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

Inspector General

Office of Inspector General
Washington, DC 20590

April 30, 2008

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[1] presents our quarterly assessment of Amtrak's year-to-date (through February) fiscal year (FY) 2008 financial performance and operational reform savings.[2] Amtrak performed better than it expected financially through February and now projects to end the year with an operating loss[3] of $444.3 million and a cash balance of $286.1 million. Overall, we believe Amtrak may achieve $13.8 million in FY 2008 operational reform savings. Amtrak achieved $3.2 million in operational reform savings through February, $0.6 million less than budgeted.

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[1] Our previous quarterly reports on Amtrak's savings from operational reforms are available at www.oig.dot.gov.
[2] Defined throughout as either net operating savings or a reduction in net operating losses.
[3] Operating loss is reported on an earnings before interest, taxes, depreciation, and other post-employment benefits (EBITDO) basis, unless otherwise noted.

## Summary


- Amtrak's operating loss through February was $158 million, $73 million better than planned. Amtrak underestimated its *Acela* revenues and overestimated its benefits costs.

- Our FY 2008 operating reforms savings target is a subset of Amtrak's $40 million business initiative target. While Amtrak's $40 million target reflects real savings in FY 2008, we did not consider $26 million of them to be operating reforms that are sustainable in future years.

- Amtrak's focus is now on overall budget performance, not implementing sustainable operating reforms. As a result, short term cost avoidance or unsustainable favorable financial performance resulting from factors beyond Amtrak's control could take the place of *sustainable* operating reforms. Improving Amtrak's long-term financial outlook requires sustainable reforms, not near term fixes.

- Amtrak's current Action Plan does not include specifics on how it would achieve its broad financial and operating goals, thereby making its reform priorities unclear. Amtrak's new strategic plan, currently being developed, will provide an opportunity for Amtrak to indicate more clearly its reform priorities.


## Amtrak's Financial Performance through February Exceeded Projections

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

**Corporate Level Results.** Amtrak's operating loss was $72.9 million less than budgeted through February. This favorable financial performance was due largely to better than expected ticket revenues and lower than expected costs for salaries, wages, and benefits, offset by rising fuel and utilities costs. Amtrak expects high fuel costs will erode much of these gains. As a result, it projects a year end FY 2008 operating loss of $444.3 million, only a $31 million improvement to the $475 million year end loss it originally budgeted. Amtrak also projects a cash balance of $286.1 million, $97.1 million or 51 percent higher than the $189 million budgeted cash balance. This increased cash balance reflects, in part, better than expected revenue through February.[4]

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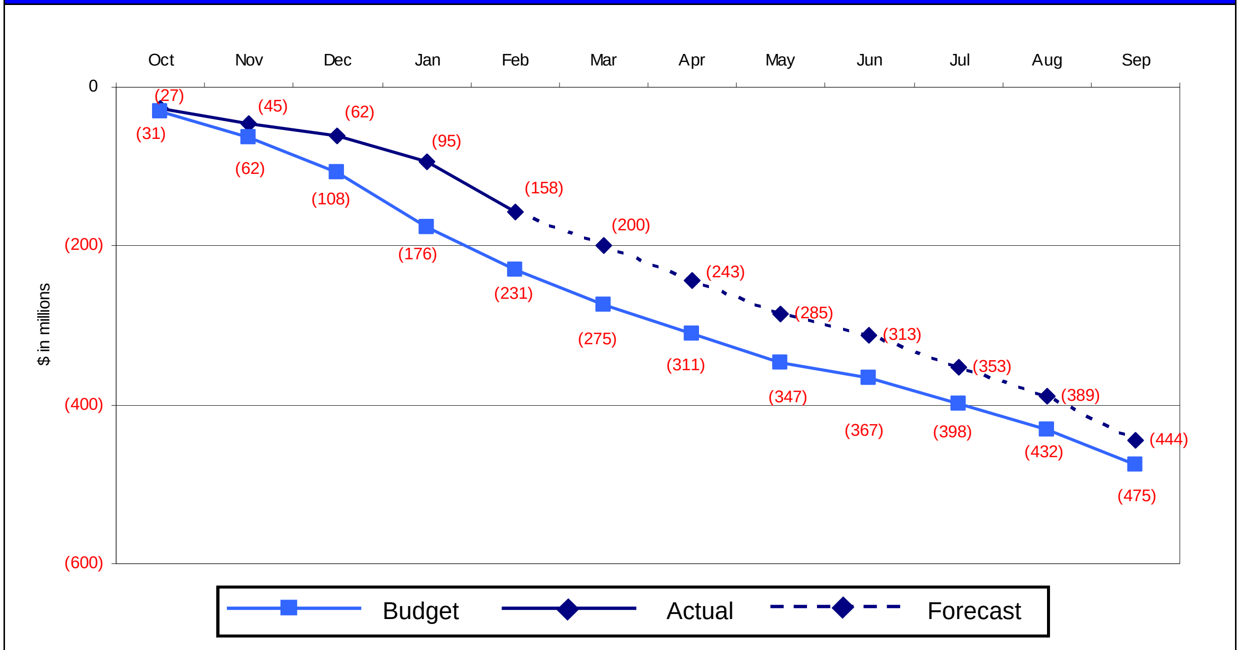
[4] $32 million of the year end cash balance is due to one-time cash recoveries primarily from escrow deposits, not operating performance.

Figure 1, below, presents a comparison of Amtrak's operating loss through February and Amtrak's projection through year end compared to budget.

**Figure 1. Amtrak Actual vs. Budget Operating Loss**
**Fiscal Year 2008**




Source: Amtrak.

Operating revenues through February were $62.8 million better than budget. This includes ticket revenues that were $47.4 million higher than budget which Amtrak attributes to a 5 percent fare increase and peak pricing strategy for *Acela* service, as well as increases in ridership as a result of rising gasoline prices and deteriorating service quality in the aviation industry. These increases were offset by the loss of $2.2 million on the *Coast Starlight* due to service disruptions caused by mudslides, as estimated by Amtrak. Freight access fee and other revenues were $9.8 million above budget, due in large part to the one-time sale of 8 P-40 locomotives the Connecticut Department of Transportation.

Operating costs were $20.2 million better than budget. Salaries, wages and benefits were $24.2 million better than budget due to a management hiring freeze and lower than expected benefits costs as a result of an improved claims history for the Amtrak health plan. Wages were slightly over budget as attrition continues to lower the number of agreement employees causing the company to rely on overtime to compensate.

Fuel, power, and utilities costs were $15.1 million higher than budgeted. Amtrak is projecting these costs will continue to rise, with total FY 2008 energy costs forecast to be $56.9 million higher than budgeted.

**Business Line Results.** Amtrak's favorable operating results are largely due to revenues on the Northeast Corridor (NEC) that exceeded projections. NEC net operating income (excluding interest and depreciation) of $154.0 million was $56.4 million better than budget. Ticket revenue of $387.4 million on the NEC was $40.7 million better than budgeted, and was attributed primarily to a 5 percent fare increase and peak load pricing strategy for *Acela* service, as well as ridership growth driven by rising gasoline prices and deteriorating air service.

**Table 1. Amtrak Business Line Operating Performance***
**FY 2008 ($ in Millions)**

| Business Line | Actual | Budget | Actual vs. Budget |
|---|---|---|---|
| National Train System Operations | ($97.8) | ($163.0) | $65.2 |
| *Northeast Corridor* | *$154.0* | *$97.6* | *$56.4* |
| *State-Supported and Other Corridors* | *($47.7)* | *($46.0)* | *($1.7)* |
| *Long-Distance Service* | *($204.1)* | *($214.6)* | *$10.5* |

* Operating income/loss excluding depreciation.

The operating loss on Amtrak's state-supported and other corridors of $47.7 million was $1.7 million over budget through February. This unfavorable result was largely due to higher than projected fuel costs and lower than planned state contributions as a result of accounting adjustments. However, passenger revenues were still $5.9 million better than budget, with ridership 6.3 percent above budget.

Amtrak's operating loss for the long-distance trains was $204.1 million through February, $10.5 million better than budget. This result is due largely to lower than projected benefits costs. While ridership was 5 percent better than planned, passenger revenues were down $1.7 million primarily due to food and beverage sales that were less than expected.

## Amtrak's New Focus on Bottom Line Financial Performance May Reduce Emphasis on Long-Term Operating Efficiency Improvements

Amtrak's current budget focus could result in it foregoing sustainable efficiency improvements if financial targets can be met by deferring costs or by reaping benefits of factors beyond Amtrak's control. For example, rising gas prices and deteriorating air service quality may lead to higher ridership and revenue, thereby allowing budget targets to be met without improving Amtrak's long-term operating efficiency.

Amtrak is no longer focused on identifying and monitoring reforms. Instead, it is now focused on achieving aggregate targets for revenue and ridership growth, cost containment, and operating metrics, with the goal of reducing Amtrak's reliance on Federal operating subsidies. Monthly reporting of progress on reform initiatives has been abandoned and Amtrak departments are held accountable only to meeting budget goals.

Amtrak considers its FY 2008 initiatives successful if budget targets are met. In FY 2009, Amtrak will no longer require its managers to report cost savings from initiatives in the budget, exacerbating this problem. This will make it difficult to assess if budget goals are being met through sustainable reforms, or if other factors, such as high gas prices and declining air service quality, are contributing to Amtrak's improved financial performance. Improving Amtrak's long-term financial outlook requires sustainable reforms, not near term fixes.

Amtrak's Board and management have been working on a new strategic plan that could provide direction for new reforms if it includes a process and deadline for preparing specific detailed implementation plans. Amtrak's managers are left without a road map of specific reform priorities to guide their efforts to support the company's aggregate business goal of reducing its reliance on Federal operating support.

## Amtrak's Modest FY 2008 Operating Reforms are Below Targets

Amtrak has realized $3.2 million in operational reform savings through February, most from NEC service improvements. Savings to date from all business initiatives are enumerated in Table 2. The following sections provide details on the implementation plans, status, and savings of the initiatives through February.

- ***Reduce Costs and Improve Service Quality***. Amtrak saved $3.9 million from this initiative through February and expects the initiative will save $14.6 million in FY 2008. The initiative consists of three programs: NEC

Service Improvements, Long-Distance Service Improvements, and Food and Beverage Service.

The NEC Service Improvement program focuses on the *Acela* service and includes three components: a 16th *Acela* trainset, improving customer satisfaction, and offering Wi-Fi availability on trains and in stations. The 16th *Acela* trainset is a result of the Reliability Centered Maintenance (RCM) program which allowed Amtrak to put more equipment into service. This additional trainset, which was put in service in July 2007, has generated $1.8 million in additional revenue through February. *Acela* service improvements such as food and beverage enhancements and leather seats in first class have resulted in an estimated revenue increase of $1 million through February. Wi-Fi service has not yet been implemented.

**Table 2. Summary of FY 2008 Reform and Savings Initiatives ($ in millions)**

| Saving Initiatives | Estimated YTD Benefit | Actual YTD Benefit | Variance +/- |
|---|---|---|---|
| Reduce Costs and Improve Service Quality | 4.4 | 3.9 | (0.5) |
| Increase Sales and Distribution Efficiencies | 0.4 | 1.1 | 0.7 |
| Enhance Reliability and Efficiency of Mechanical Services | (3.0) | (2.9) | 0.1 |
| Improve Management Systems and Overhead Efficiencies | 1.3 | 1.0 | (0.3) |
| Achieve Ongoing Efficiencies | 0.7 | 0.1 | (0.6) |
| **Reform Initiative Savings** | **3.8** | **3.2** | **(0.6)** |
| Other Savings | 7.7 | 7.9 | 0.2 |
| **Total** | **11.4** | **11.1** | **(0.3)** |

Columns may not sum due to rounding.
Source: Amtrak.

Long-Distance Service Improvements include relaunching the *Coast Starlight* service, improving customer service, and luxury charter services. The *Coast Starlight* relaunch involves the upgrade of service to an enhanced standard with the reintroduction of *Pacific Parlour* cars which will offer enhanced food and beverage services. This is similar to the service level upgrade on the *Empire Builder* undertaken in FY 2006. This program produced an additional $0.2 million in revenue through February.

Amtrak will place 23 customer service managers on the *City of New Orleans*, *Texas Eagle*, *Sunset Limited*, and *Coast Starlight* to support specific service improvements, such as the new *Cross Country Cafés*, the *Coast Starlight* relaunch, and personnel related customer satisfaction issues. This initiative is an expansion of an FY 2007 initiative and is not scheduled to begin until April. Finally, in late FY 2007, Amtrak entered a contract with GrandLuxe Rail Journeys to offer luxury train travel by adding privately owned cars to Amtrak's long-distance trains. The program was cancelled after 8 trips in October and November because GrandLuxe found the venture to be unprofitable. This initiative generated $0.2 million in additional revenue and no additional revenues are expected.

The Food and Beverage Service component is the continuation of two programs initiated in prior years. The redesign of equipment entails the overhaul of *Superliner Diner* cars into a single *Cross Country Café* car which is expected to reduce headcount and fuel usage. The *Cross Country Café* was rolled out on the *City of New Orleans* route in October 2007, with implementation on the *Texas Eagle* planned for April and on the *Sunset Limited* expected later this year. Through February, Amtrak saved $0.2 million from the new diners. Amtrak also continues to achieve incremental savings from its renegotiated contract with Gate Gourmet by identifying additional cost saving opportunities in areas such as supplies and linen service. Through February, this effort achieved $0.5 million in savings.

- ***Increase Sales and Distribution Efficiencies.*** Amtrak achieved $1.1 million in additional revenue through February, $0.7 million more than planned, and expects to save $1.3 million in all of FY 2008. Amtrak's e-Ticketing program, which began in FY 2007, is being expanded this year to include a new website that provides access to international travel agents to book Amtrak tickets.

- ***Enhance Reliability and Efficiency of Mechanical Services.*** This initiative is focused on the continuation of Reliability Centered Maintenance to reduce maintenance costs and allow more equipment to remain in service. Initially applied to *Acela* equipment, the program is rolling out to other equipment. At this time, this initiative reflects development costs and includes the cost of additional maintenance managers for the high-speed rail maintenance program and consulting fees for the design and implementation of RCM. In the long run, RCM will reduce maintenance costs and increase revenues by allowing trains to be returned to revenue service earlier.

- ***Improve Management Systems and Overhead Efficiencies.*** This initiative consists of two programs: reducing energy costs and on-board credit card automation. The program to reduce energy costs relies on contract management and has resulted in a net savings of $0.5 million through February, despite rising utility costs.

  On-board credit card automation is another program carried over from previous years, and consists of improved revenues by making it easier for customers to use credit cards as a form of payment as well as reducing the cost of credit card transactions through automated processes and other improved procedures. With $0.5 million in revenue enhancements and cost savings through February, this program is on track to produce the estimated full year benefit of $2.1 million.

- ***Achieve Ongoing Efficiencies.*** This initiative consists of two programs: engineering efficiencies and fuel use management.[5]

  The engineering efficiencies program is designed to produce savings through the increased productivity of the engineering workforce by capping growth in the number of overtime hours. This program, which has been under way since FY 2006, produced $0.1 million in savings through February.

  The fuel use management program was scheduled to start producing benefits in January of 2008, but has been delayed with implementation expected no later than May 30, 2008. This is a program to train locomotive engineers in techniques to maximize the fuel efficiency of their equipment. This program is expected to produce $0.1 million in savings this year.

## Conclusion

Amtrak continues to make progress on a limited set of sustainable operational reforms. In addition, it is pursuing other business initiatives that improve its bottom line in the short run, but the savings from these reforms may not be sustainable.

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[5] Amtrak is also reporting on a third initiative, labor productivity savings in the Transportation, Environmental, Mechanical, and Engineering Departments. This program is intended to achieve a 2 percent reduction in labor costs, primarily through management of vacant positions. The program resulted in $7.9 million in savings through February. While these are real savings, we did not consider targeted savings of almost $18 million this year to be sustainable operating reform. As more information becomes available regarding the source of these savings and their sustainability, we may reclassify them in the future.

In addition, a shift in focus from management of reform initiatives towards budget management may obscure the necessity for reform in an environment marked by favorable market conditions and labor attrition. A new strategic plan, currently in development, and a renewed emphasis on sustainable reforms are needed.

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

Sincerely,

Calvin L. Scovel III

Calvin L. Scovel III
Inspector General

Enclosures (2)

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

| Table 3. Summary of Amtrak Savings Through February FY 2008 ($ in millions) | | | | |
|---|---|---|---|---|
| **Amtrak Net Operating Savings** | **Estimated FY 2008 Benefit** | **Budgeted YTD Benefit** | **Actual YTD Benefit** | **YTD Variance** |
| **Reform Initiatives** | | | | |
| **1. Reduce Costs and Improve Service Quality** | **14.6** | **4.4** | **3.9** | **(0.5)** |
| NEC Service Improvements | *7.0* | *1.8* | *2.8* | *1.0* |
| *NEC Acela Service Improvement* | *4.0* | *0.8* | *1.0* | *0.2* |
| *16th Acela Trainset* | *1.7* | *1.0* | *1.8* | *0.8* |
| *Implement Onboard Wi-Fi* | *1.3* | *0.0* | *0.0* | *0.0* |
| Long-Distance Service Improvements | **4.3** | **1.4** | **0.4** | **(1.0)** |
| *Coast Starlight Relaunch* | *2.2* | *0.2* | *0.2* | *0.0* |
| *Customer Service Improvement* | *0.9* | *0.0* | *0.0* | *0.0* |
| *Luxury Charter Services* | *1.2* | *1.2* | *0.2* | *(1.0)* |
| Food and Beverage | **3.3** | **1.2** | **0.7** | **(0.5)** |
| *Redesign Equipment* | *1.5* | *0.4* | *0.2* | *(0.2)* |
| *Gate Gourmet Contract* | *1.8* | *0.8* | *0.5* | *(0.3)* |
| **2. Increase Sales and Distribution Efficiencies** | **1.3** | **0.4** | **1.1** | **0.7** |
| *e-Ticketing Customized Access* | *1.3* | *0.4* | *1.1* | *0.7* |
| **3. Enhance Reliability and Efficiency of Mechanical Services** | **(8.1)** | **(3.0)** | **(2.9)** | **0.1** |
| *Reliability Centered Maintenance* | *(8.3)* | *(3.0)* | *(2.9)* | *0.1* |
| *Facility Consolidation* | *0.2* | *0.0* | *0.0* | *0.0* |
| **4. Improve Management Systems and Overhead Efficiencies** | **4.1** | **1.3** | **1.0** | **(0.3)** |
| *Reduce Energy Costs* | *2* | *0.8* | *0.5* | *(0.3)* |
| *On-Board Credit Card Automation* | *2.1* | *0.5* | *0.5* | *0.0* |
| **5. Achieve Ongoing Efficiencies** | **1.8** | **0.7** | **0.1** | **(0.6)** |
| *Fuel Use Management* | *0.1* | *0.0* | *0.0* | *0.0* |
| *Engineering Efficiencies* | *1.7* | *0.7* | *0.1* | *(0.6)* |
| **Subtotal: Reform Initiative Savings** | **13.8** | **3.8** | **3.2** | **(0.6)** |
| *Productivity Savings in Environmental, Transportation, and Mechanical Departments* | *18.0* | *7.7* | *7.9* | *0.2* |
| *Savings from Unidentified Business Initiatives* | *8.5* | *0.0* | *0.0* | *0.0* |
| **Subtotal: Other Savings** | **26.5** | **7.7** | **7.9** | **0.2** |
| **Total** | **40.3** | **11.4** | **11.1** | **(0.3)** |

Columns may not sum due to rounding.
Source: Amtrak.

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

| Strategic Reform Initiative and Program | Objective | FY 2008 Targeted Savings | Estimated 5-Year Savings |
|---|---|---|---|
| ***1. Reduce Costs and Improve Service Quality*** | | | |
| NEC Service Improvements | Focus management attention and drive accountability for train service performance, including on-board service quality and on-time performance. | 7.0 | TBD |
| Food and Beverage Services | Enhance service flexibility by redesigning food services (for example, multi-purpose food service cars), improving equipment, and outsourcing. | 3.3 | |
| Long-Distance Service Improvement | Improve customer satisfaction with long-distance service. | 4.3 | |
| ***2. Increase Sales and Distribution Efficiencies*** | | | |
| e-ticketing | Develop enterprise systems and processes for e-ticketing. | 1.3 | TBD |
| ***3. Enhance Reliability and Efficiency of Mechanical Services*** | | | |
| Reliability Centered Maintenance (RCM) | Implement RCM to reduce cycle time and increase equipment reliability and availability. Costs represent consultant fees. | (8.3) | TBD |
| Facilities Efficiencies | Optimize facility utilization by consolidating and redesigning facilities. | 0.2 | TBD |
| ***4. Improve Management Systems and Overhead Efficiencies*** | | | |
| Reduce Energy Costs | Modernize management of utilities contracts and identify savings in individual utilities line items. | 2.0 | TBD |
| Reduce Overhead Costs | Reduce overhead costs through on-board credit card automation | 2.1 | TBD |

| Table 4. Amtrak's Proposed Operational Reforms ($ in millions) (cont.) | | | |
|---|---|---|---|
| **Strategic Reform Initiative and Program** | **Objective** | **FY 2008 Targeted Savings** | **Estimated 5-Year Savings** |
| ***5. Achieve Ongoing Efficiencies*** | | | |
| Train Operations | Reduce costs of Engineering Department; maximize fuel efficiency of locomotives by training engineers. | 1.8 | TBD |
| **Total** | | **13.8** | **TBD** |

**Addendum:**

**The following table contains information contained in a graph (Figure 1) in this document. This information was not a part of the original document but has been added here to accommodate assistive technology.**

**Figure 1: Amtrak Actual vs. Budget Operating Loss, Fiscal Year 2008 ($ in millions)**

| | Actual Operating Loss | Budget Operating Loss |
|---|---|---|
| October | -27 | -31 |
| November | -45 | -62 |
| December | -62 | -108 |
| January | -95 | -176 |
| February | -158 | -231 |
| March (forecast) | -200 | -275 |
| April (forecast) | -243 | -311 |
| May (forecast) | -285 | -347 |
| June (forecast) | -313 | -367 |
| July (forecast) | -353 | -398 |
| August (forecast) | -389 | -432 |
| September (forecast) | -444 | -475 |

**Source: Amtrak**