



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

The Inspector General

Office of Inspector General  
Washington, DC 20590

August 7, 2008

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

The Honorable Christopher “Kit” Bond  
Ranking Member  
Subcommittee on Transportation,  
Housing and Urban Development, and  
Related Agencies  
Committee on Appropriations  
United States Senate  
Washington, DC 20510

The Honorable Joe Knollenberg  
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 Olver and Ranking Members Bond and Knollenberg:

This report<sup>1</sup> presents our quarterly assessment of Amtrak’s fiscal year (FY) 2008 financial performance and operational reform savings.<sup>2</sup> Through June of FY 2008, Amtrak is still performing better than expected financially, but now projects a year-end operating loss<sup>3</sup> of \$456 million, a \$12 million greater loss than it projected for our April report. As of May of FY 2008, Amtrak projects a year-end cash balance of \$289.1 million. It achieved \$19.5 million in operating reform savings through April, \$3.2 million more than budgeted. Overall, we believe

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<sup>1</sup> Our previous quarterly reports on Amtrak’s savings from operational reforms are available on the Office of Inspector General (OIG) website at [www.oig.dot.gov](http://www.oig.dot.gov).

<sup>2</sup> Defined throughout as either net operating savings or a reduction in net operating losses.

<sup>3</sup> Operating loss is reported on an earnings before interest, taxes, depreciation, and other post-employment benefits (EBITDO) basis, unless otherwise noted. We use the EBITDO basis because it is a reasonable proxy for Amtrak’s Federal operating support requirement.

Amtrak may achieve its target of \$40.3 million in FY 2008 operational reform savings.

## Summary

- Amtrak's operating loss through June was \$294.1 million, \$72.8 million less than originally forecast due largely to better than expected revenues. Amtrak forecasts it will finish FY 2008 with an operating loss of \$456 million, \$19 million less than originally forecast. This year-end projected loss is a \$12 million increase over the projection included in our April report. This change is largely a result of an accrual of one-time costs related to Amtrak's recent labor settlements; higher than budgeted fuel, power, and utility costs; and increased revenues.
- Over 65 percent (\$12.7 million) of Amtrak's cost savings were achieved from productivity savings in Amtrak's core operating departments and reflect lower staffing requirements. These savings resulted from better business practices and management efficiency reforms undertaken in the prior 2 years.
- Amtrak continues to make progress on a limited set of sustainable operational reforms, but the direct returns from some of these efforts appear to be nearly exhausted. Amtrak must continue to look for new opportunities for reducing its operating losses to allow for more Federal support to be directed toward its significant capital backlog.
- Amtrak is in the process of developing a new 5-year strategic plan that it hopes to complete and begin implementing this fall. Along with the strategic plan, Amtrak needs to ensure the appropriate management structure to ensure adequate oversight, management, and reporting on its strategic reform initiatives.

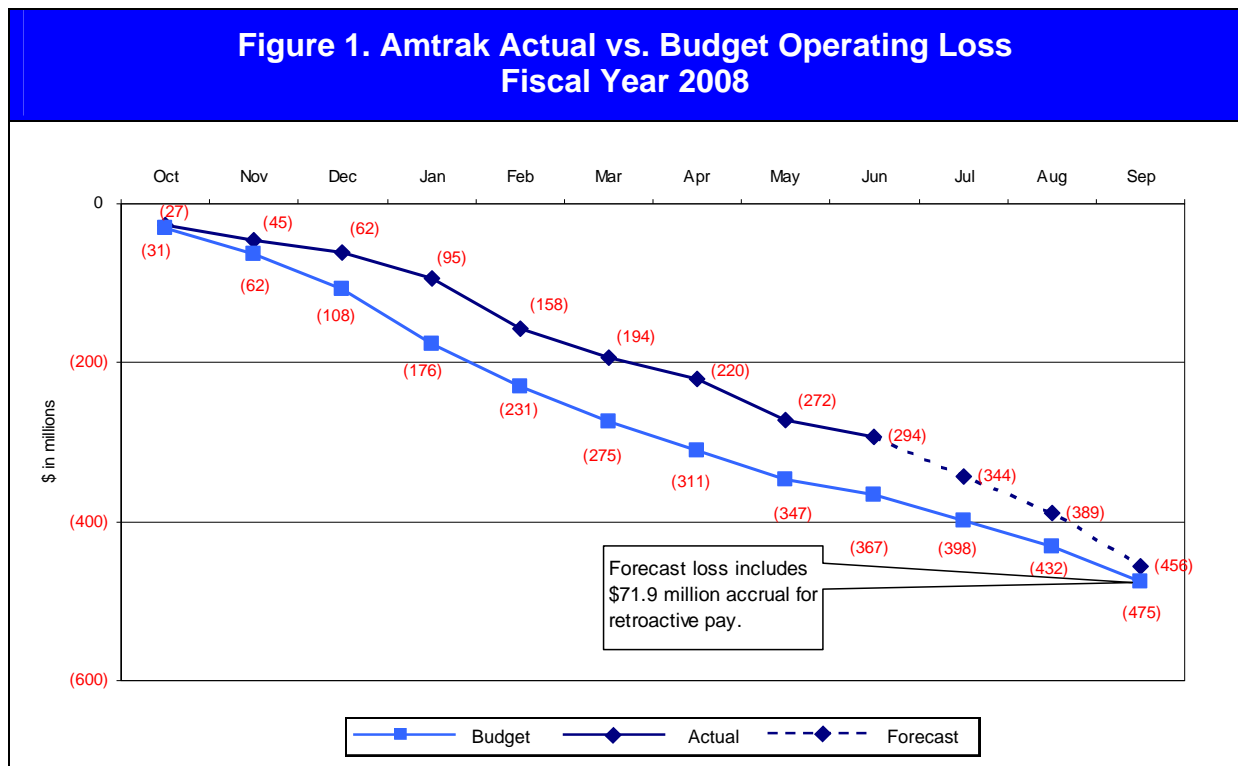
## Amtrak's Financial Performance through May Exceeded Projections

This section provides the results of our review of Amtrak's year-to-date financial performance.

**Corporate Level Results.** Amtrak's operating loss was \$72.8 million less than budgeted through June. Consistent with our April 30, 2008, report, this favorable financial performance reflects better than expected ticket revenues offset somewhat by rising fuel and utilities costs. Amtrak projects a year-end FY 2008 operating loss of \$456.1 million, \$18.9 million less than the amount of its Federal

operating subsidy. As of May, Amtrak also projects a cash balance of \$289.1 million, \$100.1 million or 53 percent higher than the \$189 million cash balance it originally forecast. Amtrak's original FY 2008 cash forecast anticipated making certain payments in FY 2008 associated with the then ongoing labor negotiations. The final labor agreement called for a substantial portion of these payments to be made in FY 2009, not FY 2008, thereby adding to the FY 2008 cash balance.<sup>4</sup>

Figure 1, below, presents a comparison of Amtrak's operating loss through May and its budgeted operating loss.



Source: Amtrak.

Operating revenues through June were \$115.5 million better than budget. This includes ticket revenues that were \$87.2 million, or 7.6 percent, higher than budget. Amtrak now projects year-end passenger revenues will be \$211.6 million, or 12.2 percent, above FY 2007 and \$112.4 million, or 6.1 percent, above the FY 2008 budget projection. Between February and June 2008, Amtrak increased its year-end ticket revenue forecast by \$37.9 million. Consistent with our April report, Amtrak attributes the improved year-to-date performance to fare increases and a peak pricing strategy for *Acela* service, as well as an increase in ridership as

<sup>4</sup> See Office of Inspector General correspondence CC-2008-077 "Review of Amtrak's Labor Settlement Costs," June 17, 2008, for details on labor settlement costs. All Office of Inspector General reports and testimonies are accessible on our website at [www.oig.dot.gov](http://www.oig.dot.gov).

a result of rising gasoline prices and the deteriorating quality of service in the airline industry. These increases were offset by the loss of an estimated \$15.1 million due to service disruptions caused by mudslides, flooding, and the Thames River Bridge replacement. In line with our April report, freight access fees and other revenues were \$12.0 million above budget, due in large part to the one-time sale of eight P-40 locomotives to the Connecticut Department of Transportation. Additionally, commercial development fees were \$10.2 million more than budgeted, commuter revenue was \$4.3 million more than budgeted, and reimbursable revenue was \$5.7 million more than budgeted.

Operating expenses through June were \$33.9 million more than budgeted, reflecting higher fuel, power, and utility (energy) costs that were partially offset by lower than expected personnel costs. At year end, operating expenses are projected to be \$124.0 million more than budgeted. Energy costs were \$43.0 million higher than budgeted through June, and Amtrak projects that at year end they will be \$95.5 million higher than budgeted, largely due to the cost of diesel fuel. We believe, however, that Amtrak's higher fuel costs may be more than offset by increased revenues as rising gasoline prices induce customers to substitute train travel for trips they previously would have taken by privately owned vehicle or air.

These increases were partially offset through lower salaries, wages and benefits costs, which were \$2.2 million below budget. Decreases continue to reflect the result of a management hiring freeze and a significantly lower than expected health benefits costs, which was a result of an improved claims history for the Amtrak health plan. Those costs, however, were partially offset by increased overtime. In April, we reported that personnel costs were \$24.2 million lower than budgeted. In contrast, the current costs reflect an accrual of \$25.8 million in higher than budgeted labor settlement costs since our April report. Amtrak now projects to finish the year with salaries, wages, and benefits of \$13.2 million over budget.

A variety of smaller items largely in the facilities, communication, office and casualty, and other claims expense categories are also responsible for offsetting some of the higher than budgeted energy costs.

**Business Line Results.** As shown in table 1 on the next page, Amtrak's favorable corporate-wide operating results are attributed to operating income through May on the Northeast Corridor (NEC). NEC income for that period was \$60.0 million better than the same period last year and largely reflected higher ticket revenues, which were offset by higher personnel costs. The operating loss on Amtrak's state-supported and other corridors through May was \$12.8 million more than last year mainly because of higher than projected wages and fuel costs. The operating loss for long-distance trains through May was \$48.4 million more than the same period last year because of higher than projected wages and fuel costs.

<b>Table 1. Amtrak Business Line Operating Performance October 2007 though May 2008 (\$ in millions)</b>			
<b>Business Line</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>Variance to Last Year</b>
National Train System Operations	(182.5)	(\$181.3)	(1.2)
<i>Northeast Corridor</i>	\$249.3	\$189.3	\$60.0
<i>State-Supported and Other Corridors</i>	(\$89.9)	(\$77.1)	(\$12.8)
<i>Long-Distance Service</i>	(\$341.9)	(\$293.5)	(\$48.4)

### **Amtrak's FY 2008 Operating Reform Savings are Exceeding Projections**

Amtrak achieved \$19.5 million in operating reform savings through April, mostly through productivity improvements in the Environmental, Transportation, and Mechanical Departments (see table 2 below). We expect Amtrak will achieve approximately \$40 million in operational reform savings in FY 2008.

<b>Table 2. Summary of FY 2008 Operating Reform Savings (\$ in millions)</b>			
<b>Saving Initiatives</b>	<b>Budgeted YTD Benefit</b>	<b>Actual YTD Benefit</b>	<b>Variance +/-</b>
Reduce Costs and Improve Service Quality	6.4	7.1	0.7
Increase Sales and Distribution Efficiencies	0.6	2.0	1.4
Enhance Reliability and Efficiency of Mechanical Services	(4.4)	(3.8)	0.6
Improve Management Systems and Overhead Efficiencies	2.0	1.5	(0.5)
Achieve Ongoing Efficiencies	11.6	12.7	1.1
<b>Total</b>	<b>16.3</b>	<b>19.5</b>	<b>3.2</b>

Columns may not sum due to rounding.

Source: Amtrak.

The following sections provide details on the implementation plans, status, and savings of Amtrak's initiatives through April.

**Reduce Costs and Improve Service Quality.** Amtrak saved \$7.1 million through this reform initiative through April, slightly more than it projected to save. This initiative has three components: NEC Service Improvement, Long-Distance Service Improvements, and Food and Beverage Service restructuring

The NEC Service Improvement program focuses on *Acela* service and includes a 16th *Acela* trainset, improving customer satisfaction, and Wi-Fi availability on trains and in stations. Increased equipment availability, which resulted from Amtrak's Reliability Centered Maintenance (RCM) program, enabled Amtrak to put a 16th *Acela* trainset into service in July 2007. The 16th *Acela* trainset originally serviced the Washington, D.C. to New York market and has generated \$2.3 million in additional revenue through April. In May Amtrak redirected this trainset to the New York to Boston market because it concluded that the incremental revenue from a 10th additional round trip in the northend market was greater than that from a 16th additional southend round trip. Customer satisfaction continues to be addressed on *Acela* through service improvements such as an overhaul of the *Acela* first-class menu service, leather seats in first class, and continued customer service focus, all resulting in an estimated revenue increase of \$3 million through April. Wi-Fi service on trains has been delayed because Amtrak lost its contracted provider, but the service is available in Amtrak stations. Amtrak is searching for a new provider.

Long-Distance Service Improvements planned for FY 2008 include the relaunch of the *Coast Starlight* service, continued focus on improving customer service, and luxury charter services. The *Coast Starlight* relaunch involves an upgrade of service with a redesigned *Pacific Parlour Car* service and enhanced food and beverage services. This initiative creates a revenue center from the *Parlour* cars, where some of those services were previously offered as free amenities. The January mudslides in Oregon delayed the relaunch of the *Coast Starlight* until June and reduced savings to \$0.2 million in additional revenue through April. Amtrak is placing customer service managers on five routes—the *City of New Orleans*, *Southwest Chief*, *Crescent*, *Sunset Limited*, and *Empire Builder* to support specific service improvements similar to what is being done on the NEC. This initiative began in April and Amtrak reports \$0.1 million in savings thus far. Finally, as we reported in April, GrandLuxe cancelled its luxury charter service after eight trips because it found the venture unprofitable.

Amtrak has suspended any further Food and Beverage Service restructuring because it determined that the streamlined dining/lounge cars provided insufficient seating capacity, given the recent ridership increases. Further, Amtrak continues to

achieve incremental savings from its renegotiated contract with Gate Gourmet by identifying new cost saving opportunities in areas such as supplies and linen service procurement. Through April, these efforts achieved \$1.3 million in savings.

**Increased Sales and Distribution Efficiencies.** Amtrak achieved \$2.0 million in additional revenue through April, \$1.4 million more than planned. Amtrak's e-ticketing program, which began in FY 2007, is being expanded this year to include a new website that provides access to international travel agents to book Amtrak tickets. The success of this initiative is likely because of the demand abroad for the service, combined with a weakened dollar. The next step in this initiative is its demonstration (beta-test) of hand-held ticket scanners. The demonstration is scheduled to take place in Maine. Upon successful completion of its demonstration, the e-ticketing initiative is expected to be implemented over the next 2 years.

**Enhance Reliability and Efficiency of Mechanical Services.** This initiative is focused on the continued rollout of Amtrak's Reliability Centered Maintenance program designed to reduce maintenance costs and allow more equipment to remain in service. Initially applied to *Acela* equipment, the program is being rolled out to other equipment. At this time, the initiative's negative "savings" reflects development costs and includes the cost of additional maintenance managers for the high-speed rail maintenance program and consulting fees for the design and implementation of RCM. In the long run, RCM will reduce maintenance costs, improve equipment reliability, and increase revenues by allowing trains to be returned to revenue service earlier.

In areas where it determines that greater efficiency can be achieved, Amtrak continues to consolidate types of work (for example, centralizing maintenance work on each type of equipment). Amtrak is not reporting any savings this year from this initiative.

**Improve Management Systems and Overhead Efficiencies.** This initiative consists of two programs—reduced energy costs and improved on-board credit card automation. The program to reduce energy costs relies on contract and billing management and has resulted in a net savings of \$0.7 million through April, despite rising utility costs.

On-board credit card automation is another program carried over from previous years, and consists of improved revenues by making it easier for customers to use credit cards as a form of payment and reducing the cost of credit card transactions through automated processes and other improved procedures. With \$0.8 million in

revenue enhancements and cost savings through April, this program is on track to produce the estimated full year benefit of \$2.1 million.

**Achieve Ongoing Efficiencies.** This initiative consists of three programs—engineering efficiencies, fuel use management, and productivity savings in the Environmental, Transportation, and Mechanical Departments.

The engineering efficiencies program is designed to produce savings through the increased productivity of the engineering workforce by capping growth in the number of overtime hours. This program, which has been under way since FY 2006, produced \$48,000 of the \$1 million in savings budgeted through April.

Amtrak is currently implementing a program designed to train locomotive engineers in techniques to maximize the fuel efficiency of their equipment. Its start was delayed from January until May 2008, but it is expected to produce \$0.1 million in savings this year.

Finally, the Environmental, Transportation, and Mechanical Departments' productivity improvement initiative has saved \$12.7 million through April, \$1.1 million more than budgeted. Since the issuance of our April report, we have agreed to classify these savings as operating reforms, based on new information provided by Amtrak. Savings have come from a variety of efforts implemented over the last 2 years, such as enhanced work management systems in the Engineering and Mechanical departments. As a result of these and a number of other initiatives, Amtrak has been able to reevaluate its need to backfill positions that become vacant as a result of attrition. As it becomes apparent from analysis of workforce needs that a position is no longer necessary, that position is eliminated rather than backfilled, resulting in budget savings.

### **Amtrak's Operating Reform Efforts Lack Strategic Direction**

As we previously reported, Amtrak achieved a combined \$114.1 million in cost savings in FYs 2006 and 2007 from its FY 2005 Strategic Reform Initiatives (SRI). We expect an additional \$40 million in savings this year. With the exception of its Reliability Centered Maintenance initiative, many of these programs have reached or will soon reach completion. In fact, over half of this year's savings represent ongoing labor productivity from many of the reform initiatives completed in previous years. Further, Amtrak's FY 2009 Legislative and Grant Request reflects no additional savings from new operational reforms.

Amtrak's last strategic plan, issued in FY 2005, has largely run its course. Amtrak managers have repeatedly stated that the absence of a plan limits their ability to move forward on individual operating reforms.

Consequently, Amtrak's Board and management are working on a new strategic plan that may be completed this year. It is expected to be incorporated into the FY 2010 budget. Key issues that the new strategic plan will need to address are:



- how Amtrak will evaluate tradeoffs between competing demands for its resources, whether that demand is to maintain or expand existing service or add new service or amenities;
- the linkage between Amtrak's planned activities and its bottom line, particularly the continued improvement in its cost-effectiveness; and
- the detailed steps or tactical plan Amtrak proposes to follow to achieve its strategic direction.

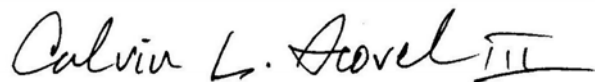
## Conclusion

Amtrak continues to make progress on a limited set of sustainable operational reforms, but the direct returns from some of these efforts appear to be nearly exhausted. Amtrak must continue to look for new opportunities for reducing its operating losses to allow for more Federal support to be directed toward its significant capital backlog. We are awaiting the release of a new strategic plan to provide a renewed effort for achieving further efficiencies.

Amtrak's failure to reach the goals of its FY 2005 strategic plan can be attributed to a lack of realistic analysis and stakeholder support. It is imperative that the forthcoming plan contain both of these elements if it is to succeed. Furthermore, we believe Amtrak should ensure that management commitment and corporate resources are allocated to define specific operational reforms, implementation plans, and a program management framework that will provide for an appropriate level of accountability and transparency.

Under separate cover, 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 David Tornquist, Assistant Inspector General for Rail and Maritime Program Audits and Economic Analysis, at (202) 366-1981.

Sincerely,



Calvin L. Scovel III  
Inspector General

Enclosures (2)

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

<b>Table 3. Amtrak's Proposed Operational Reforms (\$ in millions)</b>		
<b>Strategic Reform Initiative and Program</b>	<b>Objective</b>	<b>FY 2008 Targeted Savings</b>
<b>1. Reduce Costs and Improve Service Quality</b>		
NEC Service Improvements	Focus management attention and drive accountability for train service performance, including on-board service quality and on-time performance.	7.0
Food and Beverage Services	Enhance service flexibility by redesigning food services (for example, multi-purpose food service cars), improving equipment, and outsourcing.	3.3
Long-Distance Service Improvement	Improve customer satisfaction with long-distance service.	4.3
<b>2. Increase Sales and Distribution Efficiencies</b>		
e-ticketing	Develop enterprise systems and processes for e-ticketing.	1.3
<b>3. Enhance Reliability and Efficiency of Mechanical Services</b>		
Reliability Centered Maintenance (RCM)	Implement RCM to reduce cycle time and increase equipment reliability and availability. Costs represent consultant fees.	(8.3)
Facilities Efficiencies	Optimize facility utilization by consolidating and redesigning facilities.	0.2
<b>4. Improve Management Systems and Overhead Efficiencies</b>		
Reduce Energy Costs	Modernize management of utilities contracts and identify savings in individual utilities line items.	2.0
Reduce Overhead Costs	Reduce overhead costs through on-board credit card automation	2.1

<b>Table 4. Amtrak's Proposed Operational Reforms (\$ in millions) (cont.)</b>		
<b>Strategic Reform Initiative and Program</b>	<b>Objective</b>	<b>FY 2008 Targeted Savings</b>
<b>5. Achieve Ongoing Efficiencies</b>		
Train Operations	Reduce costs of Engineering Department; maximize fuel efficiency of locomotives by training engineers, productivity savings in Environmental, Transportation, and Mechanical Departments	19.8
<b>Total</b>		<b>31.8</b>

Source:

Amtrak

**Table 4. Summary of Amtrak Savings through April of FY 2008**  
(\$ in millions)

Amtrak Net Operating Savings	Budgeted FY 2008 Benefit	Budgeted YTD Benefit	Actual YTD Benefit	YTD Variance
<b>Reform Initiatives</b>				
<b>1. Reduce Costs and Improve Service Quality</b>	<b>14.6</b>	<b>6.4</b>	<b>7.1</b>	<b>0.7</b>
NEC Service Improvements	7.0	3.0	5.3	2.3
<i>NEC Acela Service Improvement</i>	4.0	1.4	3.0	1.6
<i>16th Acela Trainset</i>	1.7	1.4	2.3	0.9
<i>Implement On-board Wi-Fi</i>	1.3	0.2	0.0	<i>(0.2)</i>
Long-Distance Service Improvements	4.3	1.6	0.5	<i>(1.1)</i>
<i>Coast Starlight Relaunch</i>	2.2	0.3	0.2	<i>(0.1)</i>
<i>Customer Service Improvement</i>	0.9	0.1	0.1	0.0
<i>Luxury Charter Services</i>	1.2	1.2	0.2	<i>(1.0)</i>
Food and Beverage	3.3	1.8	1.3	<i>(0.5)</i>
<i>Redesign Equipment</i>	1.5	0.7	0.4	<i>(0.3)</i>
<i>Gate Gourmet Contract</i>	1.8	1.1	0.9	<i>(0.2)</i>
<b>2. Increase Sales and Distribution Efficiencies</b>	<b>1.3</b>	<b>0.6</b>	<b>2.0</b>	<b>1.4</b>
<i>e-Ticketing Customized Access</i>	1.3	0.6	2.0	1.4
<b>3. Enhance Reliability and Efficiency of Mechanical Services</b>	<b>(8.1)</b>	<b>(4.4)</b>	<b>(3.8)</b>	<b>0.6</b>
<i>Reliability Centered Maintenance</i>	<i>(8.3)</i>	<i>(4.4)</i>	<i>(3.8)</i>	0.6
<i>Facility Consolidation</i>	0.2	0.0	0.0	0.0
<b>4. Improve Management Systems and Overhead Efficiencies</b>	<b>4.1</b>	<b>2.0</b>	<b>1.5</b>	<b>(0.5)</b>
<i>Reduce Energy Costs</i>	2.0	1.2	0.7	<i>(0.5)</i>
<i>On-Board Credit Card Automation</i>	2.1	0.8	0.8	0.0
<b>5. Achieve Ongoing Efficiencies</b>	<b>19.8</b>	<b>11.6</b>	<b>12.7</b>	<b>1.1</b>
<i>Fuel Use Management</i>	0.1	0.0	0.0	0.0
<i>Engineering Efficiencies</i>	1.7	1.0	0.0	<i>(1.0)</i>
<i>Productivity Savings in Environmental, Transportation, and Mechanical Departments</i>	18.0	10.6	12.7	2.1
<b>Reform Initiative Savings</b>	<b>31.8</b>	<b>16.3</b>	<b>19.5</b>	<b>3.2</b>
<i>Savings from Unidentified Business Initiatives</i>	8.5	0.0	0.0	0.0
<b>Total</b>	<b>40.3</b>	<b>16.3</b>	<b>19.5</b>	<b>3.2</b>

Columns may not sum due to rounding.

Source: Amtrak.

**Addendum:**

The following table contains information contained in a graph (Figure 1) in this document. This information was not a part of the original document but has been added here to accommodate assistive technology.

**Figure 1: Amtrak Actual vs. Budget Operating Loss, Fiscal Year 2008 (\$ in millions)**

	<b>Actual Operating Loss</b>	<b>Budget Operating Loss</b>
<b>October</b>	<b>-27</b>	<b>-31</b>
<b>November</b>	<b>-45</b>	<b>-62</b>
<b>December</b>	<b>-62</b>	<b>-108</b>
<b>January</b>	<b>-95</b>	<b>-176</b>
<b>February</b>	<b>-158</b>	<b>-231</b>
<b>March</b>	<b>-194</b>	<b>-275</b>
<b>April</b>	<b>-220</b>	<b>-311</b>
<b>May</b>	<b>-272</b>	<b>-347</b>
<b>June</b>	<b>-294</b>	<b>-367</b>
<b>July (forecast)</b>	<b>-344</b>	<b>-398</b>
<b>August (forecast)</b>	<b>-389</b>	<b>-432</b>
<b>September (forecast)</b>	<b>-456</b>	<b>-475</b>

Source: Amtrak