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

Inspector General

Office of Inspector General
Washington, DC 20590

November 14, 2007

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 presents our fourth quarterly assessment of Amtrak's fiscal year (FY) 2007 operational reforms savings (defined throughout as either net operating savings or a reduction in net operating losses) and unaudited financial performance. Amtrak realized almost $53 million of the $61 million in FY 2007 reform savings it originally anticipated. The shortfall in savings resulted from Amtrak eliminating several initiatives earlier in the year. However, Amtrak's financial performance was still stronger than expected.

Summary

- Amtrak's FY 2007 cash operating loss of $429 million was $56 million lower than its budgeted level of $485 million and $23 million lower than its $452 million cash operating loss in FY 2006. Amtrak's operating loss would have been well below $350 million had it not accrued certain costs in FY 2007 that it expects to pay in FY 2008 or later.

- Amtrak's savings from operational reforms in FY 2007 are lower than originally forecast due to Amtrak's cancellation of the sleeper right-sizing and the call center initiatives. However, these savings are higher than anticipated in July due to higher than projected savings from food and beverage and station efficiencies.
- Amtrak's improved financial performance is attributable in part to the absence of a labor settlement, which has constrained labor cost increases. Once a labor settlement is reached, this constraint on wages will be removed.
- Amtrak's cash balance at the end of FY 2007 was $244 million, compared to $215 million in FY 2006. In our July report,[1] we projected that Amtrak's FY 2007 end-of-year cash balance would be over $300 million. However, Amtrak chose to reduce its cash balance by spending about $60 million to purchase leased coach and food service cars and prepay its FY 2008 Railroad Rehabilitation and Improvement Financing Program (RRIF) loan payment.
- Amtrak's did not spend $31 million of its planned FY 2007 capital program which contributed to this high cash balance. While Amtrak spent all of the $495 million Federal capital appropriation, it only spent $11 million of the $42 million of internal funds it planned to spend on capital projects.

Amtrak's Fiscal Year 2007 Financial Performance Exceeds Projections

This section provides our review of Amtrak's FY 2007 financial performance.

Corporate Level Results. Amtrak's cash operating loss was $429 million—$56 million lower than projected in its $485 million FY 2007 operating budget and $23 million lower than in FY 2006. In our July report, we projected that the operating loss would be less than $390 million. However, Amtrak underestimated its revenue, overestimated its expenses, and chose to accrue costs in FY 2007 that it anticipates paying in FY 2008. Amtrak's decision to accrue this cost at the end of FY 2007, rather than in FY 2008, significantly increased Amtrak's reported FY 2007 operating loss.

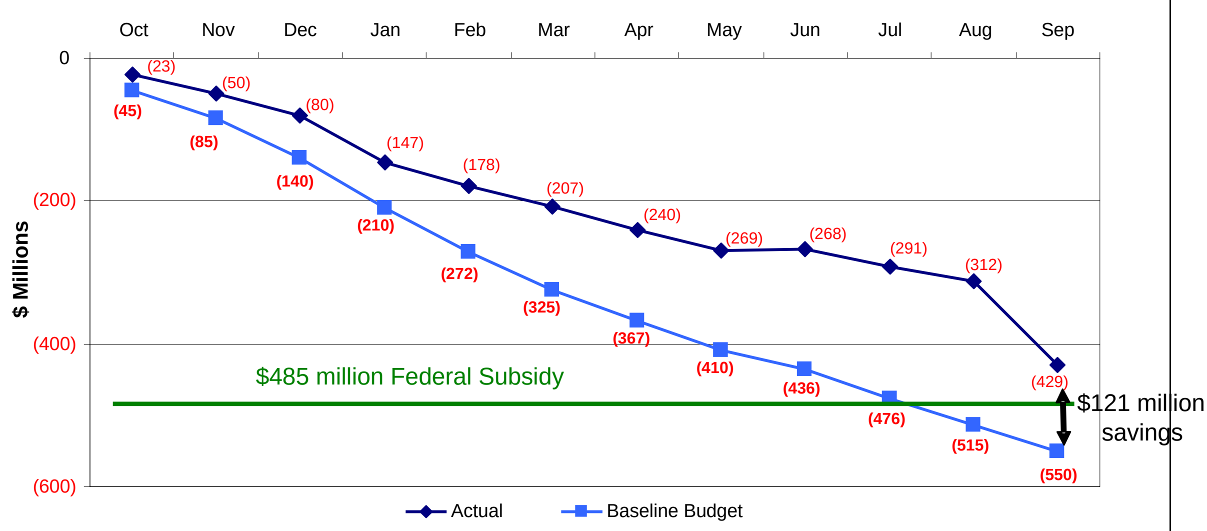
Amtrak's operating loss was $121 million favorable to our FY 2007 $550 million baseline budget (see figure 1). The baseline budget was our estimate, included in our January 2007 report,[2] of the total amount of Federal subsidy and savings Amtrak required to cover its operating losses in FY 2007. By comparison, Amtrak estimated

[1] CC-2007-0059, "Third Quarterly Report on Amtrak's FY 2007 Operational Reforms Savings and Financial Performance," July 31, 2007. Our previous quarterly reports on Amtrak's savings from operational reforms are available at www.oig.dot.gov.

[2] CC-2007-002, "Quarterly Report on Cost Savings Accrued by Amtrak Operational Reform," January 18, 2007.

it needed $565 million in Federal subsidy and savings to cover its projected FY 2007 operating shortfall.

Figure 1. Amtrak Operating Loss*
Fiscal Year 2007



* Amtrak provided financial data on operating losses

Amtrak's financial performance reflects $2.2 billion in operating revenues; this is $71.4 million higher than projected and shows a $142 million improvement over FY 2006. The improvement in operating revenues reflects higher than expected passenger revenues, which were $46 million above projected and $164 million above actual revenues last year.

Amtrak's operating expenses of $2.6 billion were $15.7 million above FY 2007 budget projections and $118.8 million more than actual expenses in FY 2006. Materials costs were almost $19 million higher than expected. As noted previously in this report, FY 2007 expenses partly reflect the estimated expenses accrued in anticipation of a labor settlement. Other labor savings reflect unfilled positions and safety improvements resulting in lower Federal Employee Liability Act (FELA) costs.

Business Line Results. As shown in table 1 below, the improvement relative to budget is primarily accounted for by the Northeast Corridor (NEC). Amtrak's NEC Corridor services earned $272.1 million in FY 2007—$47.7 more than expected and $45.4 million more than last year. The NEC operating revenues reached $885.2 million in FY 2007—$66.5 million above budget projections, mostly as a result of revenues from Acela service at $56.7 million above budget projections. Amtrak attributed increases in Acela revenues and ridership to reduced trip times, improved on-time performance, deteriorating airline service, increased highway congestion, and higher gasoline costs. Revenues from Amtrak's Regional service were $9.8 million higher than expected. Revenue management (i.e., increasing the number of lower price seats and better reflecting customer price sensitivities) attributed to the increase in Regional service revenues. The NEC expenses were $18.8 million above budget, largely reflecting higher materials costs.

Table 1. Amtrak Net Profit/(Loss), Excluding Federal Operating Subsidies* FY 2007 ($ in Millions)

Business Line	Actual	Budget	Actual vs. Budget
National Train System Operations	($262.5)	($293.9)	$31.4
Northeast Corridor	*$272.1*	*$224.4*	*$47.7*
State-Supported and Other Corridors	*($113.6)*	*($43.2)*	*($70.4)*
Long-Distance Service	*($421.0)*	*($475.1)*	*$54.1*
Infrastructure Management	*($39.0)*	*($46.5)*	$7.5
Ancillary Business	$93.2	$74.7	$18.5
Unallocated System	($220.9)	($219.3)	($1.6)
Total	**($429.3)**	**($485.0)**	**$55.7**

* Amtrak reports these financials on an earnings before interest, taxes, depreciation, and OPEBs (other post-employment benefits) basis. Totals may not sum due to rounding.

State-supported and other corridors lost $113.6 million in FY 2007—$70.4 million more than expected and $23.3 million more than last year. Revenues were $25.6 million below budget projections although $38.2 million higher than last year. Amtrak attributes the shortfall in budgeted revenues to the impact from fare increases and overly aggressive assumptions about revenue growth from additional services in Illinois, California, and Pennsylvania.

Long-distance services lost $421.0 million, $54.1 million less than expected and $20.3 million less than last year. The improvement relative to budget resulted from $8.6 million in higher than projected passenger revenues and $45.5 million in lower than expected expenses. The modest revenue increases resulted from higher than projected ridership. Lower than expected expenses primarily reflect overestimates of benefit and materials costs.

Amtrak Made Progress on Some Reform Initiatives, but Its Overall Savings Fell Short of Plans

Amtrak achieved annual savings of nearly $53 million from operational reforms in FY 2007, somewhat higher than the $46 million Amtrak projected and we reported in July. This increase in savings reflects revisions in Amtrak's employee benefits and FELA costs, not additional effort on existing or new initiatives. About 80 percent of Amtrak's savings came from implementing a single initiative: Reduce Costs and

Improve Service Quality. This initiative primarily consists of revenue enhancements from Acela service quality improvements and cost savings from redesigned food services and equipment (see table 2). Enclosure 1 further details Amtrak's savings from operational reforms.

Amtrak's savings are lower than the $61 million it originally forecasted for FY 2007. The reduced savings reflect Amtrak's cancellation of the sleeper right-sizing and call center initiatives. Amtrak stated it cancelled its sleeper right-sizing initiative based on an analysis indicating that the initiative would not generate the savings originally projected. However, Amtrak has been unable to produce the analysis that supported the decision to cancel this initiative. The call center initiative was cancelled after an agreement was reached with labor that reduced costs. These initiatives were projected to add $21.9 million in annual savings for FY 2007. Higher than projected savings in improved Acela service and station efficiencies helped offset some of the lost savings from cancelled initiatives.

Since our July report, Amtrak has completed some of the projects within the eight reform initiatives. These include modifying to the Superliner Diner/Lounge car and installing on-board credit card terminals for food and beverage sales on all trains.

Table 2. Summary of FY 2007 Strategic Reform Initiatives ($ in millions)

Strategic Reform Initiative	Estimated FY07 Benefit	Actual FY07 Benefit	Variance +/-	Progress
Reduce Costs and Improve Service Quality*	49.5	42.2	(7.3)	On schedule
Increase Sales and Distribution Efficiencies	4.8	7.1	2.3	On schedule
Enhance Reliability and Efficiency of Mechanical Services	0.1	(0.5)	(0.6)	Accelerated schedule
Improve Management Systems and Overhead Efficiencies	3.7	3.7	0.0	Behind schedule
Achieve Ongoing Efficiencies	3.7	0.3	(3.4)	On schedule
Optimize Network Services and Use of Assets	(0.7)	(0.1)	0.6	No reportable progress
Full Cost Recovery of Services and Assets	0.0	0.0	0.0	No reportable progress
Modernize Labor Contracts	0.0	0.0	0.0	No reportable progress
Total**	**61.1**	**52.8**	**(8.4)**	

* We show budgeted benefits from sleeper right-sizing in this line item consistent with Amtrak's original plan. Upon cancellation of the initiative, Amtrak reclassified it under the Optimize Network Services and Use of Assets line item for budget expense tracking purposes.

**Totals may not sum due to rounding.

The following summarizes Amtrak's progress on its strategic reform initiatives. Compared to our July assessment on the progress of individual initiatives, one has been accelerated and one is back on schedule. Of the remaining six initiatives, two are still on schedule, one is still behind schedule, and three have no reportable progress. Enclosure 2 further details the actual and budgeted savings for FY 2007 and projected 5-year savings from these initiatives. Enclosure 3 further details the progress made on these initiatives.

Reduce Costs and Improve Quality of Passenger Services. In FY 2007, Amtrak achieved $42.2 million in operating savings from this initiative. Food and beverage service accounted for $21.8 million in savings, $2.5 million above Amtrak's projections. Savings were mainly from the redesigned food service, called Simplified Dining.[3] This sub-initiative has been fully implemented and is now built into the revenue base.

The Acela service improvement program accounted for $20 million in savings.[4] Amtrak estimates that (1) on-time performance contributed $4.1 million to Acela revenues, (2) a 5-minute trip time improvement on the Acela south end contributed $9.0 million, and (3) a 15th Acela trainset that was added in October 2006 generated $6.9 million in revenues in FY 2007. Amtrak added a 16th trainset in July 2007, which is expected to generate $2.3 million in FY 2008.

Prior to canceling its sleeper restructuring initiative, Amtrak reduced the number of employees on some of its trains (without reducing sleeper cars), realizing $0.4 million in savings in FY 2007. Amtrak also completed modifications to the Superliner Diner Lounge car conversions. Four of the new cars, each renamed the Cross Country Café, were put into service on the *City of New Orleans* long-distance train on October 28, 2007.

Increase Sales and Distribution Efficiencies. In FY 2007, Amtrak achieved $7.1 million in actual savings from projects within this initiative. Under this initiative, Amtrak achieved $5.0 million in operating savings from station efficiencies as a result of installing Quik Trak ticket machines. Quik Trak machines allow customers to buy tickets at stations rather than on the trains and reduce the need for ticket agents at stations. Phase 1 was completed in August with the deployment of 199 Quik Trak machines. In Phase 2, Amtrak will deploy an additional 108 Quik Trak machines. Thirty-three of these machines were installed in September, and the

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3 Simplified Dining is Amtrak's redesigned food service that primarily relies on fully prepared food products that require only on-board heating in a convection or microwave oven, reducing the need for on-board servers and food specialists. This initiative has resulted in the elimination of 200 on-board food and beverage positions.

4 The savings associated with Acela improvements are estimated based on a percentage of total Acela revenue improvement since it is not possible to directly measure the increased revenues from these specific initiatives. The estimates are based on Amtrak's ridership and revenue models of the NEC.

remaining 75 are expected to be installed by November. This will complete the initiative.

Although Amtrak eliminated its call center outsourcing initiative, it did achieve $0.2 million in savings from renegotiating lower starting wages for new hires. These savings are expected to increase to $0.6 million in FY 2008. With the elimination of the call center outsourcing initiative, Amtrak accelerated its E-ticketing initiative. In FY 2007, Amtrak achieved $0.9 million in savings from its new international travel agency sales website. Most of the E-ticketing initiative actions are still in the design and planning phase with additional savings expected in FY 2008.

Enhance Reliability and Efficiency of Mechanical Services. In FY 2007, Amtrak did not achieve any saving from this effort. Amtrak accelerated its Continuous Maintenance (CM) program under its Reliability Centered Maintenance (RCM) initiative in order to reap benefits sooner than originally planned. Amtrak's CM program focuses on improving the availability of equipment and decreasing failure rates. The program reduces the quarterly maintenance requirements into 12 weekly programs and 1 weekend program of scheduled maintenance.

Amtrak has implemented CM for its 152 Acela fleet cars. Amtrak expects to complete its Maintenance Effectiveness Reviews (MERs) for its AEM-7 locomotives by the end of the fall and begin implementing MERs for its HHP-8 locomotives by January 2008. This initiative will move to conventional fleet cars at the end of FY 2008 or early FY 2009. As a result of accelerating the program, consulting expenses were larger than budgeted and led to a net loss of $0.8 million.

Amtrak also achieved savings of $3.1 million in FY 2007 from consolidating the New Orleans locomotive maintenance facility into its Chicago facility, which led to the elimination of 37 staff positions. Amtrak was unsuccessful in finding a contractor for outsourcing its locomotive maintenance. At this time, Amtrak plans to work with a consultant to develop in-house alternatives. Amtrak budgeted $2.1 million in savings this year from this initiative, which did not materialize.

Improve Management Systems and Overhead Efficiencies. In FY 2007, Amtrak achieved $3.7 million in savings from ongoing efforts to reduce overhead costs; these include utility costs, bank services and fees, pension plan administrative costs, and administrative fees related to medical benefits. Utility savings accounted for $2.8 million of these savings. In July 2007, Amtrak completed the installation of on-board credit card terminals for use in food and beverage sales on all trains. Amtrak attributes $0.6 million in savings from credit card terminals from both fraud reduction and increased sales.

Achieve Ongoing Efficiencies. Amtrak's initiative to reduce labor costs for the engineering workforce has achieved significantly lower saving than budgeted. For the year, Amtrak achieved only $0.3 million of the projected $3.7 million in savings due to increased overtime costs caused by workforce attrition. Amtrak has been working since December 2006 to reduce overtime by hiring new employees.

Optimize Network Services and Use of Assets. There is no reportable progress on this initiative. Amtrak continues to work toward implementing state competition pilot programs in Maine, California, and Vermont. The long-distance restructuring effort is significantly behind schedule, and no savings were expected in FY 2007.

Full Cost Recovery of Services and Assets. There is no reportable progress for this initiative. This initiative seeks to recoup fully allocated losses from states for NEC corridor and commuter services. Currently, Amtrak does not recover its overhead costs or cost of capital for corridor services. In addition, several states pay nothing to Amtrak for their corridor service. Because Amtrak has not been able to convince states to increase (or, in some cases, begin) payments for these services, it expects to cover $150 million in operating losses on behalf of states in FY 2008.

Modernize Labor Contracts. This initiative is aimed at reducing unit costs and increasing job flexibility by negotiating new labor agreements that will eliminate certain work rules and outsourcing restrictions and aligns wages based on market demand. Negotiations on a new agreement between Amtrak and its unions are at an impasse. The Railway Labor Act prescribes a process for resolving such an impasse. In October, Amtrak's unions rejected the National Mediations Board's (NMB) proffer of voluntary, binding arbitration to resolve the impasse. As a result, as of October 31, both parties are in a 30-day cooling off period. At the end of this period, both sides would be free to unilaterally act in their own self interest. For example, the unions could strike or Amtrak management could change pay levels, work rules, or working conditions. These actions would be placed on hold if the NMB recommends the creation of, and the President appoints, a Presidential Emergency Board (PEB). The PEB would investigate the dispute and recommend a settlement to the President.

Conclusion

Amtrak has made progress in implementing some of its reforms, most notably in streamlined food and beverage services and improved Acela service. However, overall savings from its reforms initiatives are less than projected and fall below last year's savings of $61 million. Instead, significant budget savings came from favorable market conditions rather than structural change in Amtrak's operating environment. Apart from its food and beverage services, Amtrak has made no progress in the major areas of route restructuring, full cost recovery of state-supported services, and labor efficiencies.

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) 366-9970.

Sincerely,

Calvin L. Scovel III
Inspector General

Enclosures (3)

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

Table 3. Summary of Amtrak Savings FY 2007 ($ in millions)			
Amtrak Net Operating Savings*	**Revised Estimated FY 2007 Benefit**	**Actual FY 2007 Benefit**	**Variance +/-**
Strategic Reform Initiatives			
1. Reduce Costs and Improve Service Quality	**49.5**	**42.2**	**(7.3)**
Service Quality	10.5	20.0	9.5
Improve NEC Acela service	*10.5*	*20.0*	*9.5*
Food and Beverage Services	19.3	21.8	2.5
Sleeper Right-Sizing	19.7	0.4	(19.3)
2. Increase Sales and Distribution Efficiencies	**4.8**	**7.1**	**2.3**
Station Efficiencies	2.7	5.0	2.3
Call Center Operations	2.1	1.2	(0.9)
E-Ticketing	0.0	0.9	0.9
3. Enhance Reliability and Efficiency of Mechanical Services	**0.1**	**(0.5)**	**(0.6)**
Reliability Centered Maintenance	(2.8)	(3.6)	(0.8)
Facilities Efficiencies	2.9	3.1	0.2
Develop outsourcing plan for locomotive service	*2.1*	*0.0*	*(2.1)*
Facility consolidation	*0.8*	*3.1*	*2.3*
4. Improve Management Systems and Overhead Efficiencies	**3.7**	**3.7**	**0.0**
Management Information Systems	(0.8)	0.0	0.8
Overhead Costs	4.5	3.7	(0.8)
Reduce fuel and power	*0.5*	*2.8*	*2.3*
Other overhead	*1.6*	*0.3*	*(1.3)*
Install on-board credit card terminals	*2.4*	*0.6*	*(1.8)*
5. Achieve Ongoing Efficiencies	**3.7**	**0.3**	**(3.4)**
Engineering	3.7	0.3	(3.4)
6. Optimize Network Services and Use of Assets	**(0.7)**	**(0.1)**	**0.6**
Routes and Services	(0.4)	(0.1)	0.3
NEC	*(0.3)*	*(0.1)*	*0.2*
Long distance	*(0.1)*	*0.0*	*0.1*
Fleet	(0.1)	0.0	0.1
Infrastructure	(0.2)	0.0	0.2
Total**	**61.1**	**52.8**	**(8.4)**

Source: Amtrak Finance and Planning Departments

* We included $6.9 million in savings from the 15th Acela train set in Amtrak's Service Quality sub-initiative and excluded a $2 million one-time payment for Co-Branded Credit Card Program.

** Totals may not sum due to rounding.

Table 4. Amtrak's Proposed Operational Reforms ($ in millions)

Strategic Reform Initiative and Program	Objective	FY 2007 Targeted Savings*		Estimated 5-Year Savings	
		Original FY 2007	Actual FY 2007	Original FY 2007	Revised April 2007
1. Reduce Costs and Improve Service Quality					
Service Quality	Focus management attention and drive accountability for train service performance, including on-board service quality and on-time performance.	$9.4	$20.0	$95	$71
Food and Beverage Services	Enhance service flexibility by redesigning food services (for example, fully prepared meals, multi-purpose food service cars), improving equipment, and outsourcing.	$19.4	$21.8		
Long Distance Product Development	Improve net operating performance of sleeper service.	$19.7	$0.4		
2. Increase Sales and Distribution Efficiencies					
Station Efficiencies	Deploy more efficient communications and sales/distribution equipment and processes at stations.	$2.7	$5.0	$41	$32
E-ticketing	Develop enterprise systems and processes for E-ticketing.	$1.7	$0.9		
E-Commerce	Build infrastructure to facilitate customer relationships and generate incremental revenue.	$0	$0		
Pricing	Develop pricing mechanisms for responding to market conditions.	$0	$0		
Call Center Operations	Improve cost-effectiveness of call center operations through improved tools/processes and reduced labor costs.	$2.1	$1.2		

Source: Amtrak Strategic Planning Department

<table>
<tr><th colspan="6">Table 4. Amtrak's Proposed Operational Reforms ($ in millions) (cont.)</th></tr>
<tr><th rowspan="2">Strategic Reform Initiative and Program</th><th rowspan="2">Objective</th><th colspan="2">FY 2007 Targeted Savings</th><th colspan="2">Estimated 5-Year Savings</th></tr>
<tr><th>Original FY 2007</th><th>Actual FY 2007</th><th>Original FY 2007</th><th>Revised April 2007</th></tr>
<tr><td colspan="6">3. Enhance Reliability and Efficiency of Mechanical Services</td></tr>
<tr><td>Reliability Centered Maintenance (RCM)</td><td>Implement RCM to reduce cycle time and increase equipment reliability and availability. Costs represent consultant fees.</td><td>$(2.8)</td><td>$(3.6)</td><td rowspan="5">$75</td><td rowspan="5">$74</td></tr>
<tr><td>Work Management System (WMS)</td><td>Implement WMS in Mechanical Department to enable management accountability and effectiveness.</td><td>$0</td><td>$0</td></tr>
<tr><td>Mechanical Productivity and Quality</td><td>Improve Mechanical Department productivity and quality through improved metrics and monitoring.</td><td>$0</td><td>$0</td></tr>
<tr><td>Facilities Efficiencies</td><td>Optimize facility utilization by developing an outsourcing/ insourcing strategy and consolidating and redesigning facilities.</td><td>$2.9</td><td>$3.1</td></tr>
<tr><td>Materials Management</td><td>Improve efficiency of materials management through new processes and tools.</td><td>$0</td><td>$0</td></tr>
<tr><td colspan="6">4. Improve Management Systems and Overhead Efficiencies</td></tr>
<tr><td>Management Information System</td><td>Modernize management information systems to improve accuracy, timeliness, and consistency of data and processes across the company.</td><td>$(0.8)</td><td>$0</td><td rowspan="2">$36</td><td rowspan="2">$37</td></tr>
<tr><td>Overhead Costs</td><td>Reduce overhead costs through better allocation, improved administrative and support function efficiency, and reduced cash handling and transaction costs.</td><td>$4.5</td><td>$3.7</td></tr>
</table>

Source: Amtrak Planning Department

Table 4. Amtrak's Proposed Operational Reforms ($ in millions) (cont.)					
Strategic Reform Initiative and Program	**Objective**	**FY 2007 Targeted Savings**		**Estimated 5-Year Savings**	
		Original FY 2007	**Actual FY 2007**	**Original FY 2007**	**Revised April 2007**
5. Achieve Ongoing Efficiencies					
Train Operations	Improve cost-effectiveness of train operations through better labor and crew utilization and resource allocation.	$0	$0	$8	$10
Engineering Efficiencies	Increase productivity of engineering workforce through implementation of engineering asset management and improved work management processes.	$3.7	$0.3		
Safety	Reduce FRA reportable illnesses/ injuries rate.	$0	$0		
6. Optimize Network Services and Use of Assets					
Routes and Services	Improve alignment of NEC, corridor, and long-distance routes and services with market demand.	$(0.7)	$(0.1)	$92	$91
Asset Utilization	Improve fleet and infrastructure utilization through new service planning tools/processes and a collaborative infrastructure planning process.	$0	$0		
7. Ensure Full Cost Recovery of Services and Assets					
State Corridors	Improve cost recovery from states for corridor services	$0	$0	TBD	
NEC Access	Improve cost recovery from users of the NEC	$0	$0	TBD	
Long-Distance Network	Improve cost recovery for long-distance network	$0	$0	TBD	
8. Modernize Labor Agreements					
Labor Contracts	Negotiate new labor agreements that increase workforce flexibility	$0	$0	TBD	
Total		**$61.0**	**$52.8**	**$347**	**$315**

Source: Amtrak Strategic Planning Department

Progress on Amtrak's Strategic Reform Initiatives

Reduce Costs and Improve Quality of Passenger Services

This initiative focuses on revenue improvements, cost savings, and customer service improvements in two areas: (1) service quality and (2) food and beverage (F&B). As reported in our quarterly report dated July 31, 2007, Amtrak cancelled the sleeper right-sizing initiative, which had been the third area of improvement under this initiative.

The service quality component consists of placing Service Managers aboard long-distance trains, implementing the NEC Acela service improvement plan, improving on-time performance (OTP), reducing trip times, and developing new customer service and measurement tools to improve performance. Amtrak achieved $20 million in savings from increased Acela ticket revenues from this sub-initiative in FY 2007. Acela OTP improved to 87.8 percent in FY 2007 following an 84.7 percent OTP in FY 2006. However, OTP slipped from a high of 90.2 percent in June to 84 percent in September. Also this year, Amtrak reduced Acela's scheduled trip time on the south end by 5 minutes because of improved performance reliability and added a 16th trainset in July as a result of its Reliability Centered Maintenance (RCM) program. The additional morning service from New York and an evening service from Washington, D.C., generated $6.9 million in revenues in FY 2007. These services are projected to generate an additional $2.3 million in revenues in FY 2008.

This fall, Amtrak launched a 3-month pilot program under its partnership with GrandLuxe Rail Journeys (GrandLuxe). The new service uses a separate, private, seven-car luxury train attached to several regularly scheduled Amtrak trains. The trains feature dining, lounge, and sleeping cars appointed with elegant vintage furnishings that will be occupied exclusively by GrandLuxe passengers. Service began on the *California Zephyr* and will become available on the *Southwest Chief* and the *Silver Meteor*. Amtrak's program with GrandLuxe has been revised downward from 91 departures under the original plan to 22 departures. As a result, its planned revenues in FY 2008 have been revised downward from $1.2 million to $0.3 million.

As mentioned earlier, Amtrak modified its the Superliner Diner Lounge cars under the F&B design initiative so that fewer F&B staff would be required. Each newly converted diner car has been named the Cross Country Café. In 2008, Amtrak plans to deploy its Cross Country Café cars on the *Sunset Limited*, the *Texas Eagle*, and the *City of New Orleans*. Amtrak expects benefits of $1.8 million in 2008 from a combination of labor, fuel, and mechanical costs savings.

Increase Sales and Distribution Efficiencies

This initiative aims to deliver increased revenues and distribution efficiencies from Amtrak's sales channels. Programs under this initiative include: (1) deployment of more efficient communications and sales/distribution equipment and processes in stations, (2) development and implementation of E-ticketing capabilities, (3) building of infrastructure to facilitate customer relationships and generate incremental revenue, and (4) development of pricing mechanisms to enable fast responses to market conditions. As previously discussed, Amtrak dropped the call center outsourcing subinitiative that was originally part of this initiative.

Savings from station efficiencies resulted from Amtrak's installation of Quik Trak machines, which reduced the number of ticket agents required at stations. Amtrak has installed 232 Quik Trak machines and plans to install 75 additional machines by November 2007. Upon deployment of the remaining machines, the initiative will be complete. Amtrak achieved $5 million in savings and eliminated 61 positions (all but 2 of these positions were eliminated by attrition). About $3 million of these savings were attributable to overstated benefit rates and Federal Employees Liability Act costs.

The remaining programs under this initiative are, for the most part, in the design and planning stages. Amtrak's E-ticketing sub-initiative has been challenged in bringing aboard the sizable staff required to undertake an endeavor of this magnitude. Nonetheless, Amtrak expects to have a full team in place by November 2007. In 2007, Amtrak introduced the software development of an electronic database that will provide access to ticket status at various sales stages. Initial utilization of the new database will begin in July 2008 with a full end-to-end e-ticketing capability in place by the close of calendar year 2008. Transition to the full e-ticketing business model will extend through 2009.

Amtrak's E-Commerce subinitiative is intended to: (1) integrate Amtrak's Guest Rewards program, (2) develop and implement improved Internet reservation capabilities, and (3) develop a centralized customer database. A range of enhancements have been added to Amtrak's international travel agency website that allows foreign travel agents to book reservations and cancel trips. Amtrak achieved $0.9 million in international sales from this website and expects to achieve an additional $1.25 million in international sales revenue in FY 2008.

Amtrak plans to leverage this experience in FY 2008 and develop a website for U.S. domestic travel agencies. It also plans to set up an interface with travel agencies and ARC (non-electronic payments used by all agencies) and consolidate the payment process. Amtrak has developed a pilot program for use in the first quarter of FY 2008 for a limited range of domestic agents.

Amtrak's pricing sub-initiative seeks to improve its capability to set prices in response to changing market conditions. A variety of fare pricing actions are scheduled for FY 2008.

Amtrak's initiative to reduce initial call center costs is being addressed by a labor agreement that establishes lower starting wages for new hires. This cost saving effort is an alternative to the outsourcing call center activity. The FY 2007 savings were $0.2 million.

Enhance Reliability and Efficiency of Mechanical Services

This initiative focuses on improving the reliability and efficiency of mechanical services and materials management. The key components include implementing RCM, continued implementation of the Work Management System (WMS), increasing Mechanical Productivity and Quality, and Facilities Efficiencies.

RCM is Amtrak's program to reduce the time that trains and locomotives spend out of service by replacing long maintenance cycles with shorter cycles that fit into existing operating plans. RCM evaluates the maintenance process and physical condition of each part during the maintenance cycle. This allows Amtrak to optimize the work being done by replacing only those parts that are approaching the end of their estimated life cycle. This reduces the time it takes to complete a maintenance cycle and allows the equipment to be more available.

RCM is being applied to Acela equipment and is being planned for HHP-8 and AEM-7 locomotives. To date, Amtrak has made significant progress in implementing the continuous maintenance program. Maintenance Effectiveness Reviews (MERs) for AEM-7 Level I & II locomotives were completed in October 5, 2007 and will follow HHP-8 implementation. Amtrak expects to complete its MERs for the AEM-7 locomotives by the end of the fall 2007. Amtrak plans to apply this program to its HHP-8 locomotives by January 2008. Amtrak expects that RCM will enable a 17th Acela trainset to enter into service in early FY 2008.

The WMS project is Amtrak's comprehensive planning and assessment tool for maintaining rolling stock. The software is a commercial-off-the-shelf product that is designed to manage mobile assets in a transportation environment. This year's changes to the system include complete redesign of the payroll interface to support the new payroll and human resources modules, deployment of electronic materials requisitioning, and implementation of the Workbench (a tool that displays the work assigned to the employee, allowing the person to access information related to the equipment and the work order). Amtrak also developed and published a monthly Mechanical Balanced Scorecard with standard metrics and measurements using WMS as the data source, where applicable.

Amtrak achieved $3.1 million in savings this year from consolidating the New Orleans locomotive maintenance facility into its Chicago facility. Amtrak upgraded the Chicago facility to accommodate new maintenance practices and centralize the maintenance of all P-42 locomotives. Savings from workforce attrition, which resulted from consolidation of maintenance activities, continue to accrue.

Improve Management Systems and Overhead Efficiencies

This initiative addresses the modernization of (1) management information systems to improve accuracy, timeliness, and consistency of data and (2) financial processes across the company. It also seeks to reduce overhead costs, improve administrative efficiency, and reduce cash handling and transaction costs. For FY 2007, actual overhead costs savings were $3.7 million compared to the budget of $4.5 million.

Key projects under information systems include the Route Profitability System (RPS) Improvements, Amtrak Performance Tracking (APT) system, and Integrated Financial Systems (IFS). The APT is a financial infrastructure project designed to ensure Amtrak's ability to meet Federal reporting requirements and improve management information by train and route. The APT will be tested in the first quarter of calendar year 2008 and is expected to be implemented on April 1, 2008. The IFS project is moving forward as part of the Strategic Asset Management (SAM) project. The redesigned project encompasses a larger scope of functionality. The SAM project includes the migration of the Mechanical Work Management system and the further deployment of work management software for Amtrak's Engineering department. Amtrak is near completion with SAM development and expects to finalize an implementation plan by mid-November 2007.

Initiatives to reduce overhead include: (1) reducing credit card processing costs; (2) reducing utility costs, bank services and fees, pension plan administrative costs, and administrative fees related to medical benefits; and (3) installing on-board credit card terminals. Amtrak completed the installation of on-board credit card terminals for food and beverage sales on all trains. The project was completed in July 2007, and Amtrak is currently working on integrating these terminals with its financial system, which is in the last development phase. Amtrak expects to complete this by the end of the calendar year. Amtrak achieved savings of $0.6 million from its on-board credit card terminals, which is less than the $2.4 million projected. During FY 2008, Amtrak plans to continue to monitor and upgrade these capabilities. In addition, Amtrak plans to accelerate a program to install point of sale terminals on each train for the conductors. Amtrak also achieved contract utility savings of $2.8 million compared to a budget of $0.5 million.

Achieve Ongoing Efficiencies

This initiative focuses on achieving ongoing efficiencies within the Operations Branch. Targeted areas include Train Operations and Engineering Efficiencies. Planned benefits include reducing train fuel consumption, increasing productivity of the engineering workforce, and reducing the Federal Railroad Administration (FRA) reportable illnesses/injuries rate.

Train Operations projects in this area include: development of a train fuel conservation program, creation of a portable locomotive simulator, and subsequent training of locomotive engineers to improve train handling techniques. The project had been on hold pending a locomotive simulator and new project manager. In September, the vendor delivered the portable locomotive simulators to Amtrak. Amtrak expects to complete software development by late November. Once the software is available, Amtrak can begin to train the engineers in locomotive operations utilizing fuel conservation techniques. However, Amtrak has not yet hired a project manager. Savings are not expected to accrue before January 2008.

Amtrak achieved savings of $0.3 million from reductions in core wages and associated overtime in Amtrak's Engineering Division compared to a projected $3.7 million. Increased overtime costs following staff attrition have adversely impacted Amtrak's ability to reduce Engineering costs.

Optimize Network Services and Use of Assets

The objectives of this initiative are to: (1) improve the alignment of NEC corridor and long-distance routes and services with market demand and (2) improve fleet and infrastructure utilization through new service planning tools and processes and a collaborative infrastructure planning process. There are no new developments to report.

Ensuring Full Cost Recovery of Services and Assets

This initiative is expected to improve cost recovery from states for corridor services and from commuters on the NEC by increasing the financial contribution from these users. It also calls for establishing multi-year grant agreements with the Federal Railroad Administration on the long-distance network. There are no new developments to report for this initiative

Modernizing Labor Agreements

This initiative is intended to reduce unit costs and increase job flexibility by negotiating new labor agreements that will eliminate certain work rule and outsourcing restrictions. It also aims to align wages based on market demand. Negotiations between Amtrak and labor union officials have ended without a resolution. The Railway Labor Act prescribes a process for resolving such an impasse. Both parties are currently in a 30-day “cooling off” period. At the end of this period, both sides would be free to unilaterally act in their own self interest. For example, the unions could strike or Amtrak management could change pay levels, work rules, or working conditions. These actions would be placed on hold if the NMB recommends the creation of, and the President appoints, a Presidential Emergency Board (PEB). The PEB would investigate the dispute and recommend a settlement to the President.

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Section 508 Compliant Presentation

Data Table for Figure 1. Amtrak Operating Loss, Fiscal Year 2007

Months	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.
Actual	(23)	(50)	(80)	(147)	(178)	(207)	(240)	(269)	(268)	(291)	(312)	(429)
Baseline Budget	(45)	(85)	(140)	(210)	(272)	(325)	(367)	(410)	(436)	(476)	(515)	(550)

For FY 2007, Amtrak's operating loss was $121 million favorable to the FY 2007 baseline budget of $550 million.

Table 4. Amtrak's Proposed Operational Reforms

Strategic Reform Initiative and Program

Program 1
Reduce Costs and Improve Service Quality

- *Service Quality*: Focus management attention and drive accountability for train service performance, including on-board service quality and on-time performance.

    - FY2007 Original Targeted Savings, $9.4 million
    - Actual FY 2007 Savings, $20.0 million

- *Food and Beverage Services:* Enhance service flexibility by redesigning food services (for example, fully prepared meals, multi-purpose food service cars), improving equipment, and outsourcing.

    - FY2007 Original Targeted Savings, $19.4 million
    - Actual FY2007 Savings, $21.8 million

- *Long Distance Product Development:* Improve net operating performance of sleeper service.

    - FY2007 Original Targeted Savings, $19.7 million
    - Actual FY2007 Savings, $0.4 million

Original Estimated 5-year savings: $95 million
Revised April 2007 savings: $71 million

Program 2

Increase Sales and Distribution Efficiencies

- *Station Efficiencies*: Deploy more efficient communications and sales/distribution equipment and processes at stations.

    - FY2007 Original Targeted Savings, $2.7 million
    - Actual FY2007 Savings, $5.0 million

- *E-ticketing:* Develop enterprise systems and processes for e-ticketing.

    - FY2007 Original Targeted Savings, $1.7 million
    - Actual FY2007 Savings, $0.9 million

- *E-Commerce:* Build infrastructure to facilitate customer relationships and generate incremental revenue.

    - FY2007 Original Targeted Savings, $0 million
    - Actual FY2007 Savings, $0 million

- *Pricing:* Develop pricing mechanisms for responding to market conditions.

    - FY2007 Original Targeted Savings, $0 million
    - Actual FY2007 Savings, $0 million

- *Call Center Operations:* Improve cost-effectiveness of call center operations through improved tools/processes and reduced labor costs.

    - FY2007 Original Targeted Savings, $2.1 million
    - Actual FY2007 Savings, $1.2 million

Original Estimated 5-year savings: $41 million
Revised April 2007 savings: $32 million

Program 3

Enhance Reliability and Efficiency of Mechanical Services

- *Reliability Centered Maintenance (RCM)*: Implement RCM to reduce cycle time and increase equipment reliability and availability. Costs represent consultant fees.

    - FY2007 Original Targeted Savings, $(2.8) million
    - Actual FY2007 Savings, $(3.6) million

- *Work Management System (WMS):* Implement WMS in Mechanical Department to enable management accountability and effectiveness.

    - FY2007 Original Targeted Savings, $0 million
    - Actual FY2007 Savings, $0 million

- *Mechanical Productivity and Quality*: Improve Mechanical Department productivity and quality through improved metrics and monitoring.

    - FY2007 Original Targeted Savings, $0 million
    - Actual FY2007 Savings, $0 million

- *Facilities Efficiencies*: Optimize facility utilization by developing an outsourcing/insourcing strategy and consolidating and redesigning facilities.

    - FY2007 Original Targeted Savings, $2.9 million
    - Actual FY2007 Savings, $3.1 million

- *Materials Management*: Improve efficiency of materials management through new processes and tools.

    - FY2007 Original Targeted Savings, $0 million
    - Actual FY2007 Savings, $0 million

Original Estimated 5-year savings: $75 million
Revised April 2007 savings: $74 million

Program 4
Improve Management Systems and Overhead Efficiencies

- *Management Information System*: Modernize management information systems to improve accuracy, timeliness, and consistency of data and processes across the company.

    - FY2007 Original Targeted Savings, $(0.8) million
    - Actual FY2007 Savings, $0 million

- *Overhead Costs*: Reduce overhead costs through better allocation, improved administrative and support function efficiency, and reduced cash handling and transaction costs.

    - FY2007 Original Targeted Savings, $4.5 million
    - Actual FY2007 Savings, $3.7 million

Original Estimated 5-year savings: $36 million
Revised April 2007 savings: $37 million

Program 5

Achieve Ongoing Efficiencies

- *Train Operations*: Improve cost-effectiveness of train operations through better labor and crew utilization and resource allocation.

    - FY2007 Original Targeted Savings, $0 million
    - Actual FY2007 Savings, $0 million

- *Engineering Efficiencies*: Increase productivity of engineering workforce through implementation of engineering asset management and improved work management processes.

    - FY2007 Original Targeted Savings, $3.7 million
    - Actual FY2007 Savings, $0.3 million

- *Safety*: Reduce FRA reportable illnesses/injuries rate.

    - FY2007 Original Targeted Savings, $0 million
    - Actual FY2007 Savings, $0 million

Original Estimated 5-Year Savings: $8 million
Revised April 2007: $10 million

Program 6
Optimize Network Services and Use of Assets

- *Routes and Services*: Improve alignment of NEC, corridor, and long-distance routes and services with market demand.

    - FY2007 Original Targeted Savings, $(0.7) million
    - Actual FY2007 Savings, $0.1 million

- *Asset Utilization*: Improve fleet and infrastructure utilization through new service planning tools/processes and a collaborative infrastructure planning process.

    - FY2007 Original Targeted Savings, $0 million
    - Actual FY2007 Savings, $0 million

Original Estimated 5-Year Savings: $92 million
Revised April 2007: $91 million

Program 7
Ensure Full Cost Recovery of Services and Assets

- *State Corridors*: Improve cost recovery from states for corridor services.

    - FY2007 Original Targeted Savings, $0 million
    - Actual FY2007 Savings, $0 million

- *NEC Access*: Improve cost recovery from users of the NEC.

    - FY2007 Original Targeted Savings, $0 million
    - Actual FY2007 Savings, $0 million

- *Long Distance Network*: Improve cost recovery for long-distance network.

    - FY2007 Original Targeted Savings, $0 million
    - Actual FY2007 Savings, $0 million

Estimated 5-Year savings to be determined.

Program 8
Modernize Labor Agreements

- *Labor Contracts***:** Negotiate new labor agreements that increase workforce flexibility.

    - FY2007 Original Targeted Savings, $0 million
    - Actual FY2007 Savings, $0 million

Estimated 5-Year savings to be determined.

Total (All Programs)

- FY2007 Original Targeted Savings, $61 million
- Actual FY2007 Savings, $52.8 million

Original Estimated 5-Year Savings: $347 million
Revised April 2007: $315 million