



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

The Inspector General

Office of Inspector General
Washington, DC 20590

July 31, 2009

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 report presents our quarterly assessment of Amtrak’s year-to-date (through June 2009) and forecasted end-of-year fiscal year (FY) 2009 financial performance. As we previously reported, Amtrak is not implementing any new operational reform initiatives in FY 2009.¹ The report also includes an update on Amtrak’s use of American Recovery and Reinvestment Act (ARRA) funds.

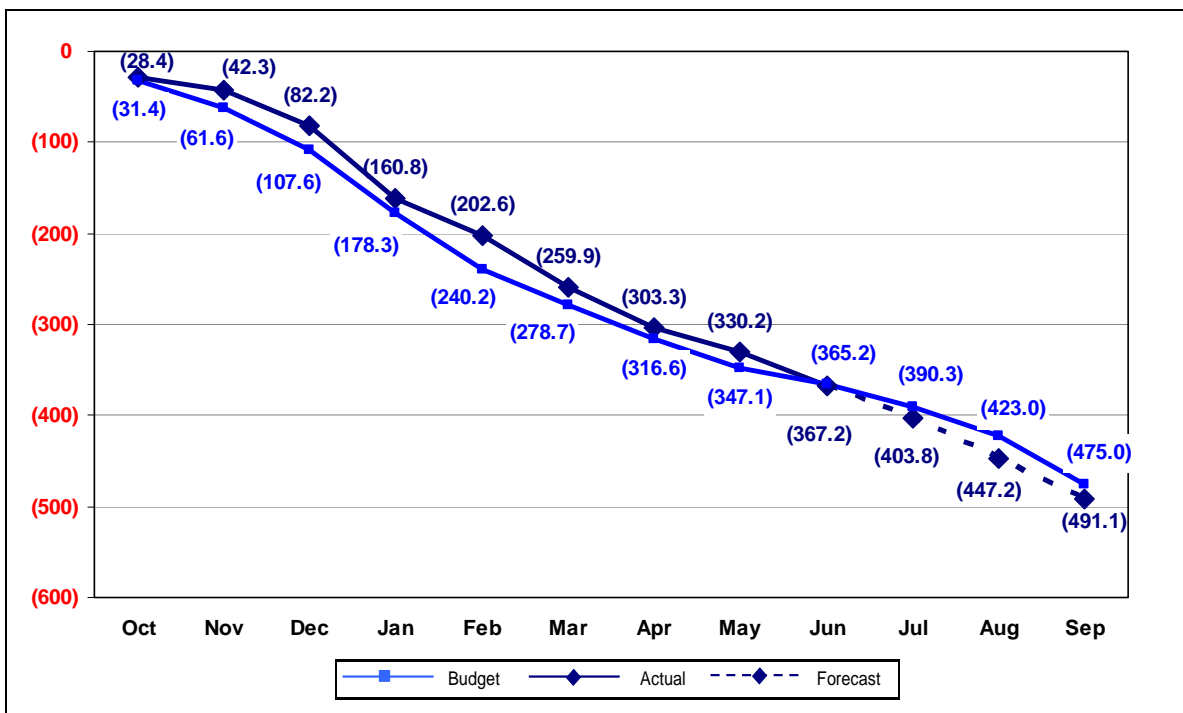
¹ Our June 2009 and prior quarterly reports on Amtrak’s financial performance and savings from operational reforms are available at www.oig.dot.gov. Our November 2008 report provided details on the operational reform initiatives Amtrak implemented in FY 2008. Our February 2009 report summarized the savings Amtrak achieved on projects from new operational reforms for FYs 2006, 2007, 2008, and 2009.

Summary

Amtrak's year-to-date operating loss was 0.6 percent more than originally budgeted. This continues a narrowing of the margin between actual and budgeted operating loss during the year, as Amtrak's operating loss was 24.1 percent less than budget at the end of the first quarter and 6.9 percent at the end of the second quarter. Amtrak's financial performance is expected to continue to erode during the remainder of the year primarily due to the continued economic recession. As such, Amtrak expects an end-of-year operating loss that is \$16 million more than originally budgeted (see figure 1 below).² This is a slight improvement in forecasted end-of-year operating loss compared to what we reported last quarter.

As we reported last quarter, Amtrak still has not yet identified the measures it will take to close this funding gap. Amtrak projects its end-of-year cash balance will

**Figure 1. Amtrak Actual vs. Budget FY 2009 Operating Loss
(Dollars in Millions)**



Source: Amtrak

² Operating loss is reported on an earnings before interest, taxes, depreciation, and other post-employment benefits (EBITDO) basis, 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.

be \$192.8 million, well above the levels we previously reported were required.³ Amtrak could use this additional cash to cover the operating loss shortfall if it is unable to identify and implement sufficient cost savings to close the funding gap.

Amtrak's Year-to-Date Financial Performance Has Declined

Amtrak's operating loss in the third quarter increased relative to the budgeted loss because lower than budgeted revenues were only partially offset by lower than budgeted expenses (see table 1). Amtrak's ridership and revenues continued to decline, particularly in the northeast, due to the economic recession, high unemployment, and lower gasoline prices. Declines in expenses, driven by lower fuel, salaries and wages, and health plan costs have not been enough to fully offset these lower revenues. The impact of these factors on Amtrak's year-to-date financial performance is discussed below.

**Table 1. Amtrak's Financial Performance
(Through Third Quarter FY 2009)**

	Year-To-Date (\$ in millions)		Variance Favorable/ Unfavorable
	Actual	Budget	
Total Operating Revenues	\$1,732.9	\$1,881.0	(\$148.0)
Total Operating Expenses	\$2,100.1	\$2,246.1	\$146.0
Operating Profit/(Loss)	(\$367.2)	(\$365.2)	(\$2.0)

Source: Amtrak

Operating Loss Increased. Amtrak's operating loss through June 2009 was \$367.2 million, \$2 million or 0.6 percent more than Amtrak originally budgeted. As with previous quarters, revenues are lower than what was originally budgeted, but this reduction is no longer being offset entirely by lower than budgeted expenses. Amtrak's relatively poorer financial performance through the third quarter compared to the first and second quarters is attributable primarily to lower passenger-related revenue. Amtrak's actual passenger revenue fell short of budgeted passenger revenue by \$39.1 million through the first quarter, increasing to \$181.8 million in the third quarter. In contrast, actual expenses were \$51 million below budgeted expenses through the first quarter but increased only to \$146 million through the third quarter.

³ We report on the cash balance because it reflects Amtrak's ability to pay its bills at any point in time. Cash balance and operating loss are two key indicators of Amtrak's financial performance.

Operating Revenue Declined. Total passenger and other operating revenue through June 2009 was \$1.7 billion, which was \$148 million below the amount budgeted. Amtrak's total ridership through June 2009 was 20 million trips, down 8.9 percent from budget and 4.7 percent from the same period in FY 2008. This lowered passenger-related revenue by \$181.8 million or 11.8 percent below budget. Partially offsetting the lower passenger-related revenue were Amtrak's higher commuter and other operating revenues, which were \$33.7 million or 9.9 percent above budget, primarily due to a settlement regarding outstanding fees from New Jersey Transit and higher ancillary revenues.

Driving this decline in total revenues is the low *Acela* ticket revenues, which were \$69.5 million or 18.0 percent below budget, and lower Northeast Corridor (NEC) Regional train ticket revenues, which were \$54.1 million or 14.2 percent below budget (see table 2). Unlike the first and second quarters, Amtrak's long distance trains also performed below budget through June 2009 but to a lesser degree than *Acela* or the regional trains. Amtrak's long distance trains were \$14.2 million or 4.6 percent lower than budget. This occurred despite a 2.5 percent increase in ridership through the third quarter compared to the same period for FY 2008.

**Table 2. Amtrak Ridership and Passenger Ticket Revenues
Actual vs. Budget (Through Third Quarter FY 2009)**

	Ridership (in millions)			Ticket Revenue (in millions)		
	Actual	Budget	% Diff.	Actual	Budget	% Diff.
NEC:	7.5	8.4	-11.7%	\$644.2	\$768.0	-16.1%
<i>Acela</i>	2.3	2.7	-14.1%	\$316.7	\$386.2	-18.0%
Northeast Regional	5.2	5.8	-10.5%	\$326.7	\$380.8	-14.2%
State-Supported and Other Corridors	9.5	10.4	-8.5%	\$250.2	\$281.4	-11.1%
Long Distance	3.0	3.1	-2.8%	\$295.1	\$309.3	-4.6%
Amtrak Total	20.0	22.0	-8.9%	\$1,189.6	\$1,358.7	-12.5%

Source: Amtrak

Note: % Diff. = percent difference between actual and budget.

Operating Expenses Declined. Total operating expenses through June 2009 were \$2.1 billion, \$146 million or 6.5 percent lower than budgeted (see table 1 on page 3). These lower expenses continue to be primarily due to lower salaries and wages, health benefits (Amplan), pension liability, and railroad retirement (RRTA) taxes, as well as lower fuel costs. Offsetting these lower expenses were \$9.5 million more in on-time performance (OTP) incentive payments to the host railroads for improved OTP and \$8 million more in ancillary costs, including materials costs related to additional reimbursable work, and more locomotive and

wheelset repairs than originally budgeted. In addition, Amtrak was over budget by \$11.9 million due to costs related to its replacing the third-party guarantor on its defeased leases.⁴

The lower Amplan costs, RRTA taxes, and fuel costs reflect the continuation of trends from the first and second quarters of FY 2009. In FY 2008, Amtrak revised the terms of Amplan—its health plan for employees covered by labor agreements (agreement labor)—as part of the terms of the labor settlement. As a result of these revisions, Amplan posted \$8.7 million in lower than budgeted expenses through June 2009, largely due to lower than forecasted employee usage of the benefit. Regarding RRTA taxes, Amtrak overestimated by \$10.6 million the amount of these taxes it was required to pay. Additionally, it continued to save on train fuel costs through the third quarter of FY 2009, posting \$126.3 million in savings.

Continued Declines in End-of-Year Financial Performance Projected

Economic and other factors will continue to drive down Amtrak's expected end-of-year revenue for FY 2009 as both the business and leisure travel markets are expected to shrink.⁵ Lower fuel, salaries and wages, and health plan costs are not expected to fully offset the revenue reduction. As a result, Amtrak's FY 2009 operating loss is projected to be \$491 million, \$16 million more than originally forecasted (see table 3).

Table 3. Amtrak's Forecasted End of FY 2009 Financial Performance

	FY 2009 (\$ in millions)		Variance Favorable/ Unfavorable
	Forecast	Budget	
Total Operating Revenues	\$2,326.3	\$2,547.0	(\$220.7)
Total Operating Expenses	\$2,817.3	\$3,022.0	\$204.7
Operating Profit/(Loss)	(\$491.0)	(\$475.0)	(\$16.0)

Source: Amtrak

⁴ A defeased lease is a financing transaction involving, in this case, Amtrak's sale of rolling stock to a private equity firm, which in turn, leases the equipment back to Amtrak. Defeased leases permit the capture of tax benefits that otherwise could not be used. As a result of a credit rating downgrade, Amtrak was required by the terms of the lease agreements to replace two of the third-party guarantors, AIG and Ambac. Therefore, Amtrak replaced its third-party guarantor on nine of its defeased leases with a stronger lender this past year and terminated three other defeased leases.

⁵ Amtrak's end-of-year expense forecast is based on Amtrak's latest financial data through June 2009. Amtrak's end-of-year revenue forecast is based on financial data through May, which is Amtrak's latest revenue forecast.

Amtrak's revised June 2009 forecast for FY 2009 revenues is \$2.3 billion, \$220.7 million lower than originally budgeted. This decline is due to decreased ticket revenues, (-\$241.4 million), lower estimated corresponding food and beverage sales revenues (-\$8.7 million), and state support (-\$11.4 million), offset by a forecasted increase in commuter and other revenue (+\$40.9 million). While Amtrak reduced its forecasted end-of-year revenues by \$55.8 million between its December 2008 and May 2009 forecasts, Amtrak increased its forecasted end-of-year revenues by \$4.2 million between its May 2009 and June 2009 forecasts. Almost all of this forecasted increase is in commuter revenue, commercial development, other transportation revenue, and freight access fees. The overall passenger revenue forecast remained essentially unchanged.

Amtrak's end-of-year expenses are forecasted to be \$2.8 billion, \$204.7 million lower than originally budgeted. Amtrak expects to save \$71.5 million in salaries, wages, and employee benefits by the end of FY 2009 through lower agreement labor health insurance (Amplan), pension costs, and employee-related taxes (as it has through the third quarter of FY 2009). Also, Amtrak forecasts significantly reduced fuel, power, and utilities expenses of \$183.9 million or 39.9 percent lower than originally budgeted.

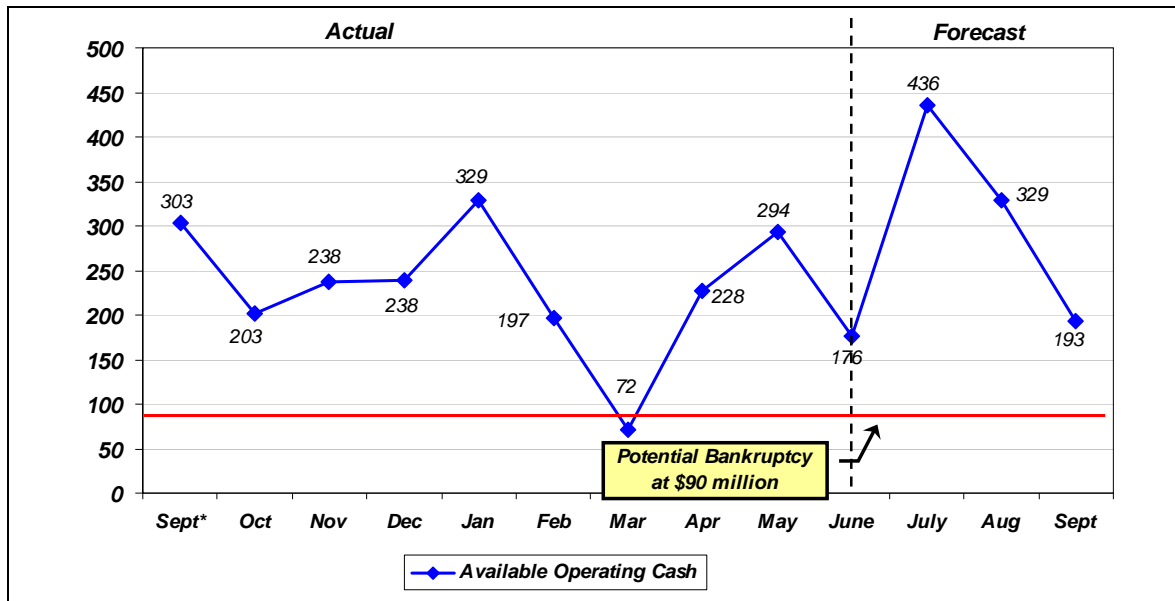
Amtrak's End-of-Year Cash Balance Will Exceed Minimum Needs

Amtrak expects to end the year with a \$192.8 million cash balance, \$45.4 million above the original forecast and \$110.5 million below the cash balance at the start of FY 2009 (see figure 2 on page 7).⁶ This increase above the forecast reflects an improvement of \$10.6 million compared to Amtrak's previous cash balance forecast, which as we reported on, was based on financial data through March.

As we previously noted, the reduction in Amtrak's cash balance since the start of FY 2009 is due to two significant one-time expenditures—\$70.1 million related to the retroactive wage payment resulting from the recent labor settlement and \$72.0 million to replace its third-party guarantors for its defeased leases.

⁶ This end-of-year cash balance forecast is based on Amtrak's financial performance through May 2009, Amtrak's latest cash balance forecast.

**Figure 2. Amtrak Actual and Forecast FY 2009 Cash Balances
(Dollars in Millions)**



Source: Amtrak

Amtrak's Expenditure of ARRA Funds Slower than Planned

Amtrak's expenditure of ARRA funds has been slower than expected despite Amtrak and the Federal Railroad Administration (FRA) having met the 30-day deadline set in ARRA to award the \$1.3 billion ARRA provided for Amtrak capital investments. Through June 2009, Amtrak has spent only \$8.5 million or 23.6 percent of the \$35.8 million budgeted for this time period. Amtrak has also reduced its forecast for ARRA spending in 2009. Amtrak initially planned to spend \$164.6 million or 12.7 percent of the ARRA funds in FY 2009 and now plans to spend only \$83.6 million or 6.5 percent of ARRA funds in FY 2009. As of July 20, 2009, Amtrak had committed \$51.8 million in ARRA funds involving outside contractors and \$90.8 million to projects involving internal Amtrak employees, for a total committed amount of \$142.6 million.

FRA has approved 121 of the 187 projects Amtrak has submitted for funding, which account for over \$1.1 billion of the \$1.3 billion in ARRA funds. The remaining projects are largely waiting on National Environmental Policy Act and State Historic Preservation Office clearances.

Amtrak has also revised its original project list, primarily to ensure planned projects could be completed by February 2011. Specifically, the Seattle Maintenance project (\$35 million) was removed from the ARRA project list, and the Niantic bridge replacement (\$32.5 million); Penn Station, New York service building upgrade (\$14 million); the Washington to New York Advanced Civil Speed Enforcement System, a form of Positive Train Control, installation (\$10 million); and emergency backup power for the NEC tunnels (\$14 million) have been reduced in scope. For example, the Niantic bridge replacement project will now be phased and the Penn Station service building upgrade project will no longer include work on areas outside of the building. Amtrak projects that all 187 projects will be completed within schedule, upon approval of these revisions to its proposed projects.

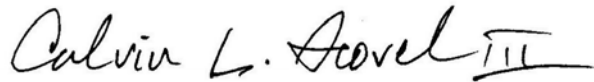
To facilitate the management of the large number of ARRA-funded projects, Amtrak has elected to contract with third parties to serve as Regional Project Managers (RPM). Amtrak will still be responsible for defining ARRA project requirements, providing procurement and technical approval oversight, and reporting project data. The RPM staff will augment Amtrak's capabilities by handling work that is normally the responsibility of Amtrak's engineering and procurement staff. This includes defining the scope of projects, competitively awarding regionally grouped projects to multiple design-build firms, and providing oversight of facility design completion and project delivery. The design-build firms will be responsible for completing project design and executing and constructing projects. Amtrak's plan anticipates the RPMs will act on Amtrak's behalf on an estimated \$636 million of projects. The RPM contracts were to be awarded July 24, 2009, and have been delayed slightly until August.

Conclusion

Amtrak's financial performance continues to reflect the effects of the ongoing economic recession. However, Amtrak appears to have sufficient resources in FY 2009 to operate the current nationwide intercity passenger rail system. Amtrak's spending of ARRA funds has started off more slowly than expected, but Amtrak has taken steps to augment its engineering and procurement staff, which should help facilitate the management of ARRA projects going forward.

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 Amtrak, High Speed Rail, and Economic Analysis, at (202) 366-1981.

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 and title.

Calvin L. Scovel III
Inspector General

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