010. Figure 1 shows the actual and budgeted operating losses on a monthly basis for the first half of fiscal year 2011, as well as Amtrak's budgeted and forecasted operating loss for its year-end. The less-than-budgeted operating loss was mostly due to less-than-expected expenses. Amtrak projects that some of the savings achieved in the first half of the year will be maintained through the end of the fiscal year. The projected year-end operating loss is $506.9 million -- $85.1 million (14.4 percent) less than budget projections, but $87.0 million more than fiscal year 2010. KPIs appear to be useful to management in its efforts to improve services and financial management.

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



Source: Amtrak
Note: Amtrak budgeted its year-end $592.0 million operating loss before Congress passed a fiscal year 2011 budget for the federal government.

[2] Operating loss is reported on an earnings before interest, taxes, depreciation, and other post-employment benefits basis, unless otherwise noted. This operating loss 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.

AMTRAK'S SIX MONTH OPERATING LOSS IS LESS THAN BUDGETED BUT YEAR-END LOSSES ARE PROJECTED TO BE GREATER THAN 2010

Amtrak's operating loss for the first 6 months of fiscal year 2011 was $76.4 million less than budgeted due to revenues that were $7.9 million higher and expenses that were $68.5 million lower than budgeted. Amtrak's operating loss for the first half of fiscal year 2011 was also $24.4 million better than the company's actual operating loss for the same period last year, despite an increase in this year's operating expenses of $51.7 million. Table 1 details Amtrak's operating revenues, expenses, and losses for the first half of fiscal year 2011 compared to the budgeted amounts and the actual amounts for the same period in fiscal year 2010. Ridership year-to-date was higher than anticipated because of the improved economy, higher gasoline prices and consumer dissatisfaction with air travel. These factors are described in more detail below.

Table 1. Amtrak's Financial Performance, Fiscal Year 2011 (October - March)

($ in millions)	**Actual** Fiscal Year 2011	**Variance** Favorable / (Unfavorable) to Fiscal Year 2011 Budget		to Fiscal Year 2010 Actual	
Operating Revenues	$1,263.7	$7.9	0.6%	$76.2	6.4%
Operating Expenses	1,502.5	68.5	4.4	**(51.7)**	**(3.6)**
Operating Profit / (Loss)	**(238.8)**	76.4	24.2	24.4	9.3

Source: Amtrak

While its operating loss for the first half of the fiscal year was 24.2 percent better than budget estimates, Amtrak is projecting its operating loss to be just 3.1 percent better than budget estimates for the second half of the fiscal year. This is based primarily on projected increased operating expenses due to rising fuel prices. For year-end, Amtrak forecasts a total operating loss of $506.9 million, $85.1 million better than budget estimates, but $87.0 million worse than last fiscal year's actual operating loss. The projected increases in spending on salaries, wages, and benefits in the second half of fiscal year 2011 will result in a larger year-end operating loss than in fiscal year 2010. Table 2 details Amtrak's forecast for the company's year-end operating revenues, expenses, and losses.

Table 2. Amtrak's Forecasted Year-End Financial Performance, Fiscal Year 2011

($ in millions)	**Forecast** Fiscal Year 2011	**Variance** Favorable / **(Unfavorable)** to Fiscal Year 2011 Budget		to Fiscal Year 2010 Actual	
Operating Revenues	$2,642.8	$47.5	1.8%	$158.4	6.4%
Operating Expenses	3,149.7	37.5	1.2	**(245.4)**	**(8.5)**
Operating Profit / (Loss)	**(506.9)**	85.1	14.4	**(87.0)**	**(20.7)**

Source: Amtrak

Operating Revenues

Revenues for the first half of fiscal year 2011 totaled $1.3 billion, $7.9 million better than budget projections and $76.2 million better than actual revenues for the same period last year. Passenger-related revenues alone totaled $1.0 billion, $15.9 million (1.6 percent) better than budget projections and $68.2 million (7.3 percent) better than the first half of fiscal year 2010.

Ticket revenue performance was driven by higher than expected ridership, as illustrated in Table 3. Ridership for the first half of fiscal year 2011 was 1.1 percent better than projected, due in part to higher than expected ridership on state-supported and other corridors (2.0 percent), and long distance routes (1.1 percent). Amtrak attributes this performance primarily to rising consumer fuel prices during the first half of the fiscal year. *Northeast Regional* ridership for the first half of the fiscal year was 1.5 percent below budget projections. However, overall ridership along the Northeast Corridor (NEC) nearly met projected budget levels, and *Acela* ridership actually exceeded budget expectations by 3.2 percent. According to Amtrak officials, the *Acela* service is capturing a greater business travel market share from air travel due to, among other factors, the availability of Wi-Fi on *Acela* trains.

Amtrak projects year-end operating revenues to total about $2.6 billion, $47.5 million greater than budgeted and $158.4 million more than fiscal year

2010. Amtrak forecasts ticket revenues to be $1.8 billion at year-end, $62.1 million more than budget projections and $127.2 million more than fiscal year 2010. According to Amtrak officials, the company anticipates another annual ridership record this fiscal year, in keeping with 7 of the past 8 fiscal years. Amtrak cites higher consumer gasoline prices and effective marketing campaigns as significant factors in continuing ridership growth.

Table 3. Amtrak Ridership, Fiscal Year 2011 (October - March)

(Ridership in millions)	**Actual** Fiscal Year 2011	**Variance** to Fiscal Year 2011 Budget		to Fiscal Year 2010 Actual	
NEC†	5.3	0.0	0.0%	0.2	3.9%
Acela	*1.7*	*0.1*	*3.2*	*0.1*	*8.4*
Northeast Regional	*3.6*	*(0.1)*	*(1.5)*	*0.1*	*1.9*
State-Supported and Other Corridors	7.0	0.1	2.0	0.5	7.7
Long Distance	2.2	0.0	1.1	0.1	5.3
Amtrak Total	**14.4**	**0.2**	**1.1**	**0.8**	**5.9**

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

Operating Expenses

Operating expenses for the first 6 months of fiscal year 2011 totaled $1.5 billion, $68.5 million better than budget projections, but $51.7 million more than the same period last year. Lower than expected expenses were primarily due to savings from costs associated with employee benefits ($45.0 million), fuel, power, and utilities ($12.2 million). Employee benefits savings came from lower than expected health care costs. The savings in fuel, power, and utilities resulted from lower unit prices for power purchased on the NEC, as well as lower usage rates for electricity and natural gas.

Amtrak forecasts that these savings will result in total expenses for the year of $3.1 billion, $37.5 million less than budgeted but $245.4 million more than fiscal year 2010 actual expenses. The projected increase in expenditures from fiscal year 2010 is primarily due to salaries, wages, and benefits, which are expected to exceed fiscal year 2010 levels by $148.5 million.

KPIs FACILITATED EFFORTS TO IMPROVE SERVICES AND FINANCIAL MANAGEMENT

Management's use of KPIs appears to have improved Amtrak's services and financial performance. Amtrak reports on eight efficiency and effectiveness KPIs to measure the progress of the company's improvement initiatives.[3] For example, officials told us that based on closely monitored Customer Satisfaction Index (CSI) scores, which are effectiveness measures generated through feedback from customer surveys, they adjusted cleaning and maintenance schedules on individual routes. Furthermore, Amtrak is developing a computer system that will track CSI scores by train crew so it can also monitor quality of service for individual crews. At a higher management level, the Board of Directors now uses revenue per available seat mile (RASM) and cost per available seat mile (CASM) to evaluate individual routes' financial performance. Specifically, the Board of Directors uses RASM and CASM from individual state-supported routes to compare and analyze revenue gaps. According to Amtrak officials, this approach assists management to identify and expedite the payment of outstanding state subsidies.

Amtrak was unable to provide us with the impact of improvement initiatives on operating results because they are currently shifting budget and performance data into a new automated system. According to Amtrak officials, this system will allow them to track cost savings of both operating and capital improvement initiatives. Amtrak expects to start reporting this cost savings data in fiscal year 2012.

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

[3] Amtrak originally reported on nine KPIs, but they no longer include Safety Ratio, which was calculated as the number of reportable injuries per 200,000 man hours of work.