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

The Inspector General

Office of Inspector General
Washington, D.C. 20590

October 10, 2006

The Honorable Christopher "Kit" Bond
Chairman
Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510

The Honorable Joe Knollenberg
Chairman
Subcommittee on Transportation, Treasury, Housing and Urban Development, the Judiciary, and District of Columbia
Committee on Appropriations
United States House of Representatives
Washington, DC 20515

The Honorable Patty Murray
Ranking Member
Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510

The Honorable John W. Olver
Ranking Member
Subcommittee on Transportation, Treasury, Housing and Urban Development, the Judiciary, and District of Columbia
Committee on Appropriations
United States House of Representatives
Washington, DC 20515

Dear Chairmen Bond and Knollenberg and Ranking Members Murray and Olver:

This report[1] (1) presents our fourth quarterly assessment of the savings[2] Amtrak has achieved from operational reforms and (2) includes our evaluation of the Department of Transportation's (DOT) efforts to set and collect access fees from commuter railroads for use of Amtrak-owned infrastructure on the Northeast Corridor (NEC).[3]

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1 The Transportation, Treasury, Housing and Urban Development, the Judiciary, District of Columbia, and Independent Agencies Appropriations Act, 2006 required our office to report quarterly to your Committees whether or not, and to what extent, Amtrak has achieved savings from operational reforms.

2 Defined throughout as either net operating savings or a reduction in net operating losses.

3 The report accompanying the FY 2006 Appropriations Act directed our office to include an assessment of the Department's efforts to set and collect fees from commuter railroads for the use of Amtrak-owned infrastructure on the Northeast Corridor beginning with the July quarterly report.

Summary

- Amtrak has achieved operational savings of $5.1 million through July 2006.[4] This compares to the $3.8 million in savings we certified Amtrak had achieved through May 2006 in our July quarterly report.

- Amtrak has achieved $51.2 million in savings through July 2006 from all its FY 2006 operational reforms.

- These overall savings from reform contribute to Amtrak's current better-than-expected financial performance. Through August, Amtrak's operating loss was $122 million below the year-to-date projected loss in the $586 million subsidy baseline[5] (see Figure 1 on page 4). As such, barring any unexpected losses, Amtrak will achieve the required savings to operate within its FY 2006 appropriation.

- Amtrak estimates its financial performance will continue to improve and, as a result, expects to end FY 2006 with a $209 million cash balance. Also, Amtrak expects to add to this balance another $11 million from claims settlements.

- Looking toward FY 2007 and FY 2008, Amtrak will need to maintain progress in implementing operational reforms to continue to reduce its reliance on Federal operating subsidies. It will be necessary for Amtrak to move beyond the "low-hanging fruit" and begin to implement more difficult reforms in food and beverage service, sleeper car service, route restructuring, state payments, and labor contracts.

- Critical to Amtrak's ability to increase its efficiency and reduce unit costs will be the development of a managerial accounting system. Amtrak is developing a system that will replace its legacy activity-based Route Profitability System with one that will support both avoidable and full-cost methodologies and provide business-line and route level activity-based analysis. This office is monitoring Amtrak's development of this system, both to help ensure it is well designed and to respond better to congressional direction that we report on the strengths and weaknesses of the system after it is implemented.[6]

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[4] The report reflects two related data sets, Amtrak's corporate financial results and its savings from ongoing reforms. The corporate results are current through August 2006 and the ongoing reform data are current through July 2006. This is because Amtrak must update its performance databases, such as its Route Profitability System, after the corporate results are made available to calculate the ongoing reforms. Also, throughout the report the reference "through a specified date" means from October 1, 2005 to that date.

[5] The $586 million subsidy baseline is described on page 3.

[6] The FY 2006 Appropriations Act requires that we, within 30 days of development of the managerial cost accounting system, review and comment to the Secretary and the House and Senate Appropriations Committees on the strengths

- Since our July report, FRA has completed its assessment of the annual capital and maintenance costs to Amtrak associated with the use of Amtrak-owned infrastructure on the NEC by commuter authorities. By letter dated October 10, 2006 FRA notified the House and Senate Appropriations Committees and relevant Subcommittees that the department has decided not to pursue the collection of commuter access fees that they were directed to collect by the FY 2006 Appropriations bill. This decision was based on FRA's analysis which concluded that, on the whole, the commuter authorities on the NEC paid their fully allocated share of maintenance and capital costs in FY 2006. (see Appendix C)

Structure of This Letter

In our January 2006 report, we stated that we would evaluate Amtrak's net operating savings on four levels of detail: (1) corporate; (2) business line; (3) route; and (4) strategic reform initiatives, that is, operational reforms. Amtrak's net operating savings are measured against the FY 2006 operating subsidy baseline of $586 million that we established in January.

Data Reliability

This report relies upon data generated by Amtrak's current revenue and cost accounting systems. These systems do not readily support the reporting and analysis of data on an initiative-level basis. To overcome this shortcoming, Amtrak established new departmental tracking systems to measure savings from initiatives. These new systems draw on data from: (1) Amtrak's financial information system or general ledger, (2) savings specified by contract, and (3) assumptions based on expected activity levels. These new systems and our work with Amtrak to improve its methodology resulted in new savings estimates that eliminated the double-counting of benefits for some initiatives. These improvements eliminated our earlier concerns about the reliability of Amtrak's savings estimates.

Amtrak continues to improve its data integrity. As part of this effort, it is developing a new project management system that refines the level of detail for each of the 15 areas of strategic reform and links the initiatives to its financial systems for accurate reporting. Amtrak expects to present the new system to the Board of Directors later this year and we will report on this in more detail in our January 2007 quarterly report.

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and weaknesses of the system and how it best can be implemented to improve decision making by the Board of Directors and management of the Corporation.

$586 Million Subsidy Baseline

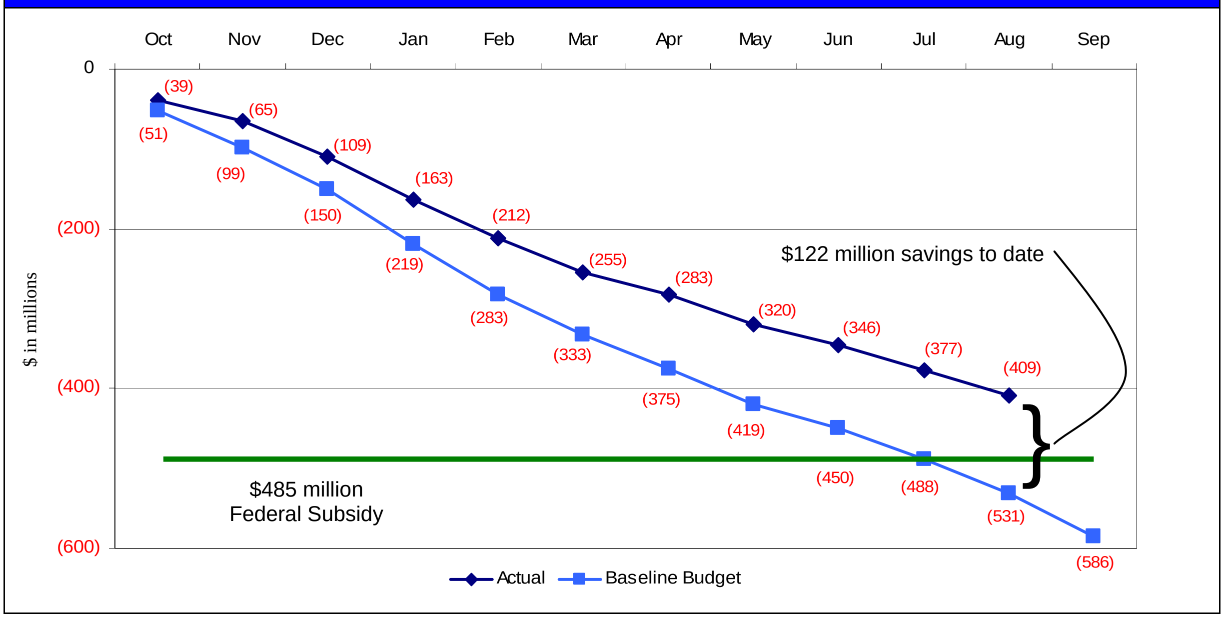
The $586 million subsidy baseline reflects Amtrak's expected operating loss based upon the FY 2006 budget approved by its Board of Directors in September 2005. That is, the operational reforms specified in that budget would result in a projected operating loss of $586 million.

To operate within the FY 2006 appropriated Federal operating subsidy, Amtrak must reduce its operating loss from the $586 million subsidy baseline to the appropriated subsidy of $485 million. This requires net savings of $101 million beyond the operational reforms specifically included in the $586 million baseline.

Corporate Level Results

Amtrak's overall financial performance continues to be better than expected, and, barring any unforeseen adverse events in September, Amtrak will have successfully managed to operate within its FY 2006 appropriation of $485 million. Further, it has reduced its operating loss $122 million below the year-to-date loss projected in the $586 million subsidy baseline (see Figure 1).

Figure 1. Amtrak Operating Loss
FY 2006 Year-to-Date through August



Amtrak's financial performance through August reflects savings (compared to budget estimates) of $67.8 million from revenue increases and $55.7 million from reduced labor costs offset by net increases of $1.5 million in other expenses.

The $67.8 million revenue increase includes $32.1 million in passenger ticket revenue, due in part to Amtrak's system-wide general fare increases and the implementation of variable fares (i.e., revenue management[7]) for the NEC Regional and Acela services, and $35.8 million from commuter revenues and non-passenger revenues.[8] High gas prices have made passenger rail more competitive with other travel options, making fare increases more sustainable than they may otherwise have been. Through August 2006 average ticket prices were 9.3 percent higher than through August 2005. The $55.7 million in reduced labor costs primarily reflects a total employment level that was 1,605 lower than planned.

Net increases of $1.5 million in other expenses reflect mixed results by Amtrak in several areas. Other cost savings include reduced on-board services costs of $2.1 million, reduced corporate overhead expenses (e.g., professional fees and data processing), which were $14.0 million less than expected, and lower train operations costs, which were $4.3 million below projected levels due to lower schedule adherence payments to host freight railroads, and $2.8 million in lower maintenance of equipment materials costs. However, these savings were partially offset by increases in expenses above the $19.6 million budgeted for train fuel and purchased power costs and the $4.6 million budgeted for maintenance of way materials costs. Additional net increases totaled $0.5 million.

Amtrak projects it will end FY 2006 with a $209 million cash balance, $134 million more cash on hand than at the end of FY 2005. Amtrak originally anticipated having to draw down its cash balances in FY 2006 to make ends meet. Instead, based on current projections, it will be able to increase these balances.

Business Line Results

As shown in Table 1 on the following page, most of Amtrak's improved performance to date comes from the *National Train System Operations* (core) business line. Through August 2006, losses from Amtrak's core operations were $80.6 million less than expected, relative to the $586 million subsidy baseline. Amtrak achieved additional savings of $41.4 million from its *Infrastructure Management*, *Ancillary Business* (commuter, reimbursable, and commercial operations), and *Unallocated Systems* (overhead) business lines.

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[7] Amtrak extended its current revenue management practices to the NEC Regional and Acela trains. Amtrak is charging variable fares, based on demand levels, rather than the previous peak/non-peak fare approach.

[8] Non-passenger revenues include reimbursable, commercial development, other transportation and freight access fees and miscellaneous one-time revenues.

Table 1. Amtrak Net Profit/(Loss), Excluding Federal Operating Subsidies* FY 2006 – Year to Date through August ($ in Millions)			
Business Line	**Actual**	**Baseline**	**Compared to Baseline**
National Train System Operations	($271.1)	($351.7)	$80.6
NEC	*208.8*	*177.8*	*31.0*
State Supported and Other Corridors	*(75.5)*	*(92.5)*	*17.0*
Long-Distance Service	*(404.3)*	*(436.9)*	*32.6*
Infrastructure Management	(52.4)	(68.0)	15.6
Ancillary Business	80.2	62.7	17.5
Unallocated System	(165.7)	(174.0)	8.3
Total	**($409.0)**	**($531.0)**	**$122.0**

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

Route Level Results

Amtrak's Simplified Dining program has been implemented on all of its long distance trains, except the Auto Train and the Empire Builder. Savings from Simplified Dining are measurable by route and are shown in Table 2 on the following page. The initiative incurs additional costs for food stock and supplies due to the pre-preparation and packaging of meals; however, the significant labor savings produce a net benefit to the initiative. Net savings from Simplified Dining were $2.5 million through July 2006.

Table 2. Simplified Dining Program Net Operating Savings FY 2006 – Year to Date through July ($ in Thousands)				
Long Distance Service	**Months in Operation**	**Labor Savings**	**Non-Labor (Loss)**	**Net Savings/(Loss)**
City of New Orleans	6	$265.5	($158.9)	$106.6
Texas Eagle	6	422.3	(310.3)	112.0
Sunset Limited	6	748.4	(75.1)	673.3
Capitol Limited	6	266.1	(184.4)	81.7
Silver Star	4	239.7	(195.7)	44.0
Lakeshore Limited	4	162.8	(142.6)	20.2
Southwest Chief	4	1,107.7	(327.9)	779.8
Silver Meteor	4	239.7	(195.7)	44.0
Crescent	3	302.4	(169.6)	132.8
Coast Starlight	3	767.9	(214.9)	553.0
California Zephyr	2	208.6	(227.9)	(19.3)
Total Savings		**$4,731.1**	**($2,203.0)**	**$2,528.1**

Route-level savings that were included in the Board-approved budget have come from the elimination of food service on some Empire Corridor trains, enhanced service on the Empire Builder, and the closure of the Albany Commissary. These initiatives resulted in $4.7 million in route-level savings through July 2006.

Strategic Reform Initiatives (Operational Reforms)

Amtrak identified 15 areas of operational reforms aimed at reducing long-term annual operating losses (see Appendix A). Since our July report, Amtrak has completed annual savings estimates and defined the implementation periods for seven additional initiatives. However, implementation plans remain to be completed for four initiatives: service reliability, ongoing efficiencies, NEC operations, and labor contracts.

Amtrak has achieved $51.2 million in savings from all operational reforms through July 2006. These savings fall into two categories: $46.1 million from reforms already reflected in Amtrak's FY 2006 Board-approved budget and $5.1 million from operational reforms beyond those included in Amtrak's FY 2006 Board-approved budget.

Amtrak's progress on reforms already reflected in the Board-approved budget is presented in Appendix B, Table B-3. The operational reforms beyond those included in the Board-approved budget (which were the focus of our July certification) are presented in Appendix B, Table B-2. These operational reforms include the following.

- ***Food and Beverage Reform***. Amtrak expects to achieve $4.8 million in operating savings in FY 2006 from several modifications to its food and beverage service. Through July, Amtrak realized $3.3 million in net operating savings from these modifications. The largest projected benefit is from its Simplified Dining program, which was fully implemented in May 2006. This program primarily relies on fully prepared food products that require only heating on-board in a convection or microwave oven and uses disposable dinnerware. Through July, net cost savings from Simplified Dining was $2.5 million. Amtrak also saved $729,167 through July by renegotiating the food supplier contract with Gate Gourmet.

  Finally, Amtrak plans to offer continuous, restaurant-style dining service and enhanced customer service, which are expected to increase food revenues. The program includes a new dining car advance reservation system to improve customer service, reduce on-board spoilage, and increase coach passengers' spending in the dining car.

- ***Corporate Overhead.*** Amtrak expects to achieve $1.4 million in operating savings from technology efficiencies this year. Through July, Amtrak realized $1.1 million of those expected savings. These have come from reducing costs of third party information technology providers; lower software, storage, and communications costs; and increased management controls. Additionally, energy management efficiencies achieved through enhanced oversight of utility expenditures and new contracts resulted in additional savings of $780,000 in savings through July 2006. These savings exceeded the $450,000 estimated annual savings and reflect commuter traction power contract savings resulting from to higher energy costs billed back to commuters.

- ***Other Operational Reforms.*** Several additional operational reforms are described in Appendix A. Although none of these reforms are expected to generate savings in FY 2006, they are expected to generate additional savings beginning in FY 2007.

Amtrak Anticipates Increased Savings From Operational Reforms in FY 2007

Amtrak has projected that it will achieve $61.2 million in cost savings in FY 2007 from ongoing and new reform initiatives. The largest savings - nearly $40 million - will come from food and beverage service and sleeper service restructuring. The remaining savings will come from implementation of maintenance efficiencies and rationalizing facilities, labor savings at stations and call centers, increased Acela revenues from improvements in on-time performance, and continued reductions in overhead costs and engineering efficiencies.

Food and Beverage Service. Amtrak estimates total food and beverage savings for FY 2007 at $19.3 million. Upon full implementation, total food and beverage savings are expected to range from $34 million to $76 million per year. Several sub-initiatives contribute to these savings. Amtrak's redesigned food service (Simplified Dining) is fully operational and Amtrak projects $15.2 million in cost savings from this program in FY 2007. The renegotiated Gate Gourmet contract and outsourcing of food and beverage revenue collection, initiatives implemented this year, are expected to yield an additional $3.6 million in savings.

With the redesign of both the Superliner diner and lounge cars Amtrak plans to create a combined car that will eliminate the need for one car from the consist, increase the availability of food service, and reduce overall costs. Amtrak expects to achieve modest savings of $0.5 million next year as dining cars that have been converted to diner/lounge cars are put into service. The first such car is expected to become available in January 2007, with full implementation expected by October 2008. Amtrak has issued an RFP to convert the lounge cars to the redesigned combined diner/lounge cars. However, these are not expected to roll out before August 2007, with essentially no impact in FY 2007.

Restructuring Sleeper Service. In FY 2007, Amtrak expects up to $20 million in cost savings from this initiative. This is a good start. Outyear projections are still being developed. Amtrak's sleeper service restructuring initiative will reduce sleeper service losses through a series of actions designed to reduce incremental costs associated with sleeper service, including food and beverage service modifications, "right-sizing" staffing and equipment, mechanical efficiencies and other reforms.

Other FY 2007 Reforms. Amtrak expects savings of $22.2 million in FY 2007 from implementing other reforms. For example, in the area of mechanical efficiency, Amtrak plans to implement its *Reliability Centered Maintenance* program on all 15 Acela trainsets, outsource appropriate maintenance activities, and continue its facility consolidation. These efforts are expected to yield

$7.0 million in savings next year. Additionally, increasing the number of self-ticketing machines in stations and outsourcing reservations functions are expected to save $4.8 million and reduced overhead costs. Ongoing engineering labor efficiencies are expected to save another $8.2 million. These latter three initiatives continue programs that began earlier this year. Improvements in NEC operations, including revenues from improved Acela on-time performance, are expected to result in $3.2 million in savings. Several initiatives, such as network and service restructuring, efficiencies in NEC operations, and development of a new management information system, are expected to incur upfront capital costs of $1.1 million next year, offsetting some of the gains in savings.

Improved Oversight and Management of Reforms. Amtrak is refining its oversight and management of its Strategic Reform Initiatives (SRI). It has launched a Program Management Office (PMO) within its Planning and Analysis Department to facilitate the successful implementation of the SRI Program. The PMO is responsible for developing an enterprise-wide approach to manage this large-scale effort, with responsibilities ranging from providing oversight of the SRI Program, implementing project management tools and methods, providing project management training, facilitating cross-functional collaboration, and delivering timely and accurate project status reports. The first automated SRI Program monthly status report is expected to be issued early in 2007, which will provide project scheduling, milestones, and savings. The PMO is working with Amtrak's Finance Department to ensure the appropriate links to Amtrak's financial systems for reliable reporting of cost savings.

Amtrak is to be commended for this effort which we believe will help focus management attention on and better quantify long-term benefits from Amtrak's cost saving initiatives. Combined with the development of a managerial cost accounting system that supports avoidable and full-cost analysis capabilities[9] by business-line and route level activity, will better equip Amtrak with the management tools for ensuring sustained reform.

Sustained Reform Over the Next Several Years is Needed to Continue Reducing Amtrak's Operating Subsidy

In our July report, we stated that Amtrak's ability to achieve additional reductions in its Federal operating subsidy will take significant effort by Amtrak's Board of Directors and its management over the next several years. We highlighted the need for continuous self-evaluation and reform and indicated that it is difficult to see how Amtrak can achieve further significant reductions within its Federal

[9] Avoidable costs are those that would not be incurred if a service was not provided, for example, fuel cost. Full-cost methodology allocates all costs to Amtrak's functions, including overhead.

operating subsidy without addressing state-supported services, route restructuring, and labor contracts. The Board and Amtrak's efforts are ongoing in these areas. The key is for the Board and Amtrak management to follow through in ensuring that these goals are achieved.

Conclusion

This past year Congress directed Amtrak to achieve savings from operational reforms and put accountability measures in place to ensure that it followed through on those reforms. As part of this effort Congress required this office to report on and certify Amtrak's achievement of operational reform savings. This requirement, in conjunction with constrained appropriations, the Department's grant application review process, and the Amtrak Reform Board's strategic reform initiatives has resulted in modest savings from the first stages of a limited number of operational reform initiatives. Absent a reauthorization, it is our opinion that this process will remain an important means to hold Amtrak accountable for improving the efficiency of delivering inter-city passenger rail service in this country.

Under separate cover, we are transmitting copies of this letter to the Secretary of Transportation and the Chairman of the Board of Amtrak. If you have any questions concerning this letter, please call me at (202) 366-1959 or David E. Tornquist, Assistant Inspector General for Competition and Economic Analysis, at (202) 366-9970.

Sincerely,

Todd J. Zinser
Acting Inspector General

Enclosures

Appendix A. Amtrak's Operational Reforms Description

Table A. Amtrak's Proposed Operational Reforms

Reform Initiative	Objective	Annual Savings Targets (constant $ in millions)	Implementation Period
Corporate			
1. Food and beverage	Enhance service flexibility, redesign equipment, and outsource certain services	$34-76	FY 2006-FY 2010
2. Mechanical	Adopt reliability-centered maintenance, consolidate facilities, and outsource selected activities	30-75	FY 2006-FY 2012
3. Customer service	Modernize ticket issuance, collection, and reporting processes and improve service quality measurement and delivery	12-19	FY 2006-FY 2010
4. Management information	Develop more accurate and timely information on costs of routes, individual activities, and functions	12-25	FY 2006-FY 2012
5. Stations	Reduce station operating costs by deploying more efficient communications and sales/distribution equipment and processes at stations	11-19	FY 2007-FY 2011
6. Call Centers	Reduce ticketing costs by reducing staffing, increasing utilization of lower cost distribution channels, and outsourcing	10-14	FY 2007-FY 2011
7. Overhead functions	Reduce unit costs of corporate support functions through selective outsourcing, staffing reductions, skills development, and greater use of technology	17-25	FY 2007-FY 2011
8. Service reliability	Improve on-time performance of Acela and NEC trains through operational modifications and targeted investments	TBD	FY 2006-FY 2012

TBD: To be determined

Table A. Amtrak's Proposed Operational Reforms (cont.)			
9. Labor contracts	Reduce unit costs and increase flexibility by negotiating new labor agreements that eliminate certain work rule and outsourcing restrictions, and base wages on market levels	TBD*	TBD
10. Ongoing efficiencies	Enhance financial performance of other activities and functions through continued business improvements (e.g., operating crew optimization, maintenance of way productivity)	TBD	FY 2006-FY 2011
Business Line			
1. Long Distance	Improve performance of all routes by redefining sub-brands, restructuring, services/routes, selected luxury outsourcing, and corporate initiatives	50-100*	FY 2007-FY 2012
2. NEC Operations	Boost financial contribution through improved load factors, adjusted service patterns, re-launching sub-brands, trip time investments, and corporate initiatives	TBD	TBD
3. Corridors	Improve competitiveness of state services, establish pilot competition project, and transition states to full cost recovery for all corridor routes	50-100*	FY 2008-FY 2012
4. Fleet Utilization	Optimize use of fleet, maximize load factors, and increase revenues by improving current train consist efficiency and retiring or redeploying excess equipment	12-32	FY 2007-FY 2011
5. Infrastructure	Develop a long-term capital master plan and operate NEC efficiently on behalf of all users, while establishing a fair sharing of operating and capital costs among all users	20-40*	FY 2008-FY 2011
Total		**$258-525**	**FY 2007-FY 2012**

Source: Amtrak Strategic Planning Department

* Amtrak will need to obtain significant external stakeholder participation and/or legislative action to fully implement proposed operational reforms; targets are preliminary.

Appendix B. Amtrak's Savings to Date from Operational Reforms

Table B-1 presents the estimated annual savings and year-to-date savings, broken out by a framework of sub-baselines, from all operational reforms in FY 2006. Tables B-2 and B-3 present the savings from operational reforms beyond those included in the FY 2006 Board-approved budget and included in the FY 2006 Board-approved budget respectively.

Table B-1. Summary of Amtrak Savings by Sub-Baseline
FY 2006 Year to Date through July 2006 ($ in thousands)

Amtrak Net Operating Savings	Estimated Annual Benefit	Estimated YTD Benefit	Actual YTD Benefit	Variance +/-
Corporate Initiatives	**$19,118**	**$15,757**	**$25,099**	**$9,342**
Food and Beverage	7,687	6,242	12,740	6,498
OBS Labor	*7,919*	*5,513*	*7,156*	*1,643*
Commissary Labor and Support	*266*	*266*	*289*	*23*
F&B Stock Supplies (non-labor)	*(1,465)*	*(481)*	*4,638*	*5,119*
Food & Beverage Revenue	*967*	*944*	*657*	*(287)*
Train Operations	6,284	5,280	7,619	2,339
Labor Efficiencies	*5,228*	*4,313*	*3,201*	*(1,112)*
Fuel Conservation	*1,056*	*967*	*4,418*	*3,451*
Corporate Overhead	5,147	4,235	4,740	505
Law Department Efficiencies	*1,400*	*1,200*	*1,300*	*100*
Technology Efficiencies	*3,297*	*2,660*	*2,660*	*--*
Energy Management	*450*	*375*	*780*	*405*
Business Line Initiatives	**18,613**	**15,259**	**26,134**	**10,875**
Long Distance Train Service	2,600	2,453	3,573	1,120
Enhanced Service Offerings	*2,600*	*2,453*	*3,573*	*1,120*
NEC Operations	16,013	12,806	22,561	9,755
Fare and Revenue Management	*15,000*	*12,000*	*18,530*	*6,530*
Labor Efficiencies	*1,013*	*806*	*4,031*	*3,225*
Total	**$37,731**	**$31,016**	**$51,233**	**$20,217**

Table B-2. Summary of Reforms Beyond the FY 2006 Board-Approved Budget FY 2006 Year to Date through July 2006 ($ in thousands)				
Amtrak Net Operating Cost Savings	**Estimated Annual Benefit**	**Estimated YTD Benefit**	**Actual YTD Benefit**	**Variance +/-**
Food and Beverage	$4,788	$3,353	$3,257	$(96)
OBS Labor	*7,233*	*4,827*	*4,731*	*(96)*
F&B Stock Supplies (non-labor)	*(2,446)*	*(1,474)*	*(1,474)*	--
Corporate Overhead	1,829	1,459	1,864	405
Technology Efficiencies	*1,379*	*1,084*	*1,084*	--
Energy Management	*450*	*375*	*780*	*405*
Total	**$6,617**	**$4,812**	**$5,121**	**$309**

Table B-3. Summary of Reforms in the FY 2006 Board-Approved Budget FY 2006 Year to Date through July 2006 ($ in thousands)				
Amtrak Net Operating Savings	**Estimated Annual Benefit**	**Estimated YTD Benefit**	**Actual YTD Benefit**	**Variance +/-**
Food & Beverage	$2,899	$2,889	$9,483	$6,594
OBS Labor	*686*	*686*	*2,425*	*1,739*
Commissary Labor and Support	*266*	*266*	*289*	*23*
F&B Stock Supplies (non-labor)	*981*	*993*	*6,112*	*5,119*
Food & Beverage Revenue	*967*	*944*	*657*	*(287)*
Train Operations	6,284	5,280	7,619	2,339
Labor Efficiencies	*5,228*	*4,313*	*3,201*	*(1,112)*
Fuel Conservation	*1,056*	*967*	*4,418*	*3,451*
Corporate Overhead	3,318	2,776	2,876	100
Law Department Efficiencies	*1,400*	*1,200*	*1,300*	*100*
Technology Efficiencies	*1,918*	*1,576*	*1,576*	--
Long-Distance Train Service	2,600	2,453	3,573	1,120
Redefining Service Offerings	*2,600*	*2,453*	*3,573*	*1,120*
NEC Operations	16,013	12,806	22,561	9,755
Fare and Revenue Management	*15,000*	*12,000*	*18,530*	*6,530*
Labor Efficiencies	*1,013*	*806*	*4,031*	*3,225*
Total	**$31,114**	**$26,204**	**$46,112**	**$19,908**

Analysis of Progress on Reforms in the FY 2006 Board-Approved Budget

Amtrak reported $46.1 million in savings through July 2006 from operational reforms that were included in the FY 2006 Board-approved budget. Progress-to-date is summarized below.

- ***Food and Beverage Reform.*** During FY 2005, Amtrak (1) renegotiated contracts with its food vendors; (2) eliminated food service on the Empire Corridor (between New York, New York and Albany, New York), which allowed Amtrak to close the Albany commissary in July 2005; and (3) increased menu prices on its food and beverage service. These initiatives resulted in $9.5 million in savings through July 2006, exceeding the $2.9 million in projected annual savings. These savings include $6.1 million in food supplies, $289,000 in commissary labor, and $2.4 million in OBS labor.

- ***Train Operations.*** Amtrak has several sub-initiatives underway, including consolidation of facilities and work functions and conservation of train fuel.

  - Our April report included discussion of an initiative to consolidate Amtrak's Amfleet maintenance from Albany to Washington, DC, which would eliminate 17 mechanic positions with an associated cost savings of $1.2 million. Although the maintenance work for the Amfleet equipment has moved to Washington, DC, F-40 locomotive overhaul work for the Keystone Corridor service in Pennsylvania has delayed the staff elimination. As a result, there are no labor savings to report. The labor reduction is expected to occur by the end of the year.

  - Additional initiatives are underway to improve labor productivity by reducing allowable overtime in Amtrak's Mechanical Division and reducing core straight time wages in Amtrak's Engineering Division by 4 percent. These are budgeted to save $5.2 million in FY 2006. Through July 2006, Amtrak reported savings of about $3.2 million.

  - Through July 2006, Amtrak reported about $4.0 million in additional labor cost savings from improved crew management in the NEC.

  - Amtrak expects to reduce consumption of train fuel by 1 percent through improved locomotive handling and utilization, which is estimated to result in an annual operating cost savings of $1.1 million. Through July 2006, Amtrak has achieved a better-than-expected cost reduction of $4.4 million, based on a fuel cost of $1.83 per gallon. However, these savings from reduced fuel consumption were offset by an increase in the average price per gallon for fuel to $2.10 per gallon and resulted in core fuel costs that were $8.6 million higher than budgeted.

- ***Corporate Overhead.*** Overhead efficiencies implemented this year include a reduction in outside legal fees, software, and communications costs. Savings in FY 2006 are estimated at $3.3 million, with Amtrak reporting just over $2.9 million in savings through July 2006.

- ***Long-Distance Train Service.*** As part of an initiative to reposition the Empire Builder service as a luxury service, Amtrak rolled out an enhanced service offering in August 2005. This is the only reform of long-distance service Amtrak has implemented so far (excluding food and beverage initiatives). The enhanced service included refurbished sleeper, coach, and lounge cars; food and beverage upgrades, including additional on-board personnel; and a refocus on customer service. Ticket revenue on the Empire Builder was 16.6 percent higher ($5.4 million) on a cumulative year-over-year basis through July 2006 and 4.9 percent higher than budget ($1.7 million). This reflects a slight decrease in performance in July due to higher prices which caused some ridership reductions in sleeper class. Sleeper Class accounted for $2.9 million of the revenue increase through July and 3,236 of the 13,879 gain in FY 2006 ridership. Ridership increased 3.6 percent over the same period a year ago and 1.5 percent higher than budget. Operating losses through July were $3.6 million lower than the same period a year ago, exceeding Amtrak's expectations of a $2.6 million annual improvement from this initiative. However, the service continues to lose money. Last year, this train lost $45 million and had lost $37.1 million through July 2006.

- ***NEC Operations.*** In October 2005, Amtrak began revenue management on NEC's Regional Service and on the Acela in February 2006 by implementing variable rates on Acela and Metroliner services based on demand for tickets. Amtrak's FY 2006 budget assumes $15 million will be realized from revenue management of the NEC trains. Through July, Amtrak estimates $18.5 million in revenue is attributable to revenue management. However, it is difficult to separate out multiple pricing factors, and Amtrak assumes one-quarter to one-half of all revenue increases are due to revenue management. It should also be noted that nearly all of these savings are from the Regional and Empire service. Acela, which has been weak this year due to increased competition from the airlines in the Northend, poor on-time performance, and fewer frequencies, has achieved only $1.4 million in benefit.

Appendix C. Commuter Access Fees

Congress requested that our office include an assessment of the Department's efforts in assessing and collecting commuter access fees as a part of our quarterly reports. The FY 2006 Appropriations Act directed the Secretary to:

- determine the annual capital and maintenance costs to Amtrak associated with the use of Amtrak-owned infrastructure on the Northeast Corridor by commuter railroads that operate over that corridor,[10]
- assess and collect appropriate fees from the commuter railroads for any direct capital and maintenance costs based on relative infrastructure usage, and
- account fully for the contributions that commuter railroads currently make toward these costs in determining appropriate fees.

Since our July report, FRA has completed its assessment of the annual capital and maintenance costs to Amtrak associated with the use of Amtrak-owned infrastructure on the Northeast Corridor by commuter authorities. By letter dated October 10, 2006 FRA notified the House and Senate Appropriations Committees and relevant Subcommittees that the department has decided not to pursue the collection of commuter access fees. This decision was based on FRA's analysis, which concluded that, on the whole, the commuter authorities on the NEC are essentially paying their fully allocated share of maintenance and capital costs and that any balance due would not be of a magnitude to make the issuance of invoices a cost effective endeavor.

To fulfill our requirement of assessing the Department's efforts in this regard, we have the following observations about certain aspects of the methodology used by FRA to determine the fees. We recommend that should the issue of commuter access fees be revisited that the following observations be taken into consideration when developing the methodology to be used in any subsequent analysis.

First, the suitability of the data upon which the fees would have been calculated are a concern because the data are being derived, in part, from systems that were not designed to provide such data on a state, route, or track basis. Second, the narrow definition of the NEC relied upon by FRA's methodology (spine only) relieves commuter railroads using the spur lines from being treated on par with the commuter railroads using the spine. Third, by their nature, railroad capital and maintenance costs can require large investments in one fiscal year followed by

[10] There are seven commuter authorities operating over the Amtrak-owned NEC. These include MARC, DART, SEPTA, NJ Transit, LIRR, SLE, and MBTA.

smaller investments in subsequent years. As a result, the capital and maintenance contributions in any 1 year may not reflect the average level of contributions over the long run. Therefore, FRA's use of 1 year of data may not properly reflect the longer-term contribution of each party.