



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

Office of Inspector General
Washington, DC 20590

December 22, 2010

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 Tom Latham
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 Latham:

This semiannual report presents our assessment of Amtrak’s fiscal year 2010 unaudited financial performance, which includes an update on Amtrak’s efforts to improve services, business processes, and operating results.¹ This report also includes our reviews of Amtrak’s 5-Year Financial Plan for fiscal years 2011 through 2015 and its annual budget for fiscal year 2011. Both reviews are required by the Passenger Rail Investment and Improvement Act of 2008 (PRIIA).²

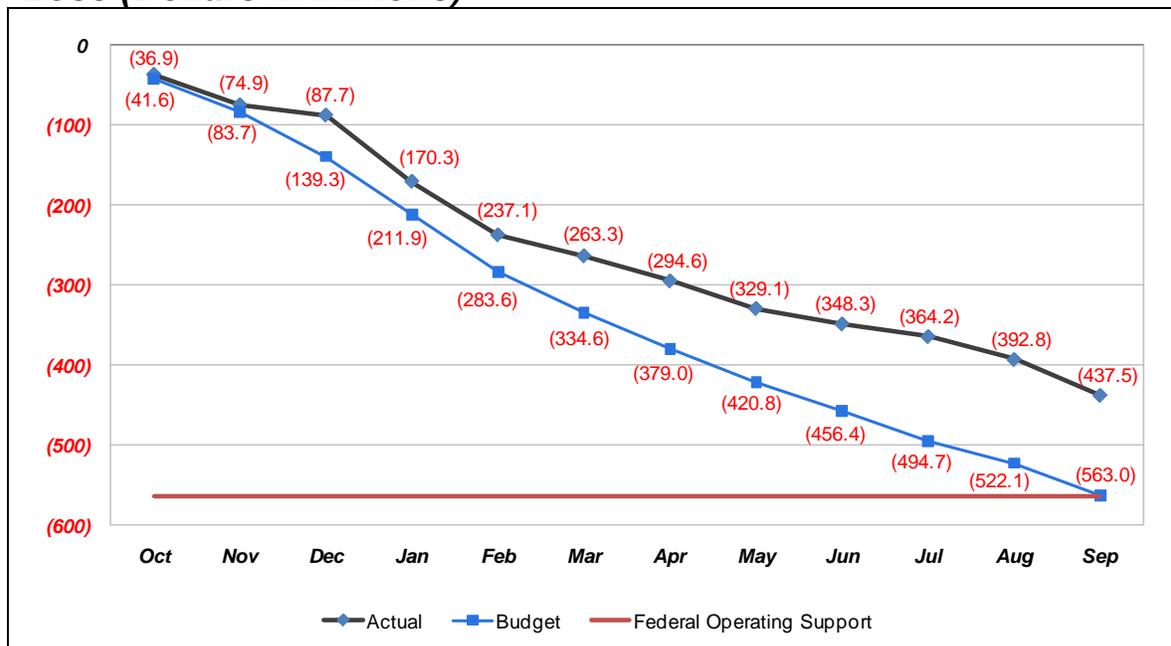
¹ The Transportation/HUD Division of the Consolidated Appropriations Act of 2010, Pub.L. No. 111-117 requires the OIG to report semi-annually on Amtrak's savings.

² PRIIA authorizes funding for Amtrak through 2013, and requires Amtrak to develop and maintain a 5-year financial plan. OIG reviews the plan annually to determine if it meets requirements outlined in PRIIA's Section 204.

SUMMARY

Amtrak ended fiscal year 2010 setting records in both revenue and ridership. As a result, its operating loss of \$437.5 million was \$125.5 million or 22 percent less than budgeted (see figure 1).³ This represents a \$114.6 million improvement over the forecasted loss we reported at mid-year. Amtrak is moving towards successful implementation of the improvement initiatives outlined for fiscal year 2010, which are reflected in three of Amtrak's key performance indicators (KPIs) that we track.⁴ KPIs are used to measure the company's progress in achieving its goals. We also found that Amtrak's 5-Year Plan covering fiscal years 2011 through 2015 meets PRIIA requirements, although some information required by the Act will be delayed by 3 months, primarily due to limitations of Amtrak's new financial reporting system. Finally, Amtrak's fiscal year 2011 budget falls within funding amounts authorized in PRIIA.

Figure 1. Amtrak Actual vs. Budget Fiscal Year 2010 Operating Loss (Dollars in Millions)



Source: OIG analysis of Amtrak data

³ Operating loss is earnings before interest, taxes, depreciation, and other post-employment benefits (EBITDO), unless otherwise noted. EBITDO operating loss is a measure of Amtrak's ability to operate within its available resources and serves as a reasonable proxy for Amtrak's Federal operating support requirements.

⁴ While Amtrak established nine KPIs to measure efficiency and effectiveness, we are tracking three of the four efficiency measures. Consistent with Amtrak's approach to evaluating its improvement initiatives, we will track the cost recovery ratio (CRR), revenues per seat mile (RASM), and cost per seat mile (CASM).

AMTRAK'S FISCAL YEAR 2010 OPERATING LOSS WAS SIGNIFICANTLY LESS THAN EXPECTED

Amtrak's operating loss for fiscal year 2010 was significantly less than budgeted, primarily due to higher than expected passenger-related revenue and lower than expected salary and wage expenses. Table 1 shows Amtrak's fiscal year 2010 actual operating revenues, expenses, and loss compared to the fiscal year 2010 budget and fiscal year 2009 actual results. As shown in the table, Amtrak's end-of-year operating loss of \$437.5 million was \$125.5 million less than budget and \$20.3 million less than fiscal year 2009's loss of \$457.8 million. Amtrak's ridership and revenues were higher than budgeted for the year on long-distance routes and the majority of corridors, particularly in the northeast. This was due primarily to higher gasoline prices (which causes travelers to seek alternatives to driving) and growing dissatisfaction with air service alternatives. The decline in expenses was due primarily to lower employee benefits costs. The impact of these factors on Amtrak's fiscal year 2010 financial performance is discussed in more detail below.

Table 1: Amtrak's Fiscal Year 2010 Financial Performance (Dollars in Millions)

	Fiscal Year 2010		Fiscal Year 2009	Variance Favorable/(Unfavorable)	
	Actual	Budget	Actual	Budget	Fiscal Year 2009
Total Operating Revenues	\$2,484.4	\$2,397.3	\$2,325.6	\$87.1	\$158.8
Total Operating Expenses	\$2,921.9	\$2,960.3	\$2,783.5	\$38.3	(\$138.5)
Operating Profit/(Loss)	(\$437.5)	(\$563.0)	(\$457.8)	\$125.5	\$20.3

Source: OIG analysis of Amtrak data

Operating Revenue. Total operating revenue in fiscal year 2010 was \$2.5 billion—\$87.1 million better than budget and \$158.8 million better than fiscal year 2009 as shown in Table 1. Amtrak's total ridership in fiscal year 2010 was 28.7 million trips, 4.4 percent higher than budgeted as shown in table 2 and 5.7 percent more than the prior year. As a result, passenger-related revenue was \$69.3 million or 3.6 percent higher than budgeted.

Acela ticket revenues were better than budget by \$21.2 million (\$440.1 million versus \$418.9 million) or 5.1 percent, while Northeast Regional train ticket revenues were better than budget by \$20.8 million (\$458.1 million versus \$437.3 million) or 4.8 percent. Both figured significantly in Amtrak's improved total passenger revenues (see Table 2). Continuing the trend from the first half of the year, Amtrak's long distance trains also performed above budget in both revenue and ridership and beat expected results for *Acela* and the regional

Northeast Corridor (NEC) trains. Overall, Amtrak's long distance train revenues in fiscal year 2010 were better than budget by \$25.7 million (\$453.8 million versus \$428.2 million) or 6 percent and ridership was up 6.6 percent compared to fiscal year 2009. In addition, non-passenger related revenues were also \$7.1 million or 2 percent higher than budgeted, due primarily to a settlement regarding concrete ties, higher than budgeted building rents, and Metrolink commuter revenue.

Table 2. Amtrak Ridership and Passenger Ticket Revenues, Actual vs. Budget – Fiscal Year 2010

Route	Ridership (in millions)			Ticket Revenue (\$ in millions)		
	Actual	Budget	% Diff.	Actual	Budget	% Diff.
NEC:[†]	10.4	9.9	4.7%	\$899.1	\$857.3	4.9%
• <i>Acela</i>	3.2	3.1	5.5%	\$440.1	\$418.9	5.1%
• <i>Northeast Regional</i>	7.1	6.8	4.4%	\$458.1	\$437.3	4.8%
State-Supported and Other Corridors	13.9	13.4	3.4%	\$390.0	\$367.6	6.1%
Long Distance	4.5	4.2	6.8%	\$453.8	\$428.2	6.0%
Amtrak Total	28.7	27.5	4.4%	\$1,743.0	\$1,653.1	5.4%

Source: Amtrak

†: Total includes NEC Special Trains, not shown.

Operating Expenses. Total operating expenses for fiscal year 2010 were \$2.9 billion—\$38.3 million or 1.3 percent less than budgeted but \$138.5 million more than fiscal year 2009. These lower expenses continue the trend from the first half of the year driven by lower than budgeted employee benefits and fuel costs. Lower than budgeted operating expenses were also a result of a credit related to capital expenditures⁵ of \$25.3 million more than budgeted and \$11.5 million less than budgeted for professional fees. Offsetting these lower expenses was a \$15.6 million increase in incentive payments to host railroads for improved on-time performance.

⁵ This credit is a standard accounting practice that allows for some capital project charges to initially be paid out under a regular operations budget. This adjustment must be made by the fiscal year-end.

IMPROVEMENT INITIATIVES FOR 2010 APPEAR TO BE SUCCESSFUL AS REFLECTED IN EFFICIENCY RELATED KEY PERFORMANCE INDICATORS

Amtrak is moving towards successful implementation of the improvement initiatives outlined for fiscal year 2010, which are reflected in three of Amtrak's KPIs we track and use to measure the company's progress in achieving its goals. As reported in the previous semiannual report, in its fiscal year 2010 Comprehensive Business Plan, Amtrak outlined seven initiatives aimed at producing an additional \$31.6 million in revenues, with associated costs of \$14.8 million. These initiatives include:

- an increase in advertising expenditures to increase market share and ridership;
- new state supported routes in Virginia;
- launch of enhanced next generation e-ticketing;
- partnership with Rail Europe for reservations by European travelers;
- additional Cascades and Piedmont trains;
- reduction in frequency of special trains; and
- launch of Wi-Fi on Acela trains.

While for a number of initiatives it is too difficult to determine the incremental impact of any given initiative or project on revenue, finance officials were able to provide year-end results for some initiatives. For example, Amtrak's Partnership with Rail Europe was successful as \$6.7 million in international bookings were generated in fiscal year 2010, \$5 million more than anticipated. Data for Virginia's state-supported service, the Cascades/Piedmont initiative, and the reduced-frequency special train service initiative was only available through August 2010, but according to finance officials preliminary September revenue data was better than budget. This suggests that the success seen through August will likely continue into September which should allow Amtrak to meet or exceed the goals laid out for these initiatives. Also, given Amtrak's increased revenue and ridership figures, these initiatives appear to have contributed to generating additional revenue.

Amtrak's fiscal year 2011 Comprehensive Business Plan outlines six new initiatives that are expected to generate additional revenues of approximately \$57.7 million and increase expenses by \$50.5 million (see Table 3.)

**Table 3: Amtrak Fiscal Year 2011 Improvement Initiatives
(Dollars in Millions)**

Improvement Initiative	Projected Revenue Impact	Projected Expense Impact
New state supported routes in Virginia (Lynchburg & Richmond)	\$0.8	
Launch of enhanced next generation e-Ticketing channel	(\$3.1)	
Revenue Workbench - Capital project not funded	(\$0.4)	
New 3 rd party contracts in Los Angeles	\$30.1	\$26.1
Increase in revenue related to compliance with PRIIA Section 207	\$23.0	\$24.4
Increase in state supported revenue due to new efforts	\$7.4	
Total Fiscal Year 2011	\$57.7	\$50.5

Source: Amtrak

As we previously reported, because KPIs are derived from the budget plan and the plan is based on a number of factors that are intended to improve efficiencies, KPIs provide a more efficient way of evaluating performance to budget and a more streamlined way to evaluate the impact of improvement initiatives. The KPIs measure both efficiency and effectiveness and are linked to one or more strategic goals (see Figure 2).

Figure 2. Amtrak's Key Performance Indicators

Efficiency Measures:

1. Cost per Available Seat Mile (CASM) - cost to move a seat one mile.
2. Cost Recovery Ratio (CRR) - proportion of expenses that are covered by revenues.
3. Passenger Miles per Core Employee - total passenger miles divided by employees in core business lines.
4. Revenue per Available Seat Mile (RASM) - income produced by moving a seat one mile.

Effectiveness Measures:

1. Safety Ratio - number of reportable injuries per 200,000 man-hours of work.
2. Customer Service Index (CSI) - survey-generated measure of performance.
3. Host Railroad Performance - minutes of delay per ten thousand train miles.
4. On-Time Performance (OTP) - percentage of trains that arrive at their destination within the "threshold of tolerance" for delay.
5. Ridership Growth - percentage of increase (or decrease) in riders.

While Amtrak established nine KPIs to measure efficiency and effectiveness, we are tracking three of the efficiency measures RASM, CASM, and CRR because the plan and its many assumptions drive these particular KPIs. For fiscal year 2010 all three performed better than budget indicating that operations are performing more efficiently than expected (see Table 4). RASM for fiscal year 2010 amounted to \$0.16, better than the budgeted amount of \$0.159, while CASM for the same period was \$0.208, better than budget of \$0.218. RASM and CASM, which measure revenue and expense performance, respectively, demonstrated better than budgeted results, in line with our discussion of revenues and expenses above. CRR, which reflects the percentage of costs covered by revenues, was also better than budgeted for the fiscal year, 77 percent compared to 73 percent budgeted. Two of the three KPIs —RASM and CRR—exceeded the previous year's figures by 6.0 and 3.4 percent, respectively.

Table 4. Key Performance Indicators for Fiscal Year 2010 Compared to Budget and Previous Year Results

Key Performance Indicator	Actual	Budget	Variance to Budget		2009	Variance to 2009	
			Amount	Percent		Amount	Percent
Core Revenue per Seat Mile (RASM)	\$0.160	\$0.159	\$0.001	0.6%	\$0.151	\$0.009	6.0%
Core Expenses per Seat Mile (CASM)	\$0.208	\$0.218	\$0.010	4.6%	\$0.203	(\$0.005)	(2.5%)
Cost Recovery Ratio (CRR)	77.0%	73.0%	N/A	5.5%	74.5%	N/A	3.4%

Source: Amtrak

AMTRAK'S 5-YEAR PLAN AND ANNUAL BUDGET ARE IN LINE WITH PRIIA REQUIREMENTS

Amtrak's 5-Year Plan covering fiscal years 2011 through 2015 meets PRIIA requirements, although reporting of some required information will be delayed. The updated plan addresses shortcomings identified in the plan for fiscal years 2010 through 2014. However, Amtrak finance officials informed us that reporting on two route-related performance metrics, required in the updated plan, will be delayed due to financial reporting system limitations. Amtrak will issue an amendment within the year containing the information. The updated plan includes information on Amtrak's commitment to High Speed Rail (HSR). Finally,

Amtrak's fiscal year 2011 budget falls within funding amounts authorized in PRIIA. Details regarding these issues are discussed below.

- We reported last year that Amtrak's 5-Year Plan for fiscal years 2010 through 2014 lacked detailed information for two requirements—the key cost drivers for various expenses and Amtrak's strategy for managing its aging workforce. This year's 5-Year Plan included information on the cost drivers behind these expenses, and information on the company's human capital plan, which Amtrak developed to help meet its workforce needs. The plan states that in fiscal year 2011, Amtrak's human resources department will design and implement improvements to the company's compensation structure. However, Amtrak finance officials told us that the structure is still under development.
- Financial system limitations have caused delays in the reporting of certain metrics. The Amtrak Performance Tracking (APT) system, which has been operating and reporting results since 2009, allocates costs to routes and customers. However, due to APT's limitations, this year's 5-Year Financial Plan did not present information on two metrics: cash operating loss by route, and labor productivity by route. Finance officials informed us that, while last year's plan included information on these metrics, this year they found a flaw in the method used to generate the data. Finance staff is currently working to revise its methodology and plans on publishing an amendment to the plan within 3 months.
- While the current plan includes information on the new HSR department, Amtrak has not integrated the cost estimates for the program, as outlined in its HSR Vision document, into the 5-Year Plan, and has included only a high-level estimate for an HSR department. However, finance officials stated that they anticipate that next year's plan will reflect the recent hiring of a HSR executive, department staffing, and planned initiatives.
- Amtrak's fiscal year 2011 budget meets PRIIA requirements in terms of allowable net operating loss. The budget is based on \$2.5 billion in total revenues and \$3.1 billion in expenses for the year, allowing for a projected cash loss of \$591.9 million. This amount is less than the \$592 million net loss allowed under PRIIA.

Under separate cover, we are transmitting copies of this letter to the Secretary of Transportation and the Chairman of Amtrak's Board of Directors. If you have any questions concerning this letter, please contact me at (202) 366-1959 or Mitch Behm, Assistant Inspector General for Rail, Maritime, and Economic Analysis, at (202) 366-9970.

Sincerely,

A handwritten signature in cursive script that reads "Calvin L. Scovel III". The signature is written in black ink and is positioned above the typed name.

Calvin L. Scovel, III
Inspector General

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