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

Office of Inspector General

July 31, 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 third quarterly assessment[1] of Amtrak's fiscal year (FY) 2007 operational reforms savings[2] and year-to-date financial performance. Amtrak is likely to realize $45.6 million of the $61 million in FY 2007 reform savings it originally anticipated and $224 million of the $550 million in FY 2011 reform savings it originally anticipated once the reforms are more fully implemented.

Through May, Amtrak was $109 million ahead of its budget. It is likely to end the year with a cash operating loss of approximately $390 million and a cash balance of nearly $300 million. This favorable financial performance reflects, in part, the

[1] Our previous quarterly reports on Amtrak's savings from operational reforms are available at www.oig.dot.gov.
[2] Defined throughout as either net operating savings or a reduction in net operating losses.

absence of a labor settlement. A settlement, while important to the operation of Amtrak, would likely reduce, and may eliminate, the amount by which Amtrak is ahead of its budget projections.

Summary

- We increased our estimate of Amtrak's FY 2007 reform savings since our May report by $6.5 million to $45.6 million to reflect new operational reforms that were not previously reported on and improved performance on other initiatives. As we reported in May, Amtrak will not realize $21.9 million of its proposed $61 million in savings from FY 2007 operational reforms because it canceled its sleeper car right-sizing and reservation call center initiatives.

- We certify that Amtrak achieved $26.4 million in operational reform savings through April 2007.[3] Of these savings, $21.9 million, or 83 percent, came from food and beverage service reforms and reforms to improve Acela revenues. The remaining $4.5 million came primarily from reduced headcount in stations and lower overhead expenses.

- Amtrak's operating loss through May 2007 was $269 million, $109 million better than planned. Amtrak underestimated its Acela revenues and overestimated its personnel, fuel, power, and utilities costs in its budget. Also, the labor settlement costs Amtrak included in its budget have not yet been incurred.

- Amtrak's cash operating loss for all of FY 2007 is likely to be less than $390 million, the lowest level since FY 1998. This projected loss would increase if a labor settlement is reached.

- Amtrak's year-end cash balance is likely to be over $300 million, significantly higher than the $103 million projected in February, assuming no payout in FY 2007 as a result of a labor settlement.

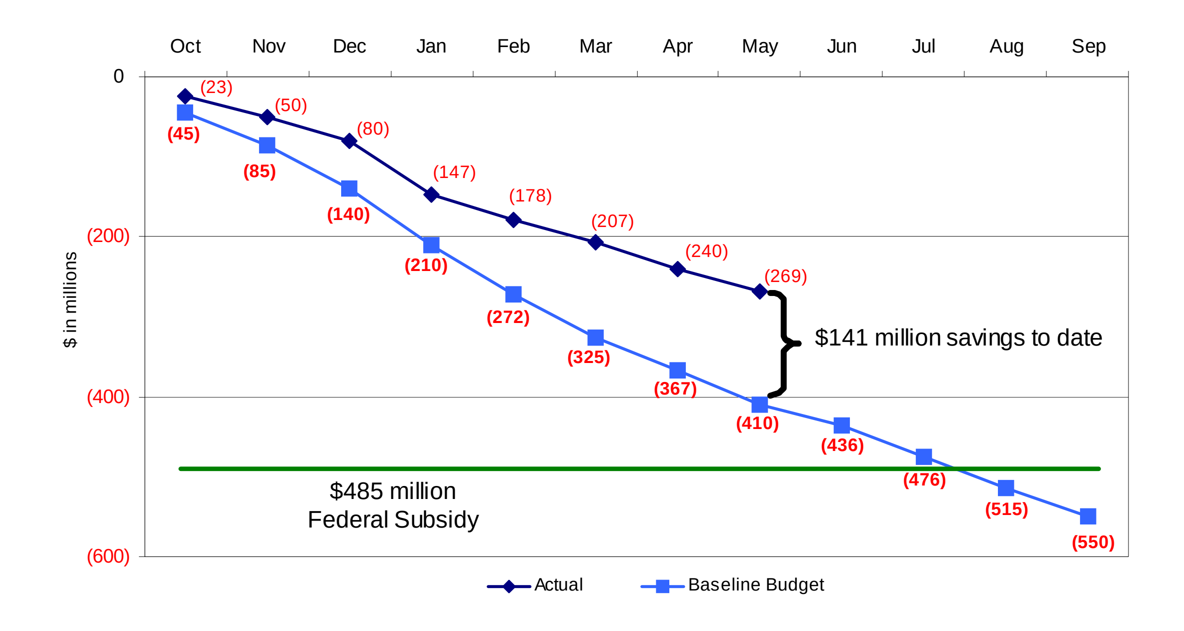
Amtrak's Financial Performance Through May Exceeds Projections

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

[3] Amtrak provided data at the operational reforms level through April 2007 while it provided overall financial data through May 2007.

Corporate Level Results. Through May 2007, Amtrak's operating loss was $269 million, $109 million lower than projected in its $485 million FY 2007 operating budget and $141 million favorable to our FY 2007 $550 million baseline budget (see Figure 1). The baseline budget is our estimate, included in our January report, of the total amount of Federal subsidy and savings Amtrak requires to make ends meet in FY 2007. By comparison, Amtrak estimated it needed $565 million in Federal subsidy and savings to cover its projected FY 2007 operating shortfall.

Figure 1. Amtrak Operating Loss
FY 2007 – Year to Date through May



Amtrak's financial performance reflects $1.4 billion in operating revenues, $36.9 million above the level projected in its budget. Amtrak significantly underestimated in its FY 2007 budget the degree to which congestion and high fuel costs would increase ridership and revenues, as well as the impact of improved service on Acela, revenue management of the Regional service, and better on-time performance on long-distance trains.

Amtrak's operating expenses of $1.7 billion were $72.2 million below budget projections but $42.9 million above last year's expenses through May. Its expenditures for salaries, wages, and benefits were $1.0 billion, $81.5 million below projected levels and fuel costs were $186.1 million, $10.9 million below projected levels. The lower salaries, wages and benefits expenditures primarily reflect unfilled positions and the absence of a labor settlement ($60 million) and safety improvements resulting in lower FELA costs ($12 million). Amtrak had

151 fewer filled positions in May 2007 than in May 2006. Decreases in labor-related expenses were offset by $20.2 million in higher materials costs, food and beverage costs, purchased power, and other expenses.

This improved revenues and decreased costs are likely to result in a FY 2007 cash operating loss of approximately $390 million. This is $95 million below Amtrak's initial projected loss of $485 million and $43 million below its FY 2006 loss of $433 million. The operating loss would increase if a labor settlement were reached before the end of this fiscal year.

Amtrak's FY 2007 cash balance may exceed $300 million, significantly above the $103 million balance Amtrak projected in February. Since the February projection, Amtrak increased its projected revenues by $24 million and lowered its projected expenses by $36 million and debt service costs by $11 million. This projected cash balance also assumes that a labor settlement requiring a payout in FY 2007 will not occur in the next 2 months.

Business Line Results. As shown in Table 1, the Northeast Corridor (NEC) accounted for more than half of the $109 million improvement relative to budget projections through May 2007. NEC operating revenues were $199.5 million, $40.1 million above budget projections, as ridership continued to be strong. Ticket revenue from Acela service was nearly $39 million above budget projections. About $17 million of this was due to Amtrak's planned initiatives, faster trip times between New York and Washington, DC, and a late January 2007 Acela fare increase. The remaining $22 million revenue increase was due to favorable market conditions not under Amtrak's control. NEC expenses were $16.6 million below budget projections, as a result of $30.2 million in lower wages and benefits attributable to lower headcount and the absence of a labor settlement, and $8.2 million in lower costs from train operations and advertising. These savings were offset by $16.6 million in higher materials costs.

Revenues from Amtrak's Regional service were $2 million higher than expected and are attributed to stronger performance north of New York due to better revenue management (increasing the number of lower-priced seats and better reflecting customer price sensitivities).

Table 1. Amtrak Net Profit/(Loss), Excluding Federal Operating Subsidies* FY 2007 – Year to Date through May ($ in Millions)			
Business Line	**Actual**	**Budget**	**Actual vs. Budget**
National Train System Operations	($144.0)	($240.8)	$96.7
Northeast Corridor	*$199.5*	*$141.0*	*$58.5*
State Supported and Other Corridors	*($62.6)*	*($41.6)*	*($21.0)*
Long-Distance Service	*($280.9)*	*($340.2)*	*$59.2*
Infrastructure Management	($39.1)	($35.6)	($3.5)
Ancillary Business	$61.0	$49.9	$11.1
Unallocated System	($147.1)	($151.7)	$4.7
Total	**($269.2)**	**($378.2)**	**$109.0**

* Amtrak reports these financials on an earnings before interest, taxes, depreciation, and OPEBs (other post-employment benefits) basis.

State-supported and other corridors lost $62.6 million through May, $20.9 million more than expected and $0.8 million more than this time last year. Passenger revenues were $13.7 million below budget projections, although $30.2 million higher than last year. Amtrak attributes the shortfall in budgeted revenues to several factors: (1) overly aggressive assumptions about additional ridership from new and increased services; (2) continued poor on-time performance in many of the corridors, and (3) steep fare increases implemented in October 2006, which contributed to a 2.2 percent decline below budgeted ridership. Operating expenses were $7.3 million higher than projected, mostly due to higher-than-expected employee benefits and materials costs.

Long-distance services lost $281 million, $59.2 million less than expected and $21.7 million less than through May last year. This resulted from $5.5 million in higher than projected passenger revenues and $54.2 million in lower than expected expenses. The modest revenue increases is due to the mid-October 2006 fare increases and higher than projected ridership. However, the planned April fare increases were not implemented because Amtrak was concerned that they would weaken demand and lower revenues. Lower than expected expenses primarily reflect an overestimate by Amtrak of lower salaries, wages, and benefits and materials costs.

Progress Is Being Made on Some Reform Initiatives, but Overall Savings Will Fall Short of Plans

Amtrak is on a path to realize $45.6 million of the $61 million in FY 2007 operational reform savings it originally anticipated. We increased the total projected FY 2007 reform savings by $6.5 million from our May report to reflect several ongoing initiatives Amtrak previously had not included in its savings estimates, and better than expected performance in food and beverage and Acela service quality initiatives.

As we reported in May, the reduction in projected FY 2007 savings reflects Amtrak's cancellation of the sleeper right-sizing and call center initiatives. These were projected to add $21.9 million in annual savings for FY 2007. Amtrak indicated the sleeper right-sizing initiative would not generate the savings originally projected, but has been unable to provide an analysis supporting that claim. The call center initiative was cancelled after an agreement was reached with labor that reduced costs.

Through April, Amtrak achieved $26.4 million in savings compared to $29.6 million in planned savings. Over 80 percent of Amtrak's savings continues to come from the Reduced Costs and Improve Service Quality Initiative. This primarily consists of revenue enhancements due to Acela service quality improvements and cost savings from redesigned food services and equipment (see Table 2). A more detailed breakdown on Amtrak's savings to date from operational reforms can be found in Enclosure 1.

Table 2. Summary of FY 2007 Strategic Reform Initiatives
FY 2007 – Year to Date through April ($ in millions)

Strategic Reform Initiative	Estimated YTD Benefit	Actual YTD Benefit	Variance +/-	Progress
Reduce Costs and Improve Service Quality*	24.6	22.0	(2.5)	On schedule
Increase Sales and Distribution Efficiencies	2.1	1.8	(0.3)	Behind schedule
Enhance Reliability and Efficiency of Mechanical Services	(0.1)	0.3	0.4	On schedule
Improve Management Systems and Overhead Efficiencies	1.4	1.5	0.1	Behind schedule
Achieve Ongoing Efficiencies	2.2	0.7	(1.5)	On schedule
Optimize Network Services and Use of Assets	(0.5)	0.0	0.5	Behind schedule
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**	**29.6**	**26.4**	**(3.2)**	

*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 is a summary of Amtrak's recent progress on its strategic reform initiatives. Compared to our May assessment of the progress on individual initiatives, two initiatives have fallen behind schedule and one remains behind schedule. Of the remaining five initiatives three are still on schedule and there are two for which no reportable progress has yet been made. Enclosure 2 provides additional details on the actual and forecasted FY 2007 and 5-year savings from these initiatives. Enclosure 3 provides more detail on progress to date on these initiatives.

- **Reduce Costs and Improve Quality of Passenger Services.** Through April 2007, Amtrak achieved $21.9 million in operating savings from this initiative. Food and beverage service accounted for $10.4 million in savings, mainly from the redesigned food service or Simplified Dining.[4] Simplified Dining was $1.9 million or 22 percent favorable to budget projections through April.

  The Acela service improvement program accounted for the remaining $11.5 million in savings.[5] On-time performance contributed an estimated $2.2 million to Acela revenues, a 5-minute trip time improvement on the Acela south end contributed an estimated $5.4 million, a 15th Acela trainset added in October 2006 contributed an estimated $3.9 million. Amtrak added a 16th train Acela trainset in July 2007, which is expected to add $3.0 million in revenues next year. This initiative is on schedule.

- **Increase Sales and Distribution Efficiencies.** Through April 2007, Amtrak achieved $1.7 million in operating savings in station efficiencies from the installation of Quik Trak ticket machines and $0.1 million in new international sales through Amtrak's recently launched *Customized Access* website. Quik Trak machines will give customers the ability to buy tickets at stations rather than on the trains and will reduce the need for ticket agents at stations. While the deployment of the Quik Trak machines is on schedule, other projects in this initiative are behind schedule.

- **Enhance Reliability and Efficiency of Mechanical Services and Materials Management.** Amtrak achieved $0.3 million in cost savings from this initiative through April. Amtrak continues to accrue savings ($2.2 million through April) from the consolidation of the New Orleans locomotive

[4] 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, eliminating the need for an on-board chef and server. This initiative has resulted in the elimination of 200 on-board food and beverage positions.

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

maintenance facility into its Chicago facility and the elimination of 37 positions. These savings were offset by $1.9 million in consulting costs incurred related to designing and implementing the Reliability Centered Maintenance (RCM) program.

Amtrak has begun implementing the RCM *Continuous Maintenance* process for certain Acela maintenance requirements. This process results in less time out of service for equipment by replacing the quarterly maintenance cycle with daily overnight maintenance activities. Amtrak expects RCM will enable a 17th Acela trainset to enter into service in early FY 2008. The RCM program and Facilities Efficiencies subinitiatives are on schedule. The locomotive maintenance outsourcing subinitiative is on hold pending negotiations with potential vendors.

- **Improve Management Systems and Overhead Efficiencies.** Through April, Amtrak achieved $1.5 million in savings from ongoing efforts to reduce overhead costs, including utility management savings, reduce bank services and fees, pension plan administrative costs, administrative fees related to medical benefits, and savings resulting from the installation of on-board credit card terminals. The Improve Management Systems subinitiative is behind schedule and the Overhead Efficiencies subinitiative is on schedule.

- **Achieve Ongoing Efficiencies.** Through April, Amtrak achieved $0.7 million in savings as a result of a targeted 4-percent productivity gain from Amtrak's engineering workforce. Net benefits from this initiative are below Amtrak's target goal of $2.2 million due to increased overtime costs which have risen due to falling headcount. Amtrak has been working since December to reduce overtime by adding manpower. This initiative is on schedule.

- **Optimize Network Services and Use of Assets**. Amtrak continues to advance state corridor development efforts and work toward implementing state competition pilots in Maine, California, and Vermont. The contract with Vermont, which had been delayed in the Vermont Legislature, has been signed and the other two are under development. This part of this initiative is behind schedule. The long distance restructuring effort is significantly behind schedule and no savings are expected in FY 2007.

  As part of the asset utilization subinitiative, the Northeast Corridor Infrastructure Advisory Council met for the first time in mid-June. The Council, comprised of Amtrak and state officials, plans to meet quarterly to develop an NEC master plan that addresses the bridges, tunnels, and other major legacy projects. The asset utilization subinitiative is on schedule but no savings are expected in FY 2007.

- **Full Cost Recovery of Services and Assets.** This initiative seeks to recoup fully allocated losses from states for corridor services and for commuter service on the NEC. To date, Amtrak has been unsuccessful in convincing states to increase their payments for these services. Consequently, Amtrak expects to have to cover $150 million in operating losses on behalf of states in FY 2008. There is no reportable progress for this initiative.

- **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 rule and outsourcing restrictions and to align wages based on market demand. Labor negotiations are ongoing. There is no reportable progress for this initiative.

Conclusion

Amtrak continues to make progress on several of its strategic reforms, notably in improved Acela service and in food and beverage service. At the same time, it has made little or no progress or fallen behind schedule on others. In addition, Amtrak's financial performance this year hinges on the timing of a labor settlement. As we previously reported, the cost of a settlement likely will exceed significantly the amount Amtrak originally budgeted for it. In addition, a settlement will occur later than Amtrak anticipated in its budget. Therefore, Amtrak's financial performance through May appears better than it otherwise would because the increased settlement costs have been pushed into the future. Nevertheless, reaching a labor settlement is important to Amtrak's stability and its ability to move ahead on several reform initiatives.

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 call me at (202) 366-1959 or David Tornquist, Assistant Inspector General for Competition and Economic Analysis, at (202) 366-9970.

Sincerely,

Calvin L. Scovel III

Calvin L. Scovel III
Inspector General

Enclosures

Table 3. Summary of Amtrak Savings FY 2007 – Year to Date through April ($ in millions)			
Amtrak Net Operating Savings*	**Revised Estimated YTD Benefit**	**Actual YTD Benefit**	**Variance +/-**
Strategic Reform Initiatives			
1. Reduce Costs and Improve Services Quality	**24.6**	**22.0**	**(2.5)**
Service Quality	5.6	11.5	5.9
Improve NEC Acela service	*5.6*	*11.5*	*5.9*
Food and Beverage Services	10.8	10.4	(0.4)
Sleeper Right-Sizing	8.1	0.1	(8.0)
2. Increase Sales and Distribution Efficiencies	**2.1**	**1.8**	**(0.3)**
Station Efficiencies	1.2	1.7	0.5
Call Center Operations	0.9	0.0	(0.9)
E-Ticketing	0.0	0.1	0.1
3. Enhance Reliability and Efficiency of Mechanical Services	**(0.1)**	**0.3**	**0.5**
Reliability Centered Maintenance	(1.6)	(1.9)	(0.2)
Facilities Efficiencies	1.5	2.2	0.7
Develop outsourcing plan for locomotive service	*0.0*	*0.0*	*0.0*
Facility consolidation	*1.5*	*2.2*	*0.7*
4. Improve Management Systems and Overhead Efficiencies	**1.4**	**1.5**	**0.1**
Management Information Systems	(0.5)	0.0	0.5
Overhead Costs	1.9	1.5	(0.4)
Reduce fuel and power	*0.3*	*0.3*	*0.0*
Other overhead	*1.0*	*0.3*	*(0.7)*
Install on-board credit card terminals	*0.7*	*0.9*	*0.3*
5. Achieve Ongoing Efficiencies	**2.2**	**0.7**	**(1.4)**
Engineering	2.2	0.7	(1.4)
6. Optimize Network Services and Use of Assets	**(0.5)**	**0.0**	**0.5**
Routes and Services	(0.2)	0.0	0.2
NEC	*(0.2)*	*0.0*	*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**	**29.6**	**26.4**	**(3.2)**

Source: Amtrak Finance and Planning Departments

* We included $3.9 million in savings from the 15th Acela train set in Amtrak's Service Quality subinitiative 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	FY2007 Forecast	Original	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	$19.5	$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	$17.4		
Long Distance Product Development	Improve net operating performance of sleeper service.	$19.7	$0		
2. Increase Sales and Distribution Efficiencies					
Station Efficiencies	Deploy more efficient communications and sales/distribution equipment and processes at stations.	$2.7	$2.7	$41	$32
E-ticketing	Develop enterprise systems and processes for E-ticketing.	$1.7	$0.6		
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.	$0.5	$0		

Source: Amtrak Strategic 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	FY 2007 Forecast	Original FY 2007	Revised April 2007
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.	$(2.8)	$(3.4)	$75	$74
Work Management System (WMS)	Implement WMS in Mechanical Department to enable management accountability and effectiveness.	$0	$0		
Mechanical Productivity and Quality	Improve Mechanical Department productivity and quality through improved metrics and monitoring.	$0	$0		
Facilities Efficiencies	Optimize facility utilization by developing an outsourcing/ insourcing strategy and consolidating and redesigning facilities.	$2.9	$2.9		
Materials Management	Improve efficiency of materials management through new processes and tools.	$0	$0		
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.	$(0.8)	$0	$36	$37
Overhead Costs	Reduce overhead costs through better allocation, improved administrative and support function efficiency, and reduced cash handling and transaction costs.	$4.5	$3.7		

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	**FY 2007 Forecast**	**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	$2.2		
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.	$0.6	$0	$92	$91
Asset Utilization	Improve fleet and infrastructure utilization through new service planning tools/processes and a collaborative infrastructure planning process.	$(0.5)	$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**	**$45.6**	**$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 previously reported, Amtrak canceled 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 onboard long-distance trains, implementing the NEC Acela service improvement plan, improving on-time performance, reducing trip times, and developing new customer service and measurement tools to improve performance. Amtrak projects that $19.5 million in savings this year will come from increased Acela ticket revenues from this subinitiative. Acela on-time performance has improved to 88.2 percent in May 2007, compared to 84.6 percent in May last year. Amtrak reduced Acela's scheduled trip time on the south end by 5 minutes because of improved reliability. In addition, Amtrak added a 15th Acela trainset in October 2006 and a 16th in July 2007, as a result of maintenance efficiencies achieved through its Reliability Centered Maintenance (RCM) program.

Amtrak continues to work toward improving long-distance and state corridor on-time performance and has been working on ways to tie host railroad capital investments to Amtrak's on-time performance. Also, the on-time performance assessment of Cascades service continues, as well as developing potential solutions in conjunction with Washington State Department of Transportation and BNSF.

Amtrak recently announced a new partnership with GrandLuxe Rail Journeys and plans to roll out luxury service this fall. The new GrandLuxe Limited service will be available between Chicago and the San Francisco Bay area, Chicago and Los Angeles, and Washington and Miami. Limited trips are also scheduled between Washington and Chicago, from Denver to San Francisco, Denver and Chicago, and Chicago and Albuquerque. Seven special GrandLuxe cars will be attached to regularly scheduled Amtrak trains. More than 90 departures are scheduled from November 2007 to early January 2008. Ticket prices for the GrandLuxe Limited will range from $789 to $2,499.

Under the F&B equipment design initiative, the first production model of the Superliner Diner Lounge car is expected to be completed in early August. A converted Amfleet II Lounge car began service on the *Cardinal* in April. Also, Diner Lite menus were developed and implemented for the modified Amfleet II equipment. Amtrak will be developing service standards for the Diner Lite cars in the event these cars replace single level diners on other routes.

Through April 2007, total actual benefits for this initiative were $22.0 million compared to budgeted benefits of $24.6 million. Amtrak's year-end projections have been revised downward to $36.9 million, as compared to budgeted benefits of $48.5 million.

Increase Sales and Distribution Efficiencies

This initiative aims to deliver increased revenues and distribution efficiencies throughout 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 subinitiative that was originally part of this initiative.

The majority of the savings from station efficiencies are expected to come from reduced headcount requirements due to the installation of Quik Trak machines and the resultant decrease in ticket agents at stations. A total of 63 positions will be eliminated through attrition or furlough. Amtrak estimates a total of $2.7 million in FY 2007 savings from this subinitiative.

The remaining programs under this initiative are, for the most part, in the design and planning stages. For the E-ticketing subinitiative, the technical architecture of the new E-ticketing database has been approved. Software development for the E-ticketing database is expected to begin this quarter and will likely be completed by the fourth quarter of FY 2008 at which time travelers and travel agents will be able to create E-tickets by using Amtrak's website. Reduced credit card fee benefits will begin to accrue by July 31, 2008. The transition from paper tickets will continue through FY 2009.

Amtrak has had some revenue impact in the area of new international sales ($0.1 million) from its newly launched E-ticketing *Customized Access* website. Difficulty in hiring staffing to manage the *Customized Access* program and delays in selecting a vendor for the Capitol Corridor Joint Powers Authority E-ticketing handheld pilot program has resulted in this subinitiative being behind schedule. As a result, estimated annual savings has been lowered from $1.7 million to $0.6 million.

Development on Amtrak's E-Commerce subinitiative is on schedule. This program 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. No savings are expected in FY 2007.

Amtrak's Pricing subinitiative seeks to improve its capability to set prices in response to changing market conditions. Amtrak has had difficulty in procuring the specialized consulting resources necessary and has delayed the program. No savings are expected in FY 2007.

Through April 2007, total benefits for this initiative were $1.8 million compared with budgeted benefits of $2.1 million. The initiative is below budget estimates because of the elimination of the call center outsourcing subinitiative and the late start of the E-ticketing program. Amtrak expects $3.3 million in annual savings, $1.6 million below the $4.9 million originally projected.

Enhance Reliability and Efficiency of Mechanical Services and Materials Management

This initiative focuses on improving 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 trains and locomotives spend out-of-service due to maintenance and to increase equipment reliability and availability. RCM is being applied to Acela equipment and is in the planning stage for HHP-8 and AEM-7 locomotives. Amtrak is also preparing for AEM-7 locomotive Maintenance Effectiveness Review (MERs). The methodology enabled adding a 15th Acela trainset into service in October 2006, a 16th trainset into revenue service in July, and a 17th trainset into expected service in FY 2008. The revenues associated with additional Acela trainsets are included in the Service Quality initiative.

The WMS project is Amtrak's comprehensive planning and assessment tool for maintaining Amtrak's rolling stock. The software is a commercial-off-the-shelf (COTS) product that is designed to manage mobile assets in a transportation environment. It directly supports the implementation of RCM and productivity improvements by capturing unit cost data and managing all regulatory compliance and scheduling requirements for Amtrak's rolling stock. WMS has fallen behind schedule since our May report. The network infrastructure upgrades required for the Mechanics Workbench and other key functionality has been delayed due to

Amtrak Technology Department and vendor constraints. This will continue to delay the deployment of the application to the shop floor. Procurement activities related to infrastructure has also contributed to these delays.

Amtrak's Mechanical Productivity and Quality program is intended to create a Quality Management System (QMS) including the development of metrics that will enable better mechanical performance management. Amtrak is developing a master work plan and performance metrics.

Amtrak has made progress under its Facilities Efficiencies program that has resulted in completing the concrete, mechanical, and electrical work in Amtrak's Chicago facility. The Chicago facility is being upgraded to accommodate new maintenance practices and centralize the maintenance of all P-42 locomotives. Savings from reduced headcount resulting from the consolidation of maintenance activities continue to accrue. Amtrak projects $2.9 million in savings from facility efficiencies in FY 2007.

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.

Key projects under information systems are the Route Profitability System (RPS) Improvements, Amtrak Performance Tracking (APT) system, and Integrated Financial Systems (IFS). APT is a critical financial infrastructure project designed to ensure Amtrak's ability to meet Federal reporting requirements and improve management information by train and route. Delays in contract procurement have delayed implementation of APT and RPS. The Financial Analysis and Financial Systems Departments continue to define activities and allocation rules for the APT System. Amtrak has placed its IFS project on hold since our May report. Amtrak's Executive Committee decided to re-examine the schedule and possibly expand the project scope to include the work management system. Amtrak's goal is to complete the strategy development by August 2007, potentially impacting scope and timing for related programs. While development of these projects continues, no savings for them were budgeted for FY 2007.

Initiatives to reduce overhead include: (1) reducing credit card processing costs, (2) reducing bank services and fees, and (3) installing on-board credit card terminals. Amtrak signed co-brand credit card contracts with JP Morgan Chase and MasterCard for a period of 7 years with expected benefits estimated at almost

$80 million. The product is scheduled to launch in September 2007. The Universal Air Travel Plan (UATP) portion of the project is behind schedule because Amtrak delayed allocating resources to it to better define business requirements.

The installation of on-board credit card terminals is on schedule and has been implemented on all trains. Benefits nearing $500,000 in reduced fraud for food and beverage sales are expected. The project to reduce bank services and fees is ongoing and on schedule.

Through April 2007, actual overhead cost savings were $1.5 million compared to the budget of $1.9 million. Amtrak estimates annual savings of $3.7 million from all its overhead initiatives.

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: a train fuel conservation program, creation of a portable locomotive simulator and subsequent training of locomotive engineers to improve train handling techniques. Projected benefits are not expected until FY 2008. The fuel conservation program continues to be on hold pending the acquisition of required locomotive testing equipment and the hiring of a project manager. Amtrak anticipates a September delivery of the equipment and have begun seeking a project manager. Savings are not expected to accrue before January 2008.

The Engineering Efficiency program is designed to increase the productivity of the engineering workforce through the implementation of Engineering Enterprise Asset Management (EAM) and improved work management processes. The key project, EAM is on schedule. Amtrak has completed the pilot phase of the program at its Perryville subdivision and has begun implementation in the Washington and Baltimore subdivisions.

Savings from this initiative will accrue from reductions in core wages and associated overtime in Amtrak's Engineering Division. As mentioned earlier, increasing overtime costs have resulted in savings estimates being revised downward from $3.7 million to $2.2 million.

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/processes and a collaborative infrastructure planning process.

Amtrak has developed a preliminary FY 2008-2012 fleet plan schedule and is working with the Mechanical, Transportation, and Marketing and Product Management departments to develop revised food service car requirements. Amtrak is developing the NEC Master Plan for the FY 2012 NEC Strategic Plan. No benefits are expected in FY 2007 from this initiative.

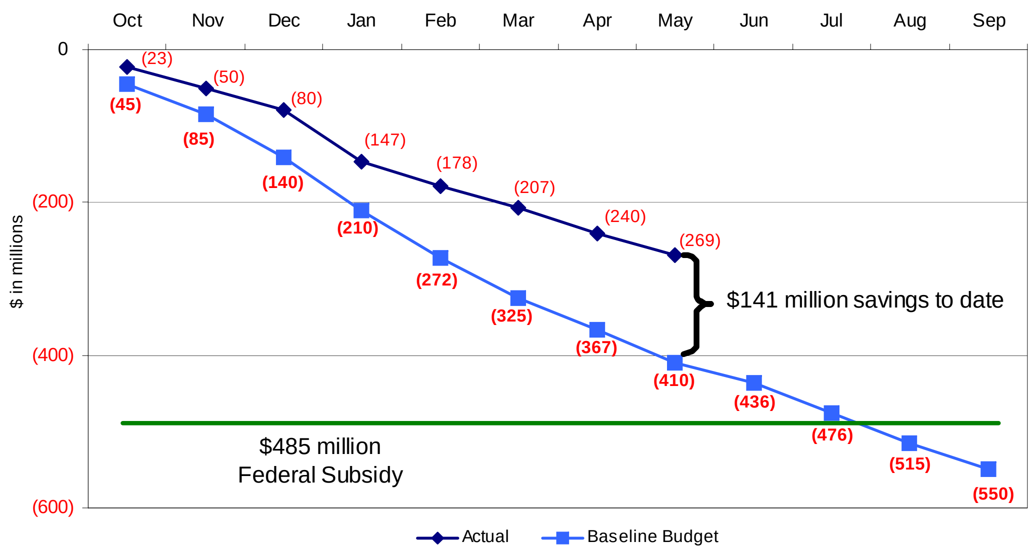
Ensuring Full Cost Recovery of Services and Assets

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 FRA on the long-distance network. Because this initiative is in the planning stage, no savings are expected in FY 2007.

Modernizing Labor Agreements

This initiative is aimed at reducing unit costs and increasing 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. As stated earlier, Amtrak is in negotiations with its labor unions.

508 Compliant Charts and Tables
Amtrak's July 2007 Quarterly Report



Data Table for Figure 1.

Months	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Actual	(23)	(50)	(80)	(147)	(178)	(207)	(240)	(269)	n/a	n/a	n/a	n/a
Baseline Budget	(45)	(85)	(140)	(210)	(272)	(325)	(367)	(410)	(436)	(476)	(515)	(550)

* Note: Amtrak Federal subsidy for FY2007 was $485 million

Through May 2007, Amtrak's operating loss was $141 million favorable to the FY 2007 baseline budget of $550 million.

Table 1. Amtrak Net Profit/(Loss), Excluding Federal Operating Subsidies* FY 2007 – Year to Date through May ($ in Millions)			
Business Line	**Actual**	**Budget**	**Actual vs. Budget**
National Train System Operations	($144.0)	($240.8)	$96.8
Northeast Corridor	*$199.5*	*$141.0*	*$58.5*
State Supported and Other Corridors	*($62.6)*	*($41.7)*	*($20.9)*
Long-Distance Service	*($280.9)*	*($340.2)*	*$59.2*
Infrastructure Management	($39.1)	($35.6)	($3.5)
Ancillary Business	$61.1	$49.9	$11.1
Unallocated System	($147.1)	($151.7)	4.7
Total	**($269.2)**	**($378.2)**	**$109.0**

* Amtrak reports these financials on an earnings before interest, taxes, depreciation, and OPEBs (other post-employment benefits) basis.

Table 2. Summary of FY 2007 Strategic Reform Initiatives
FY 2007 – Year to date through April ($ in millions)

Strategic Reform Initiative	Estimated YTD Benefit	Actual YTD Benefit	Variance +/-	Progress
Reduce Costs and Improve Service Quality	24.6	22.0	2.5	On schedule
Increase Sales and Distribution Efficiencies	2.1	1.8	(0.3)	Behind schedule
Enhance Reliability and Efficiency of Mechanical Services	(0.1)	0.3	0.4	On schedule
Improve Management Systems and Overhead Efficiencies	1.4	1.5	0.1	Behind schedule
Achieve Ongoing Efficiencies	2.2	0.7	(1.5)	On schedule
Optimize Network Services and Use of Assets	(0.5)	0.0	(0.5)	Behind schedule
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	**29.6**	**26.4**	**(3.2)**	n/a

Amtrak's FY 2007 Savings from Strategic Reform Initiatives

Table 3. Summary of Amtrak Savings FY 2007 – Year to Date through April ($ in millions)			
Amtrak Net Operating Savings	**Revised Estimated YTD Benefit**	**Actual YTD Benefit**	**Variance +/-**
1. Reduce Costs and Improve Services Quality	**24.6**	**22.0**	**(2.5)**
Service Quality	5.6	11.5	5.9
*Improve NEC Acela service**	*5.6*	*11.5*	*5.9*
Food and Beverage Services	10.8	10.4	(0.4)
Sleeper Right-Sizing	8.1	0.1	(8.0)
2. Increase Sales and Distribution Efficiencies	**2.1**	**1.8**	**(0.3)**
Station Efficiencies	1.2	1.7	0.5
Call Center Operations	0.9	0.0	(0.9)
E-Ticketing	0.0	0.1	0.1
3. Enhance Reliability and Efficiency of Mechanical Services	**(0.1)**	**0.3**	**0.5**
Reliability Centered Maintenance	(1.6)	(1.9)	(0.2)
Facilities Efficiencies	1.5	2.2	0.7
Develop outsourcing plan for locomotive service	*0.0*	*0.0*	*0.0*
Facility consolidation	*1.5*	*2.2*	*0.7*
4. Improve Management Systems and Overhead Efficiencies	**1.4**	**1.5**	**0.1**
Management Information Systems	(0.5)	0.0	0.5
Overhead Costs**	1.9	1.5	(0.4)
Reduce fuel and power	*0.3*	*0.3*	*0.0*
Other overhead	*1.0*	*0.3*	*(0.7)*

Install on-board credit card terminals	*0.7*	*0.9*	*0.3*

Amtrak Net Operating Savings	Revised Estimated YTD Benefit	Actual YTD Benefit	Variance +/-
5. Achieve Ongoing Efficiencies	**2.2**	**0.7**	**(1.4)**
Engineering	2.2	0.7	(1.4)
6. Optimize Network Services and Use of Assets	**(0.5)**	**0.0**	**0.5**
Routes and Services	(0.2)	0.0	0.2
NEC	(0.2)	0.0	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	**29.6**	**26.4**	**(3.2)**

Source: Amtrak Strategic Planning Department
*Includes improved trip time, OTP, and 15th train set.
**Excludes $2 million one-time payment for co-Branded Credit Card Program.

Text Version for 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
    - FY2007 Forecasted Savings, $19.5 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
    - FY2007 Forecasted Savings, $17.4 million

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

    - FY2007 Original Targeted Savings, $19.7 million
    - FY2007 Forecasted Savings, $0 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
    - FY2007 Forecasted Savings, $2.7 million
- *E-ticketing:* Develop enterprise systems and processes for e-ticketing.
    - FY2007 Original Targeted Savings, $1.7 million
    - FY2007 Forecasted Savings, $0.6 million
- *E-Commerce:* Build infrastructure to facilitate customer relationships and generate incremental revenue.
    - FY2007 Original Targeted Savings, $0 million
    - FY2007 Forecasted Savings, $0 million
- *Pricing:* Develop pricing mechanisms for responding to market conditions.
    - FY2007 Original Targeted Savings, $0 million
    - FY2007 Forecasted 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, $0.5 million
    - FY2007 Forecasted Savings, $0 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
    - FY2007 Forecasted Savings, $(3.4) million

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

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

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

    - FY2007 Original Targeted Savings, $0 million
    - FY2007 Forecasted 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
    - FY2007 Forecasted Savings, $2.9 million

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

    - FY2007 Original Targeted Savings, $0 million
    - FY2007 Forecasted 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
    - FY2007 Forecasted 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
    - FY2007 Forecasted 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
    - FY2007 Forecasted 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
    - FY2007 Forecasted Savings, $2.2 million

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

    - FY2007 Original Targeted Savings, $0 million
    - FY2007 Forecasted 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, $0.6 million
    - FY2007 Forecasted Savings, $0 million

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

    - FY2007 Original Targeted Savings, $(0.5) million
    - FY2007 Forecasted 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
    - FY2007 Forecasted Savings, $0 million

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

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

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

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

Estimated 5-Year savings to be determined.

Total (All Programs)

- FY2007 Original Targeted Savings, $61 million
- FY2007 Forecasted Savings, $45.6 million

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