



**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation

The Inspector General

Office of Inspector General  
Washington, D.C. 20590

May 1, 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 second quarterly assessment<sup>1</sup> of Amtrak's fiscal year (FY) 2007 operational reforms savings<sup>2</sup> and year-to-date financial performance. Amtrak is likely to realize \$39 million of the \$61 million in FY 2007 reform savings it originally anticipated and \$224 million of the \$550 million in FY 2011 savings originally anticipated once the reforms are more fully implemented.

In addition, Amtrak was \$99 million ahead of its budget through March. This favorable financial performance and Amtrak's sizeable cash balance at the start of this fiscal year have resulted in Amtrak planning to increase spending by more than \$100 million on a combination of operating expenses and capital projects.

<sup>1</sup> Our January, April, July, and October 2006 and January 2007 quarterly reports on Amtrak's savings from operational reforms are available at [www.oig.dot.gov](http://www.oig.dot.gov).

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

## Summary

- Amtrak will not realize all 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. Amtrak is likely to make up some of the \$21.9 million in foregone savings from these two initiatives from other operational reforms.
- Through January 2007 Amtrak achieved \$13.1 million in operational reform savings. Of this amount, \$10.3 million came from food and beverage services reforms and reforms that improved Acela revenues. The remaining \$2.8 million primarily came from reduced headcount in stations and overhead expenses.
- Through March 2007, Amtrak's operating loss was \$207 million, \$99 million better than planned, due to higher than expected revenues from Acela, lower than expected costs due to reduced headcount, and the timing of certain labor-related expenses.
- This improved financial performance and substantial cash balance available at the start of the year have resulted in Amtrak deciding to increase spending by over \$100 million, on a combination of operating and capital expenditures. Some of these expenditures were previously unbudgeted, while others were budgeted but not funded by Congress.
- Amtrak plans to spend its cash balance down to \$103.9 million, which is below the level it previously argued was prudent for a company of its size.
- From strictly a process standpoint, we believe a better decision on how limited Federal resources are to be allocated would result if Congress were able to weigh all competing uses for excess Federal operating subsidies. Congress should decide whether the best use of these funds is for Amtrak or another Federal program. To be clear, our concerns lie with the process by which this spending decision was made, not how Amtrak chose to spend the funds.
- The FY 2007 Business Plan Amtrak submitted to Congress and the Department of Transportation in March 2007 included an out-of-date operating budget, making the plan of limited use and possibly misleading. A more accurate Business Plan would better inform those making decisions regarding Amtrak's resource requirements.

## Structure of the Report

This report will assess (1) Amtrak's projected year-end financial performance; (2) Amtrak's financial performance through March 2007 on a corporate level and by business line; (3) progress-to-date on the development and implementation of strategic reform initiatives (SRI); and (4) cost savings through January 2007 associated with current reform initiatives.

### **Amtrak's Favorable Year-End Financial Projections and Sizeable Start of Year Cash Balance Result in Plans to Increase Spending**

Amtrak plans to increase its spending this year by over \$100 million on a combination of operating and capital expenses. This increase in spending is made possible by a favorable year-end financial projection and the \$215 million cash balance it had available at the start of the year.

In its FY 2007 Board-approved budget, Amtrak projected it would need \$565 million from a combination of Federal subsidy and savings to make ends meet. This amount was comprised of \$485 million in Federal operating subsidies and \$80 million in planned operational and other savings. In our January report, we estimated Amtrak would require \$15 million less than this amount. Amtrak now projects its FY 2007 requirements will be \$47 million below its original projections<sup>3</sup> (excluding new spending).

**Amtrak's Plan to Increase Spending Helps Reduce its Cash Balance Below the Level It Claimed Is Prudent.** Amtrak's decision to increase spending contributes to a projected end-of-year cash balance of \$103.9 million. This is of concern to us because Amtrak is not managing its budget to the cash balance it previously stated it required. In our January 2007 quarterly report, we stated that Amtrak could use \$140 million of its FY 2006 \$215 million cash balance to partially fund its FY 2007 capital requirement. In response, Amtrak stated:

We suggest that a company the size of Amtrak, with \$3 billion per year in expenses, and extraordinary funding uncertainties, prudently requires cash working capital of at least \$200 million, the approximate amount in place at the end of FY 2006.

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<sup>3</sup> We believe this amount to be understated because, in our opinion, Amtrak is unlikely to spend all of the amounts it projects it will spend in the last half of the fiscal year on its ongoing programs (excluding new spending).

The low projected end-of-year cash balance suggests either Amtrak is poorly managing its spending and cash balances or that Congress could look to Amtrak's cash balances as a means of meeting Amtrak's funding requirements.

**Congress Should Decide Whether Excess Federal Subsidies Are Best Spent on Amtrak or Elsewhere.** We believe Congress is best able to decide how limited Federal resources should be allocated among all the significant competing demands for those limited resources, which could be for Amtrak or anywhere else needed. We note that Amtrak's decision to increase spending this year, in part by spending down its cash balance, effectively removes the Appropriations Committees and Congress as a whole from decisions concerning how these excess subsidies should be spent.

An appropriate balance is required between providing adequate resources to meet Amtrak's cash flow requirements and allowing for meaningful congressional oversight of Federal funds. This could be achieved by adjusting Amtrak's appropriation, thereby limiting Amtrak's cash balance. Amtrak would then be required to justify to Congress its requirement for additional appropriations, should that need arise. Congress took this approach with Amtrak's FY 2006 appropriation when it lowered Amtrak's operating subsidy from its \$540 million request to an appropriation of \$485 million. The risk that Amtrak might face unanticipated cash needs in excess of a more limited cash balance would be mitigated by the Efficiency Grant appropriation, which would be available for operating expenses if needed.

Alternatively, Congress could leave the higher cash balance in place, but impose limitations on its use. For example, Federal agencies funded through the Transportation/Treasury Appropriations Bill are restricted in their ability to reallocate funds by reprogramming requirements.

**Amtrak's Business Plan Must Accurately Reflect Planned Spending for Meaningful Oversight to Occur.** On March 14, 2007, Amtrak published its FY 2007 Comprehensive Business Plan, as required by the Revised Continuing Resolution, 2007 (Public Law 110-05). This plan is an improvement over previous plans in the type and amount of information provided. The capital and debt service budgets were current at the time the Business Plan was released. However, the operating budget was not.

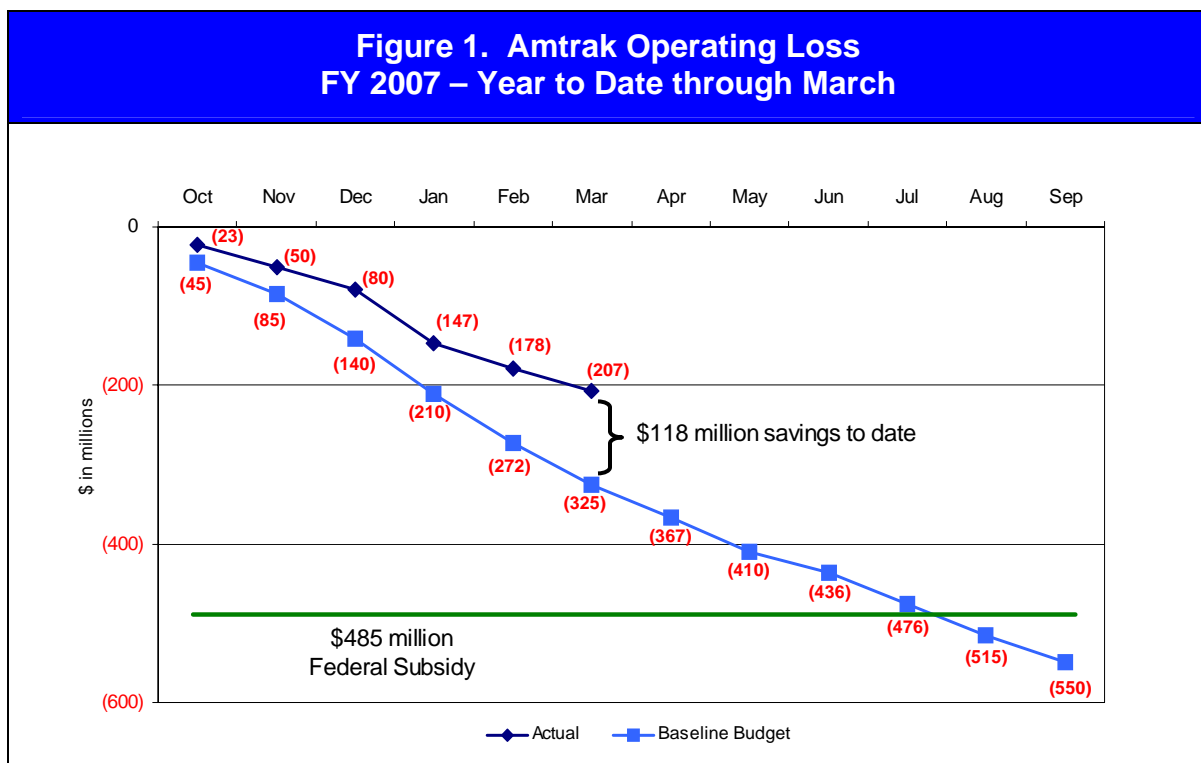
The operating budget in the Business Plan included strategic reform initiatives that Amtrak had already canceled, "unidentified budget improvements" that Amtrak had already determined to be unnecessary, and a spending plan that Amtrak had already replaced. The out-of-date operating budget makes the Business Plan of limited use in understanding Amtrak's financial situation and is possibly

misleading. More transparent and accurate Business Plans will better inform those making decisions regarding Amtrak's resource requirements.

### Amtrak's Financial Performance Through March Exceeds Projections

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

**Corporate Level Results.** Through March 2007, Amtrak's operating loss was \$207 million, \$99 million better than projected in its \$485 million FY 2007 operating budget and \$118 million favorable to the FY 2007 baseline budget of \$550 million<sup>4</sup> (see Figure 1).



Amtrak's financial performance reflects \$23.5 million in revenues above, and \$75.3 million in expenses below, the level projected in its budget. The favorable revenue performance was due primarily to passenger revenues that were \$25 million higher than projected in the budget offset by commuter revenue, which was \$1.8 million lower than projected. Ticket revenue from Acela service is significantly above budget projections (+\$27.6 million) due to a combination of fare increases and ridership growth. Revenues from Regionals service

<sup>4</sup> The baseline budget reflects our estimate, in our January report, of the total amount of Federal subsidy and savings Amtrak requires to make ends meet in FY 2007.

(+\$1.8 million) and long-distance services (+\$4.7 million) also were both above budget projections. Revenues from state corridor services were \$7.7 million below budget projections.

Operating expenses were \$75.3 million below budget projections mainly due to lower costs for salaries, wages, and benefits (\$62.1 million) and lower fuel costs (\$13.1 million). Some of the decrease in salaries and wages is due to a lower headcount, however, some is related to the timing of a labor settlement and will evaporate if and when a settlement is reached.

**Business Line Results.** As shown in Table 1, the Northeast Corridor (NEC) accounted for \$56.4 million of the \$99 million improvement relative to budget projections through March 2007. This increase is attributable to stronger Acela on-time performance (OTP), faster service on connecting corridor trains, increased frequencies, and continued use of revenue management. State-supported and other corridors lost \$13 million more than what was projected in the budget as ridership fell 3 percent below projected levels. Long-distance services lost \$56.8 million less than what was projected, supported by \$4.7 million in revenues that were higher than projected due to improved OTP, increased ridership, and higher fares.

<b>Table 1. Amtrak Net Profit/(Loss), Excluding Federal Operating Subsidies* FY 2007 – Year to Date through March (\$ in Millions)</b>			
<b>Business Line</b>	<b>Actual</b>	<b>Budget</b>	<b>Actual vs. Budget</b>
National Train System Operations	(\$110.8)	(\$211.06)	\$100.2
<i>Northeast Corridor</i>	\$141.7	\$85.3	\$56.4
<i>State Supported and Other Corridors</i>	(\$45.9)	(\$32.9)	(\$13.0)
<i>Long-Distance Service</i>	(\$206.6)	(\$263.4)	\$56.8
Infrastructure Management	(\$31.2)	(\$14.4)	(\$16.8)
Ancillary Business	\$44.5	\$37.6	\$6.9
Unallocated System	(\$109.4)	(\$117.9)	(\$8.5)
<b>Total</b>	<b>(\$206.9)</b>	<b>(\$305.7)</b>	<b>\$98.8</b>

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

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

Amtrak is on a path to realize \$39 million of the \$61 million in FY 2007 operational reform savings it originally anticipated and \$224 million of the \$550 million in FY 2011 savings originally anticipated once the reforms are more fully implemented. Amtrak may realize additional savings in FY 2011 as it continues to refine its plans.

In FY 2007, Amtrak canceled both the sleeper right-sizing and call center initiatives, thereby reducing its projected FY 2007 savings by \$21.9 million. It canceled the sleeper right-sizing initiative after concluding that its \$19.7 million in projected savings were based on overly optimistic assumptions. It canceled the call center initiative, estimated to save \$2.2 million in FY 2007, after agreeing with its labor unions not to outsource call center operations for at least 5 years in return for work rules changes and lower starting salaries for new hires.

Our projected 5-year savings from reforms is \$224 million, \$336 million or 61 percent, below the projected savings Amtrak included in its April 2005 Strategic Reform Initiatives plan. This reflects a lack of reportable progress on the network restructuring and use of assets, improved cost recovery of services from states, and labor reform initiatives. Amtrak continues to work on these initiatives and may yet achieve savings from them.

***Most Savings to Date are From One Initiative.*** Through January 2007, Amtrak achieved \$13.1 million in savings from operational reforms, almost 80 percent of which came from the Reduce Costs and Improve Service Quality initiative (see Table 2). Additional details 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 January (\$ in millions)**

<b>Strategic Reform Initiative</b>	<b>Estimated YTD Benefit</b>	<b>Actual YTD Benefit</b>	<b>Variance +/-</b>	<b>Progress</b>
Reduce Costs and Improve Service Quality	9.3	10.3	1.0	On schedule
Increase Sales and Distribution Efficiencies	1.3	0.9	(0.4)	Slightly behind schedule
Enhance Reliability and Efficiency of Mechanical Services	(0.1)	0.0	0.1	May be accelerated
Improve Management Systems and Overhead Efficiencies	0.8	1.4	0.6	On schedule
Achieve Ongoing Efficiencies	1.2	0.3	(0.9)	On schedule
Optimize Network Services and Use of Assets	2.7	0.2	(2.5)	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
<b>Total</b>	<b>15.2</b>	<b>13.1</b>	<b>(2.1)</b>	

The following is a summary of Amtrak's recent progress on its strategic reform initiatives. Enclosure 2 provides additional details on the projected FY 2007 and 5-year savings for these initiatives. Enclosure 3 provides more detailed discussion on progress to date on these initiatives.

- **Reduce Costs and Improve Quality of Passenger Services.** Through January 2007, Amtrak achieved \$10.3 million in operating savings from this initiative. Of that amount, \$6.8 million was from food and beverage service reforms and \$3.5 million was from reforms that improved Acela revenues.

Food and beverage service savings come from two projects first implemented in FY 2006, Simplified Dining<sup>5</sup> and the renegotiated Gate Gourmet contract and a project first implemented in FY 2007, outsourcing food and beverage revenue collection in FY 2007. For another new FY 2007 initiative, production delays for new dining cars will shift related savings (\$0.6 million)

<sup>5</sup> 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.



to FY 2008. Increased Acela revenues came from reforms that improved on-time performance, reduced trip times, and added a 15th Acela trainset. This trainset allowed Amtrak to replace a Metroliner trainset between Washington, D.C. and New York and to add a frequency between New York and Boston.

- **Increase Sales and Distribution Efficiencies.** Through January 2007, Amtrak achieved \$0.9 million in operating savings from this initiative, which were achieved from the elimination of 30 positions through attrition and better workforce utilization. Amtrak expects to complete the first installation of Quik-Trak machines by July 1. This will give customers the ability to buy tickets at stations rather than on the trains. The installation of Quik-Trak machines will reduce the need for ticket agents at stations, further decreasing labor and benefits costs. Amtrak expects this measure to eliminate an additional 31 positions by October. The project is slightly behind schedule but is on target for completion within FY 2007.
- **Enhance Reliability and Efficiency of Mechanical Services and Materials Management.** Through January 2007, Amtrak achieved no net savings from this initiative as the savings realized through facilities efficiencies were offset by consulting costs associated with Reliability Centered Maintenance (RCM). However, it should be noted that the ability to add the 15th Acela trainset was due to maintenance efficiencies achieved from the RCM initiative.

Amtrak achieved \$1.0 million in savings from facilities efficiencies by eliminating a net of 37 positions through the consolidation of the New Orleans locomotive maintenance facility to Chicago. Amtrak's analysis of the RCM impact on the Acela maintenance processes indicates that benefits may be accelerated significantly into FY 2007, assuming new maintenance practices are adopted as planned.

- **Improve Management Systems and Overhead Efficiencies.** Through January 2007, Amtrak has achieved \$1.4 million in savings from reduced overhead costs, including utility management savings, reduced bank services and fees, pension plan administrative costs, reduced administrative fees related to medical benefits, and savings resulting from the installation of on-board credit card terminals. Significantly, 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 contracts are designed to increase revenue and reduce credit card processing costs.
- **Achieve Ongoing Efficiencies.** Through January 2007, Amtrak has achieved \$0.3 million in savings from a 4-percent productivity gain related to a drop in core wages and associated overtime from Amtrak's Engineering Department.

- **Optimize Network Services and Use of Assets.** As previously discussed, Amtrak canceled the sleeper right-sizing initiative after further analysis revealed that the original assumptions underlying the projected savings were overly optimistic and not realistic. Minor savings (\$0.2 million) have been achieved from eliminating a train attendant from the Crescent and Texas Eagle. There are no further savings expected from this initiative this year. In addition, Amtrak and the Board of Directors have not yet made a decision on how to proceed with its previously announced intention to restructure Amtrak's routes.
- **Full Cost Recovery of Services and Assets.** This initiative seeks to recoup fully allocated losses from states for corridor services and from commuters on the Northeast Corridor. Currently, states do not pay any of the costs for corridor services that were in existence in 1971 when Amtrak was incorporated and pay only the direct costs, but not overhead or capital costs, for corridor services initiated after 1971. Amtrak proposed to phase in increased state payments, starting in FY 2008, so that eventually all states would pay their fully allocated operating cost and a capital charge. Amtrak has been unsuccessful in convincing states to increase payments, but continues to pursue this goal.
- **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. No savings from this initiative are expected in FY 2007.

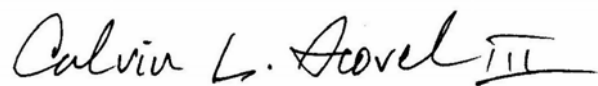
## Conclusion

Amtrak continues to make progress on many of its strategic reforms. However, as we have previously reported, Amtrak has made little or no progress on the more challenging strategic reforms, such as network restructuring, fully allocated cost recovery from states, and labor reform. Further, Amtrak slowed the overall pace of reforms this year. We continue to believe that both Amtrak and its stakeholders could better evaluate the reforms that are needed and the pace of reforms if Amtrak were to benchmark its operations against those of industry leaders.

Additionally, from a process standpoint, we believe that a better decision on how limited Federal resources are to be allocated would result if Congress were able to weigh all competing uses for excess Federal operating subsidies. As it stands now, the decision on how to allocate these excess funds this year involved only uses by Amtrak. Congress could decide, after weighing all options, that the best use of these funds is for Amtrak or another Federal program.

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) 366-6767 or David Tornquist, Assistant Inspector General for Competition and Economic Analysis, at (202) 366-9970.

Sincerely,

A handwritten signature in black ink that reads "Calvin L. Scovel III". The signature is written in a cursive style with a horizontal line underlining the name.

Calvin L. Scovel III  
Inspector General

## Amtrak's FY 2007 Savings from Operational Reform

<b>Table 3. Summary of Amtrak Savings FY 2007 – Year to Date through January (\$ in millions)</b>			
<b>Amtrak Net Operating Savings</b>	<b>Revised Estimated YTD Benefit</b>	<b>Actual YTD Benefit</b>	<b>Variance +/-</b>
<b>Strategic Reform Initiatives</b>			
<b>1. Reduce Costs and Improve Services Quality</b>	<b>9.3</b>	<b>10.3</b>	<b>1.0</b>
Service Quality	2.8	3.5	0.7
<i>Improve NEC Acela service*</i>	2.8	3.5	0.7
Food and Beverage Services	6.5	6.8	0.3
<b>2. Increase Sales and Distribution Efficiencies</b>	<b>1.3</b>	<b>0.9</b>	<b>(0.4)</b>
Station Efficiencies	0.6	0.9	0.3
Call Center Operations	0.7	0.0	(0.7)
E-Ticketing	0.0	0.0	0.0
<b>3. Enhance Reliability and Efficiency of Mechanical Services</b>	<b>(0.1)</b>	<b>0.0</b>	<b>0.1</b>
Reliability Centered Maintenance	(0.9)	(1.0)	(0.1)
Facilities Efficiencies	0.8	1.0	0.2
<i>Develop outsourcing plan for locomotive service</i>	0.7	0.0	(0.7)
<i>Facility consolidation</i>	0.1	1.0	0.9
<b>4. Improve Management Systems and Overhead Efficiencies</b>	<b>0.8</b>	<b>1.4</b>	<b>0.6</b>
Overhead Costs	0.8	1.4	0.6
<i>Reduce fuel and power</i>	0.2	1.0	0.8
<i>Other overhead</i>	0.5	0.1	(0.4)
<i>Install on-board credit card terminals</i>	0.1	0.3	0.2
<b>5. Achieve Ongoing Efficiencies</b>	<b>1.2</b>	<b>0.3</b>	<b>(0.9)</b>
Engineering	1.2	0.3	(0.9)
<b>6. Optimize Network Services and Use of Assets</b>	<b>2.7</b>	<b>0.2</b>	<b>(2.5)</b>
Routes and Services	2.7	0.2	(2.5)
<i>Restructure long distance coach and sleepers</i>	2.7	0.2	(2.5)
<b>Total</b>	<b>15.2</b>	<b>13.1</b>	<b>(2.1)</b>

Source: Amtrak Strategic Planning Department

\*Included improved trip time, OTP, and 15th train set.

**Amtrak's Operational Reforms Description**

**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	Revised April 2007	Original	Revised April 2007
<b>1. Reduce Costs and Improve Service Quality</b>					
Service Quality	Focus management attention and drive accountability for train service performance, including on-board service quality and on-time performance.	\$3.5	\$6.6	\$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	\$19.4		
Long Distance Product Development	Improve net operating performance of sleeper service.	\$19.7	\$0		
<b>2. Increase Sales and Distribution Efficiencies</b>					
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	\$1.2		
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  
\* Incremental annual savings compared to FY 2006.

<b>Table 4. Amtrak's Proposed Operational Reforms (\$ in millions) (cont.)</b>					
<b>Strategic Reform Initiative and Program</b>	<b>Objective</b>	<b>FY 2007 Targeted Savings*</b>		<b>Estimated 5-Year Savings</b>	
		<b>Original FY 2007</b>	<b>Revised April 2007</b>	<b>Original FY 2007</b>	<b>Revised April 2007</b>
<b>3. Enhance Reliability and Efficiency of Mechanical Services</b>					
Reliability Centered Maintenance (RCM)	Implement RCM to reduce cycle time and increase equipment reliability and availability.	\$3.1	\$0		
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	\$75	\$74
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		
<b>4. Improve Management Systems and Overhead Efficiencies</b>					
Management Information System	Modernize management information systems to improve accuracy, timeliness, and consistency of data and processes across the company.	\$(0.8)	\$(0.8)		
Overhead Costs	Reduce overhead costs through better allocation, improved administrative and support function efficiency, and reduced cash handling and transaction costs.	\$4.5	\$4.5	\$36	\$37

Source: Amtrak Strategic Planning Department

\* Incremental annual savings compared to FY 2006.

<b>Table 4. Amtrak's Proposed Operational Reforms (\$ in millions) (cont.)</b>					
<b>Strategic Reform Initiative and Program</b>	<b>Objective</b>	<b>FY 2007 Targeted Savings*</b>		<b>Estimated 5-Year Savings</b>	
		<b>Original FY 2007</b>	<b>Revised April 2007</b>	<b>Original FY 2007</b>	<b>Revised April 2007</b>
<b>5. Achieve Ongoing Efficiencies</b>					
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	\$3.7		
Safety	Reduce FRA reportable illnesses/ injuries rate.	\$0	\$0		
<b>6. Optimize Network Services and Use of Assets</b>					
Routes and Services	Improve alignment of NEC, corridor, and long-distance routes and services with market demand.	\$0.6	\$(0.6)	\$92	\$91
Asset Utilization	Improve fleet and infrastructure utilization through new service planning tools/processes and a collaborative infrastructure planning process.	\$(0.5)	\$(0.5)		
<b>7. Ensure Full Cost Recovery of Services and Assets</b>					
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	
<b>8. Modernize Labor Agreements</b>					
Labor Contracts	Negotiate new labor agreements that increase workforce flexibility	\$0	\$0	TBD	
<b>Total</b>		<b>\$61.0</b>	<b>\$39.1</b>	<b>\$347</b>	<b>\$315</b>

Source: Amtrak Strategic Planning Department  
\* Incremental annual savings compared to FY 2006.

## **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). 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 \$6.6 million in savings this year will come from an increase in Acela ticket revenues due to better on-time performance and the addition of a 15<sup>th</sup> Acela trainset. It should be noted that the savings associated with Acela improvements are estimated based on a percentage of total Acela revenue improvement since it is not possible to attribute increased revenues from specific initiatives. These estimates are based on Amtrak's ridership and revenue models of the NEC.

To address customer service quality, the "Amtrak Trip Survey" database and data collection system, which will allow for evaluation of key service aspects and measurement of service quality, was completed and began accepting input from customers in February. Additionally, Service Managers have been deployed on all long-distance trains and cell phones have been issued to conductors on Acela service to improve communication during service disruptions, facilitate service recovery, and improve coordination of day-to-day service.

Amtrak recognizes that it needs to market its services in different ways to attract the relevant market. Acela customers are largely business travelers that are primarily interested in on-time performance and want the amenities and comforts associated with first class travel. Amtrak is working to improve Acela service. It now has the highest on-time performance among all Amtrak trains, first class amenities are now in place, and an upgraded menu is offered.

The F&B initiative includes: the Simplified Dining program put into place in FY 2006, redesign of dining car service, rolling stock modifications, outsourcing and centralization of the food and beverage revenue collection process, and point of sale inventory management technology upgrades. Simplified Dining has resulted in the elimination of 200 on-board F&B positions.

Progress in FY 2007 has been made on several sub-initiatives. Under the F&B equipment design initiative, prototype Superliner diner design refinements have been defined and forwarded to Mechanical Engineering and work continues on the conversion of Amfleet II Lounge cars to the "diner-lite" configuration. The first



Amfleet II redesigned lounges are now running on the Cardinal service. Due to a schedule slip resulting from an extensive study of the prototype and design modifications, the savings from dining/lounge redesigns will not be seen until FY 2008.

### ***Increase Sales and Distribution Efficiencies***

This initiative aims to deliver increased revenues and distribution efficiencies throughout Amtrak's customer-facing channels. Programs under this initiative include: (1) development and implementation of eTicketing, (2) deployment of more efficient communications and sales/distribution equipment and processes, (3) building infrastructure to facilitate customer relationships and generate incremental revenue, (4) development of pricing mechanisms to enable fast responses to market conditions, and (5) improvement in cost-effectiveness of call center operations through improved tools, processes, and productivity.

The majority of the savings from this initiative are expected to come from labor reductions due to the installation of Quik-Trak machines and the associated decrease in the need for ticket agents at stations. In February, refund/exchange automation was loaded into Amtrak's reservation system (ARROW) which will allow for 95 percent of exchanges/refunds to be completed automatically. The new capacity also enables multiple tickets to be generated and processed automatically, saving time and helping reap additional funds. The first installation of additional Quik-Trak machines is scheduled to be completed by July 1, and a second wave will be completed by September 2007. Amtrak estimates a total of \$2.7 million in savings for FY 2007 from this sub-initiative.

The remaining programs under this initiative are, for the most part, in the design and planning stages. The eTicketing initiative has made the most progress and is in the planning stage. Software development will begin in the fourth quarter of FY 2007 and will likely be complete by the fourth quarter of FY 2008. The transition from paper tickets will continue through FY 2009.

### ***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 Reliability Centered Maintenance (RCM), continued implementation of the Work Management System (WMS), increasing mechanical productivity and quality, and enhancing mechanical facilities and materials management operations.

On RCM, Amtrak has hired a consultant, T-Solutions, to assist with the implementation of the program. T-Solutions previously helped implement RCM successfully for the United States Navy. As a part of the RCM project, Amtrak has begun a Federal Railroad Administration (FRA)-approved pilot program in which two Acela train sets will run under close monitoring to evaluate whether the current 5-year maintenance schedule for the air brake system can be reliably shortened. This process will allow Amtrak to establish the true life span of the air brake system. If supported by the results of the pilot program, Amtrak will petition the FRA for a reduction in the maintenance schedule to reflect the real life span of the equipment, thereby, reducing maintenance costs. The objective of the RCM program is to find the right mix and interval of maintenance requirements.

Analysis of the RCM impact on the Acela maintenance processes so far shows that benefits may be accelerated significantly in FY 2007 assuming practices are adopted as planned. However, achieving the net benefits of this program is dependent on the ability of management to change Amtrak culture regarding maintenance, as the rail industry has traditionally performed maintenance on a scheduled basis.

The WMS program is also progressing according to plan. When complete, it will support comprehensive planning and assessment for maintaining Amtrak's rolling stock and help manage approximately 4,500 mechanical employees. As part of the WMS program, Amtrak has completed its Maintenance Effectiveness Reviews on Acela trains.

Construction work is in progress to ensure greater facilities efficiencies, including concrete, mechanical, and electrical work on all pertinent tracks. Once completed, this program will result in the further centralization of maintenance of diesel locomotives in Chicago. Part of the program requires upgrading the 16<sup>th</sup> Street facility in Chicago so that it can efficiently handle additional equipment and achieve Amtrak's goal of becoming a world-class maintenance facility. Amtrak projects \$2.9 million in savings from facilities efficiencies in FY 2007.

Finally, Amtrak has been testing its Cleaning, Oiling, Testing and Stenciling (COT&S) Program to reduce labor costs. While savings from this initiative were not included in the FY 2007 budget, Amtrak is moving forward with it and savings will begin accruing next month.

### ***Improve Management Systems and Overhead Efficiencies***

This initiative addresses the modernization of management information systems to improve accuracy, timeliness, and consistency of data and processes across the

company. The aim is to reduce overhead costs through better allocation, improved administrative and support function efficiency, and reduced cash handling and transaction costs.

Key sub-initiatives are Amtrak's Integrated Financial System (IFS) and the Amtrak Performance Tracking (APT) system. 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. The IFS project is on schedule and is in the procurement stage. However, the APT project has experienced delays in the procurement process, which has caused the implementation to be moved back. While both projects continue to progress at various stages, there are no benefits budgeted for FY 2007.

The effort to reduce bank services and fees is ongoing. The installation of on-board credit card terminals (nationwide rollout began in April) is expected to result in savings from fraud reduction of credit card services, reduced commissions, and an increase in F&B revenues from on-board credit card readers.

Finally, a new 401(k) plan was awarded in March and will result in increased investment income of \$2.5 million per year due to reduced pension plan administrative costs. The effort to reduce bank services and fees is ongoing. Amtrak estimates \$4.5 million in annual savings from all its overhead initiatives.

### ***Achieve Ongoing Efficiencies***

This initiative concentrates on achieving ongoing efficiencies within the Operations Branch. Targeted areas include Train Operations, Engineering and Safety. Planned benefits include reducing train fuel consumption, increasing productivity of the Engineering workforce, and reducing FRA reportable illnesses/injuries.

Train Operations projects in this area include: a train fuel conservation program, creation of a portable locomotive simulator and subsequent training of locomotive engineers designed to improve train handling techniques. As of January, a sole-source procurement to provide a full motion locomotive simulator has been initiated. However, this project is not expected to be fully implemented until FY 2008, due to inadequate resources. Similarly, the fuel conservation program was placed on hold due to a lack of capital funding.

While labor costs in Engineering are decreasing, largely due to better resource management and not filling vacant positions, it will be difficult to reduce significantly the size of the maintenance crew until the system comes closer to a state of good repair. At that point, the maintenance force requirement should

decrease. Also, two Engineering efficiencies projects were recently completed: the Asset Information Center development project and the project to develop a master work plan, workforce plan, and performance metrics. Amtrak projects an annual savings of \$3.7 million from Engineering Efficiencies this year.

Under the Safety sub-initiative, the Hearing Conservation Program was completed and closed. Completion of this project will allow Occupational Health program improvements to reduce the incidents of on-the-job hearing loss.

### ***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; (2) improve fleet and infrastructure utilization through new service planning tools/processes and a collaborative infrastructure planning process; and (3) improve cost recovery from states for corridor services.

Initially the bulk of the savings from this initiative was expected to come from sleeper service reforms. As previously discussed, this project has been canceled. Amtrak has not yet put forth a plan of action for its network restructuring initiative. In a related initiative, Amtrak is also evaluating whether to change the mix of service levels it provides. Four levels of service are being considered: (1) basic service, a no frills, low cost service; (2) standard service, similar to the current level of service; (3) enhanced service, similar to the upgraded Empire Builder, and (4) luxury service, which would be outsourced.

### ***Ensuring Full Cost Recovery of Services and Assets***

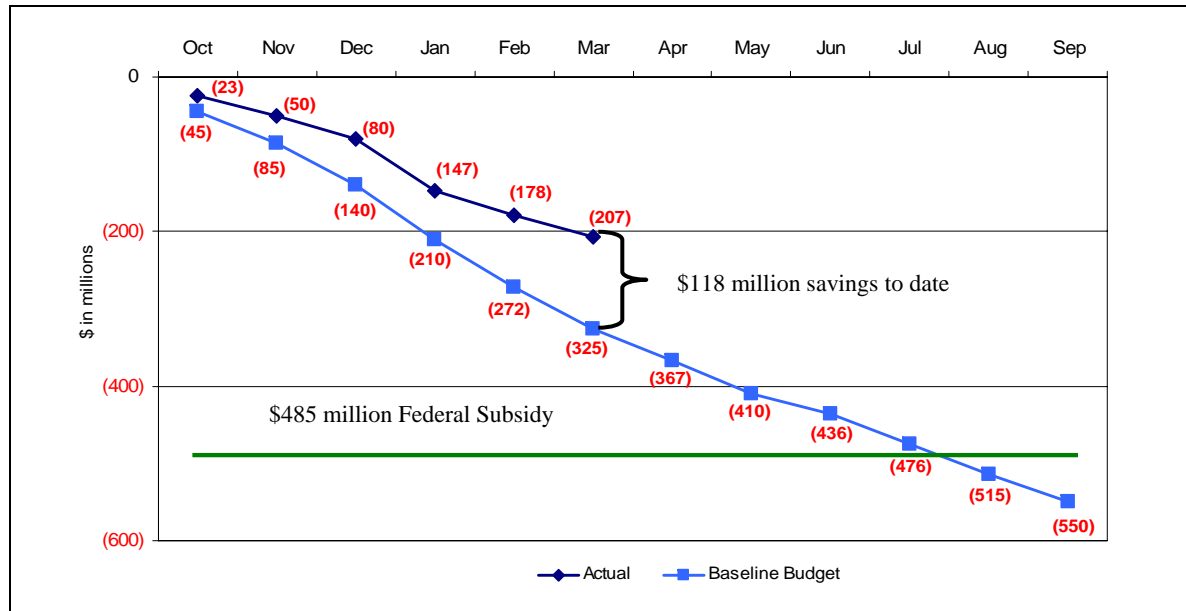
This initiative is expected to improve cost recovery from states for corridor services and from commuters on the NEC by increasing the financial contribution from these users. It will also establish multi-year grant agreements with the FRA on the long-distance network. Because this initiative is in the 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. No savings are expected from this initiative in FY 2007.

**508 Compliant Charts and Tables**  
**Amtrak's April 2007 Quarterly Report**

Figure 1. Amtrak Operating Loss  
 FY2007 – Year to Date through March



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)	n/a	n/a	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 March 2007, Amtrak's operating loss was \$118 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 March (\$ in Millions)**

<b>Business Line</b>	<b>Actual</b>	<b>Budget</b>	<b>Actual vs. Budget</b>
National Train System Operations	(\$110.8)	(\$211.06)	\$100.2
<i>Northeast Corridor</i>	\$141.7	\$85.3	\$56.4
<i>State Supported and Other Corridors</i>	(\$45.9)	(\$32.9)	(\$13.0)
<i>Long-Distance Service</i>	(\$206.6)	(\$263.4)	\$56.8
Infrastructure Management	(\$31.2)	(\$14.4)	(\$16.8)
Ancillary Business	\$44.5	\$37.6	\$6.9
Unallocated System	(\$109.4)	(\$117.9)	(\$8.5)
<b>Total</b>	<b>(\$206.9)</b>	<b>(\$305.7)</b>	<b>\$98.8</b>

\* 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 January (\$ in millions)**

<b>Strategic Reform Initiative</b>	<b>Estimated YTD Benefit</b>	<b>Actual YTD Benefit</b>	<b>Variance +/-</b>	<b>Progress</b>
Reduce Costs and Improve Service Quality	9.3	10.3	1.0	On schedule
Increase Sales and Distribution Efficiencies	1.3	0.9	(0.4)	Slightly behind schedule
Enhance Reliability and Efficiency of Mechanical Services	(0.1)	0.0	0.1	May be accelerated
Improve Management Systems and Overhead Efficiencies	0.8	1.4	0.6	On schedule
Achieve Ongoing Efficiencies	1.2	0.3	(0.9)	On schedule
Optimize Network Services and Use of Assets	2.7	0.2	(2.5)	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
<b>Total</b>	<b>15.2</b>	<b>13.1</b>	<b>(2.1)</b>	n/a

## Amtrak's FY 2007 Savings from Strategic Reform Initiatives

<b>Table 3. Summary of Amtrak Savings FY 2007 – Year to Date through January (\$ in millions)</b>			
Amtrak Net Operating Savings	Revised Estimated YTD Benefit	Actual YTD Benefit	Variance +/-
<b>1. Reduce Costs and Improve Services Quality</b>	<b>9.3</b>	<b>10.3</b>	<b>1.0</b>
Service Quality	2.8	3.5	0.7
<i>Improve NEC Acela service*</i>	2.8	3.5	0.7
Food and Beverage Services	6.5	6.8	0.3
<b>2. Increase Sales and Distribution Efficiencies</b>	<b>1.3</b>	<b>0.9</b>	<b>(0.4)</b>
Station Efficiencies	0.6	0.9	0.3
Call Center Operations	0.7	0.0	(0.7)
E-Ticketing	0.0	0.0	0.0
<b>3. Enhance Reliability and Efficiency of Mechanical Services</b>	<b>(0.1)</b>	<b>0.0</b>	<b>0.1</b>
Reliability Centered Maintenance	(0.9)	(1.0)	(0.1)
Facilities Efficiencies	0.8	1.0	0.2
<i>Develop outsourcing plan for locomotive service</i>	0.7	0.0	(0.7)
<i>Facility consolidation</i>	0.1	1.0	0.9
<b>4. Improve Management Systems and Overhead Efficiencies</b>	<b>0.8</b>	<b>1.4</b>	<b>0.6</b>
Overhead Costs	0.8	1.4	0.6
<i>Reduce fuel and power</i>	0.2	1.0	0.8
<i>Other overhead</i>	0.5	0.1	(0.4)
<i>Install on-board credit card terminals</i>	0.1	0.3	0.2



<b>Amtrak Net Operating Savings</b>	<b>Revised Estimated YTD Benefit</b>	<b>Actual YTD Benefit</b>	<b>Variance +/-</b>
<b>5. Achieve Ongoing Efficiencies</b>	<b>1.2</b>	<b>0.3</b>	<b>(0.9)</b>
Engineering	1.2	0.3	(0.9)
<b>6. Optimize Network Services and Use of Assets</b>	<b>2.7</b>	<b>0.2</b>	<b>(2.5)</b>
Routes and Services	2.7	0.2	(2.5)
<i>Restructure long distance coach and sleepers</i>	2.7	0.2	(2.5)
<b>Total</b>	<b>15.2</b>	<b>13.1</b>	<b>(2.1)</b>

Source: Amtrak Strategic Planning Department

\*Included improved trip time, OTP, and 15th train set

## 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, \$3.5 million
  - Revised April 2007, \$6.6 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
  - Revised April 2007, \$19.4 million
  
- *Long Distance Product Development*: Improve net operating performance of sleeper service.
  - FY2007 Original Targeted Savings, \$19.7 million
  - Revised April 2007, \$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
  - Revised April 2007, \$2.7 million
  
- *E-ticketing:* Develop enterprise systems and processes for e-ticketing.
  - FY2007 Original Targeted Savings, \$1.7 million
  - Revised April 2007, \$1.2 million
  
- *E-Commerce:* Build infrastructure to facilitate customer relationships and generate incremental revenue.
  - FY2007 Original Targeted Savings, \$0 million
  - Revised April 2007, \$0 million
  
- *Pricing:* Develop pricing mechanisms for responding to market conditions.
  - FY2007 Original Targeted Savings, \$0 million
  - Revised April 2007, \$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
  - Revised April 2007, \$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.
  - FY2007 Original Targeted Savings, \$3.1 million
  - Revised April 2007, \$0 million
  
- *Work Management System (WMS)*: Implement WMS in Mechanical Department to enable management accountability and effectiveness.
  - FY2007 Original Targeted Savings, \$0 million
  - Revised April 2007, \$0 million
  
- *Mechanical Productivity and Quality*: Improve Mechanical Department productivity and quality through improved metrics and monitoring.
  - FY2007 Original Targeted Savings, \$0 million
  - Revised April 2007, \$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
  - Revised April 2007, \$2.9 million
  
- *Materials Management*: Improve efficiency of materials management through new processes and tools.

- FY2007 Original Targeted Savings, \$0 million
- Revised April 2007, \$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
  - Revised April 2007, \$(0.8) 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
  - Revised April 2007, \$4.5 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
  - Revised April 2007, \$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
  - Revised April 2007, \$3.7 million
  
- *Safety*: Reduce FRA reportable illnesses/injuries rate.
  - FY2007 Original Targeted Savings, \$0 million
  - Revised April 2007, \$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
- Revised April 2007, \$(0.6) 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
  - Revised April 2007, \$(0.5) 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
  - Revised April 2007, \$0 million
- *NEC Access*: Improve cost recovery from users of the NEC.
  - FY2007 Original Targeted Savings, \$0 million
  - Revised April 2007, \$0 million
- *Long Distance Network*: Improve cost recovery for long-distance network.
  - FY2007 Original Targeted Savings, \$0 million

- Revised April 2007, \$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
  - Revised April 2007, \$0 million

Estimated 5-Year savings to be determined.