



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

The Inspector General

Office of Inspector General
Washington, DC 20590

June 3, 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 March 2009) and forecasted end-of-year fiscal year (FY) 2009 financial performance. As we reported in February 2009, 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.

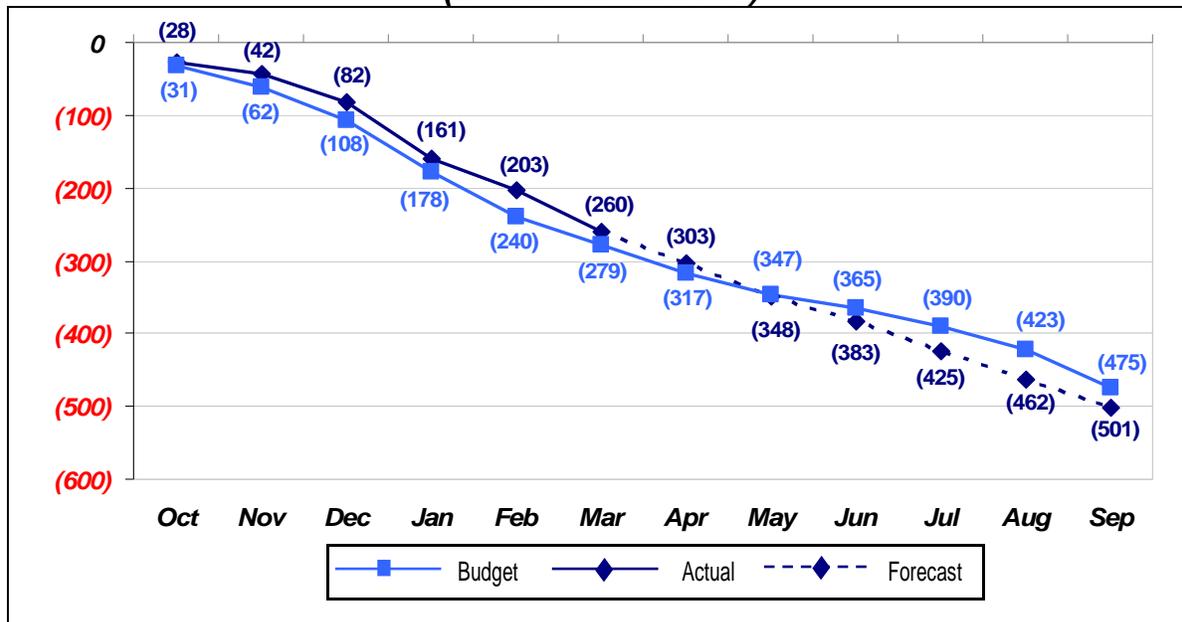
Summary

While Amtrak’s year-to-date operating loss continues to be less than originally budgeted, the margin has narrowed from 24.1 percent less than budget at the end

¹ Our February 2009 and prior quarterly reports on Amtrak’s financial performance and savings from operational reforms are available at www.oig.dot.gov.

of the first quarter of FY 2009 to 6.9 percent less at the end of the second quarter. Further, Amtrak's financial performance is expected to continue to erode during the remainder of the year primarily due to the continued economic recession. Amtrak now expects an end-of-year operating loss that is \$25.8 million more than was originally budgeted (see figure 1 below).² Amtrak has not yet identified the measures it will take to close this funding gap. However, it plans to shift some

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



Source: Amtrak

previously incurred costs from general operating to capital costs. This will increase its end-of-year cash balance to \$182.2 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.

Despite these efforts to address its near-term financial condition, Amtrak could do more by providing a transparent and detailed analysis of the financial risks and external factors⁴ impacting the company's revenues and expenses. Doing so would improve the policymakers' understanding not only of the magnitude of the financial risks facing Amtrak, but also its decisions in response to these risks.

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.

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.

⁴ Examples include economic growth and fuel prices.

While Amtrak has enhanced its internal reporting of financial and operating measures,⁵ it will be important to integrate this reporting with the measures required under the Passenger Rail Investment and Improvement Act of 2008 (PRIIA)⁶ to better link Amtrak’s actions, external risks, and bottom line.

Further, Amtrak’s January 2009 *Strategic Profile* provides the basic framework to develop into a full strategic plan, but lacks sufficient detail as to how Amtrak’s external reporting requirements, day-to-day business management, and multi-year financial planning will advance its strategic vision. Finally, while Amtrak has moved quickly to identify projects and award its ARRA funds, its current reporting lacks the specific project-level detail needed to assess fully how this spending is consistent with its previously stated priorities. Amtrak is developing more detailed information to address this issue.

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

Amtrak’s operating loss in the second quarter increased relative to the budgeted loss, because of lower than budgeted revenues that were only partially offset by lower than budgeted expenses. The economic recession, high unemployment, and lower gasoline prices have continued to drive down Amtrak’s ridership and revenues, particularly in the northeast. Lower fuel prices 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 are disclosed below.

**Table 1. Amtrak’s Financial Performance
(Through 2nd Quarter FY 2009)**

	Year-To-Date (\$ in thousands)		Variance Favorable/ Unfavorable
	Actual	Budget	
Total Operating Revenues	\$1,156,461	\$1,214,758	(\$58,297)
Total Operating Expenses	\$1,416,336	\$1,494,027	(\$77,691)
Operating Profit/(Loss)	(\$259,875)	(\$279,269)	\$19,394

Source: Amtrak

Operating Loss Increased. Amtrak’s operating loss through March 2009 was \$259.9 million, \$19.4 million or 6.9 percent less than Amtrak originally budgeted (see table 1 above). This is a slight reversal of the trend from the first quarter of 2009. That is, revenues still are lower than budget, but this reduction is no longer

⁵ For example, Amtrak has established monthly “Dashboard” reports with key performance indicators for its Board of Directors.

⁶ Section 207 of PRIIA requires quarterly reporting on Amtrak financial and operating metrics.

being offset entirely by lower than budgeted expenses. Amtrak's relatively poorer financial performance through the second quarter compared to the first quarter is attributable primarily to lower passenger-related revenue. The difference between Amtrak's actual and budgeted passenger revenue in the second quarter of \$90.3 million under budget is more than doubled the difference in the first quarter of \$39.1 million under budget. In contrast, expenses increased from \$51.0 million below budget to \$77.7 million below budget expenses from the first to the second quarters.

Operating Revenue Declined. Total operating revenue through March 2009 was \$1.2 billion, which was \$58.3 million below the amount budgeted (see table 1 on page 3). Amtrak attributed this decline to reduced ridership caused by the economic recession, high unemployment, and low gas prices. Amtrak's total ridership through March 2009 was 13.1 million trips, down 7.3 percent from budget and 3.4 percent from the same period in FY 2008. This lowered passenger-related revenue by \$90.3 million or 9.1 percent below budget. Partially offsetting the lower passenger-related revenue were Amtrak's commuter and other operating revenues, which were \$32.1 million or 14.2 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 \$40.9 million or 16.2 percent below budget, and lower Northeast Corridor (NEC) Regional train ticket revenues, which were \$29.6 million or 12.0 percent below budget (see table 2 on page 5). In addition to the impact of the economic recession and high unemployment on the northeast business travel market, ridership on *Acela*, NEC Regional, the *Empire*, and the *Keystone* trains has been adversely affected by slower schedules due to concrete tie replacement work. This work will continue to affect schedules along the NEC for the next few months, and according to Amtrak, may seriously harm *Acela's* main travel market (south of New York) and drive ridership and ticket revenues down further.

In contrast, Amtrak's long distance trains were the only service to increase ridership and revenues with a 0.7 percent increase in ridership and a 0.4 percent increase in ticket revenues through March 2009. This increase was due in part to a striking improvement in the on-time performance (OTP) for long distance service from 54.6 percent of long distance trains arriving on-time through March of FY 2008 up to 79.6 percent for the same period in FY 2009.

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

	Ridership (in thousands)			Ticket Revenue (in thousands)		
	Actual	Budget	% Diff.	Actual	Budget	% Diff.
NEC:	4,873	5,490	-11.2%	\$428,349	\$498,909	-14.1%
Acela	1,520	1,756	-13.4%	\$211,287	\$252,220	-16.2%
Northeast Regional	3,349	3,726	-10.1%	\$216,402	\$246,020	-12.0%
State Supported Corridors	6,215	6,639	-6.4%	\$165,623	\$180,619	-8.3%
Long Distance	1,970	1,957	0.7%	\$190,477	\$189,748	0.4%
Amtrak Total	13,058	14,085	-7.3%	\$784,449	\$869,276	-9.8%

Source: Amtrak

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

Operating Expenses Declined. Total operating expenses through March 2009 were \$1.4 billion, \$77.7 million or 5.2 percent lower than budget (see table 1 on page 3). These lower expenses primarily were due to lower health benefits (Amplan), pension liability, and railroad retirement (RRTA) taxes, as well as lower fuel costs. Offsetting these lower expenses were \$5.4 million more in OTP incentive payments to the host railroads for improved OTP and \$7.2 million more in materials costs related to additional reimbursable work, and more locomotive and wheelset repairs than originally budgeted. In addition, Amtrak was over budget by \$17.2 million due to costs related to its replacing the third-party guarantor on its defeased leases.⁷

The lower Amplan costs, RRTA taxes, and fuel costs reflect the continuation of trends from the first quarter 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 \$11.3 million in lower than budgeted expenses through March 2009, largely due to lower than forecasted employee usage of the benefit. Regarding RRTA taxes, Amtrak overestimated by \$11.0 million the amount of these taxes it was required to pay. Additionally, it

⁷ 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.

continued to save on train fuel costs through the second quarter of FY 2009, posting \$74.2 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.⁸ Lower fuel 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 \$500.8 million, \$25.8 million more than originally forecasted (see table 3 below).

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

	FY 2009 (\$ in thousands)		Variance Favorable/ Unfavorable
	Forecast	Budget	
Total Operating Revenues	\$2,318,589	\$2,547,014	(\$228,425)
Total Operating Expenses	\$2,819,373	\$3,022,014	\$202,641
Operating Profit/(Loss)	(\$500,784)	(\$475,000)	(\$25,784)

Source: Amtrak

Note: Table is based on Amtrak's April 2009 forecast.

Amtrak re-estimated both its revenue and ridership forecasts in May 2009 to reflect current economic conditions. Its current forecast for FY 2009 revenues is \$2.32 billion, \$228.4 million lower than originally budgeted. This decline is due to decreased ticket revenues (-\$240.5 million), lower estimated corresponding food and beverage sales revenues (-\$8.4 million) and state support (-\$12.7 million), offset by a forecasted increase in commuter and other revenue (+\$33.2 million). Amtrak reduced its forecasted end-of-year revenues by \$59.4 million between its December 2008 and April 2009 forecasts.

Because of a number of factors, Amtrak lowered its ridership and revenue forecast. For example, continued low gas prices resulted in more people driving than riding the train; reduced travel time competitiveness compared to other modes of routes along the NEC (especially *Acela* and NEC Regional trains) due to spring maintenance work and service disruptions; and continued impacts of the economic recession. The economic impacts included national unemployment rates, which in April had already reached the level (8.9 percent) that Amtrak

⁸ Our report of Amtrak's forecasted end-of-year performance reflects Amtrak's latest financial data through April 2009.

forecasted for the end-of-year (9.0 percent); continued drops in consumer confidence and spending; and the shrinking of both business and leisure travel markets.

Amtrak's end-of-year expenses are forecasted at \$2.8 billion, \$202.6 million lower than originally budgeted; and it expects to save \$68.5 million in salaries, wages, and employee benefits by the end of FY 2009. These decreases will continue to be driven by lower agreement labor health insurance (Amplan), pension costs, and RRTA taxes (as it has through the second quarter of FY 2009). Also, Amtrak's total expense forecast for end-of-year FY 2009 has been adjusted to reflect a significantly lower average price per gallon for diesel, resulting in a forecast for fuel, power, and utilities expenses of \$185.3 million or 40.2 percent lower than originally budgeted. Finally, Amtrak reduced its forecasted end-of-year expenses by \$34.5 million between its December 2008 and April 2009 forecasts.

Amtrak has not yet identified how it will close the projected \$25.8 million budget gap. Any such gap-closing initiatives would be in addition to the \$5.3 million in savings Amtrak already identified. These savings will be derived from the cancelation of studies and planning initiatives, lower professional services expenditures, reduced tree cutting for road maintenance, and postponing leadership development and performance management projects.

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

Amtrak expects to end the year with a \$182.2 million cash balance, \$34.8 million above the original forecast and \$121.2 million below the cash balance at the start of FY 2009 (see figure 2 on page 8).⁹ This increase above the forecast reflects an improvement of \$66.9 million compared to Amtrak's previous cash balance forecast, which was based on financial data through December. The increase includes an adjustment of \$24.0 million related to Amtrak's defeased lease transactions.

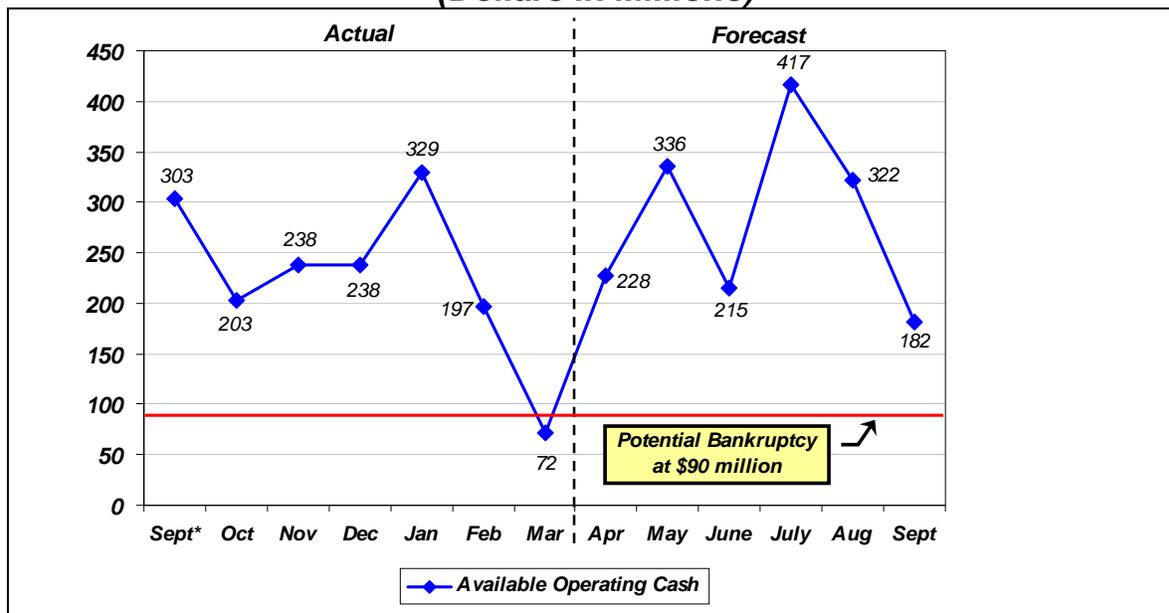
Amtrak plans to increase its cash balance by shifting \$24.0 million in general operating costs to capital costs. That is, Amtrak originally paid \$61.1 million for the costs associated with closing three defeased lease transactions from its operating cash on hand, but now plans to charge a portion of those costs to its capital appropriation. The \$24.0 million is the difference between the \$285 million Amtrak is permitted to spend under its FY 2009 appropriation on debt service and its projected FY 2009 debt service costs of \$261 million. Absent this transaction, the \$24.0 million would be available for capital projects, such as

⁹ This end-of-year cash balance forecast is based on Amtrak's financial performance through March 2009. At the time of this report, Amtrak had not updated its cash balance forecast to reflect either April 2009 financial data or its revised May 2009 revenue forecast.

reducing Amtrak's backlog of projects intended to restore its infrastructure to a state-of-good repair.

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 \$96.1 million to replace its third-party guarantors for its defeased leases.

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



Source: Amtrak

Amtrak's Financial Risks Require Close Monitoring and Greater Transparency

Amtrak faces several risks regarding its ability to operate within its available resources in the remainder of FY 2009. Information currently available indicates that these risks appear manageable. However, a lack of detail concerning key factors that affect Amtrak's financial performance makes it difficult to fully assess this financial risk.

The financial risk factors include the severity and duration of the recession, in particular its impact on business travel; the price of gasoline, which as it rises makes rail a more economically attractive transportation alternative; and whether the turnover rate among Amtrak employees matches Amtrak's hiring decisions.

These risks are mitigated by two factors: (1) Amtrak's estimates of its operating loss are conservative, and (2) Amtrak has taken steps to increase its cash balance. In the first two quarters of FY 2009, Amtrak has performed better financially than forecasted, even after its performance forecasts were updated to reflect more recent financial and economic data. As we stated in our February 2009 report, Amtrak has likely overestimated its end-of-year cash needs. Based on an analysis of Amtrak's performance over 5 years, its minimum start-of-year cash balance requirement is closer to \$115 million rather than \$180 million. Both the conservative operating loss forecast and the lower cash balance requirements provide Amtrak a cushion to accommodate unforeseen financial circumstances.

Amtrak management has been prudent in its decision to bolster its cash balance, but it can do more. That is, Amtrak should identify additional cost saving measures which could be taken, if needed, on short notice beyond the \$25.8 million needed to close the currently forecasted shortfall. In addition to these steps, a more transparent and complete explanation of the impact of key assumptions on the forecasted revenues, expenses, and cash balance, including sensitivity analyses where appropriate, would provide policy makers with a better understanding of the level of financial risk Amtrak is confronting, both for the current and upcoming fiscal years.

Strategic Vision Statement Is a Good First Step, but Greater Detail and Integration of Performance Measures Is Needed

In several previous quarterly reports, we commented on the need for Amtrak to develop a new strategic plan to guide the company. The absence of a detailed plan, linked to a means to measure progress towards achieving its goals, makes it difficult to understand how Amtrak's actions and decisions help it to achieve its strategic direction and how the direction affects Amtrak's bottom line.

At the end of January 2009, Amtrak's CEO released a 5-page strategic profile for 2009 through 2013, which is being developed into a full strategic plan. Amtrak's strategic profile commits Amtrak to a three-part vision, which includes becoming (1) safer, that is, reducing risk to customers and employees; (2) greener, that is, operating in a more eco-friendly manner that conserves resources and increases efficiency; and (3) healthier, that is, better utilizing and involving Amtrak's employees in implementing this new vision and contributing to Amtrak's success.

To achieve this vision, the profile calls for Amtrak to (1) fund more infrastructure enhancements and partner more closely with northeast states to implement effective enhancements on the NEC, (2) develop short distance corridors through more partnerships with goals specific to geographic needs, and (3) continue to

implement positive train control and improve on-time performance on long distance trains.

Amtrak plans to track its progress in implementing this vision through an assortment of internal and external performance metrics. Internally, Amtrak has established four efficiency and five effectiveness measures—cost per available seat mile, cost recovery ratio, company headcount, revenue per available seat mile, ridership, safety ratio, customer service index, host railroad performance, and on-time performance.

Externally, Amtrak and FRA have proposed a provisional list of performance metrics and standards as required by section 207 of the PRIIA.¹⁰ Beginning on July 1, 2009, Amtrak and FRA are to issue quarterly reports that include performance data for the previous two quarters. Finally, the Amtrak Board of Directors is required by section 204 of PRIIA to submit a 5-year financial plan to both the Secretary of Transportation and our office. Among the requirements of this financial plan are specific measures that demonstrate measurable improvement year over year in the financial results of Amtrak operations. The first such plan is due to be submitted October 1, 2009, or 60 days after appropriations are enacted for FY 2010, whichever is later.

This internal and external focus on performance measurement and improvement provides Amtrak with an important opportunity to link its Legislative and Grant Requests, business plans, and multi-year financial plans and its day-to-day management decision making through clearly defined performance targets and goals that support Amtrak's goal of providing efficient and effective passenger rail mobility.

Greater Specificity and Transparency Are Needed in Amtrak's Use of ARRA Funds

Amtrak is working quickly to obligate its ARRA funds, but the current level of detail in its reporting makes it difficult to assess the extent to which this spending is consistent with Amtrak's previously stated goals and plans.

Amtrak and the Federal Railroad Administration (FRA) moved expeditiously to meet the 30-day deadline set in ARRA to award the \$1.3 billion ARRA provided for Amtrak capital investments. On March 19, 2009, FRA signed a grant agreement making initial ARRA funds available to Amtrak. According to

¹⁰ The proposed metrics fall into four categories: financial, on-time performance and train delays, other service quality, and service availability and connectivity.

Amtrak, FRA has approved \$972.2 million of the \$1.3 billion in projects Amtrak has submitted for funding, as of May 22.

The \$1.3 billion provided by ARRA consists of \$850 million for the rebuilding and modernization of infrastructure and equipment and \$450 million for security and life safety projects. FRA is permitted to retain up to 0.5 percent, or \$6.5 million, of the appropriated funds for oversight purposes. Finally, of the \$850 million, no more than 60 percent can be spent on the NEC and \$5 million is provided to the Amtrak Inspector General.

ARRA requires that Amtrak give priority to projects that repair, rehabilitate, or upgrade railroad assets or infrastructure or projects that expand passenger rail capacity, including the rehabilitation of rolling stock, and set a goal of completing all projects within 2 years of ARRA's enactment. At present, Amtrak plans to spend \$164.6 million or 12.7 percent of the ARRA funds in FY 2009, \$778.4 million or 60.2 percent in FY 2010, and \$350.6 million or 27.1 percent in FY 2011. Additionally, Amtrak plans to spend 52 percent of the \$850 million of non-security and life safety projects on the NEC.

Amtrak proposes to allocate 91.5 percent of ARRA funds to three departments--Engineering, Security, and Mechanical. The largest share, \$846.7 million or 65.5 percent, would go to the Engineering Department (see table 4 on page 12).¹¹ Proposed engineering projects include \$165 million for bridge work (Niantic River Bridge replacement and other bridge upgrades), \$65 million for station restorations and upgrades, \$142 million for facility upgrades, \$60 million for the implementation of Positive Train Control, and \$85 million for track work (right-of-way improvements and tie replacement). Compared to its most recent State of Good Repair Plan, Amtrak is allocating proportionately more ARRA funds to bridges, stations, and facilities, and less to rail ties.

The Office of Security Strategy and Special Operations would receive \$196.1 million or 15.2 percent of the ARRA funds. Virtually all of these funds would be spent on projects addressing physical infrastructure vulnerabilities. According to FRA, these projects are consistent with the results of separate security analyses previously funded by the Department of Homeland Security. The conference report accompanying ARRA clarified that the ARRA capital security grants could be used for life safety projects.

The Mechanical Department would receive \$140.8 million or 10.9 percent of the ARRA funds. Most of these funds (\$90.8 million) would be spent to return to

¹¹ Amtrak is re-evaluating the allocation for a small portion of ARRA funds. Additionally, it has not received final approval for all its proposed projects. Therefore, the overall distribution of funds by department and year may change.

service 21 wrecked long distance cars, 60 stored or wrecked Amfleet cars, and 15 P-40 locomotives. The remaining \$50 million would be spent constructing new maintenance facilities in Los Angeles, California, and Hialeah, Florida.

Table 4. Amtrak ARRA Funds by Department

Department	Amount (in thousands)	Percent
Engineering	\$846,740	65.5%
Office of Security Strategy and Special Operations	\$196,140	15.2%
Mechanical	\$140,800	10.9%
Chief Financial Officer	\$55,440	4.3%
Amtrak Technologies	\$24,070	1.9%
Contract Administration	\$15,000	1.2%
Marketing and Product Management	\$9,300	0.7%
Amtrak OIG	\$5,000	0.4%
Procurement	\$1,050	0.1%
TOTAL*	\$1,293,540	100.0%

Source: Amtrak

* FRA oversight funds are excluded from the total.

We attempted to evaluate whether Amtrak's proposed ARRA projects were consistent with the priorities Amtrak had previously set forth in its Five-Year Capital Plan. We found that the level of detail Amtrak has made available for its ARRA projects prevents this analysis, as ARRA project descriptions at this time are too vague or overly broad. Going forward, greater transparency and specificity in Amtrak's proposed use of ARRA funds would enhance both Amtrak's accountability and the public's understanding of how these investments support Amtrak's long-term plans and goals. Amtrak plans to provide additional information to the Department before July on projects that have not yet been approved by FRA.

Conclusion

Amtrak continues to face some risks with regard to its financial performance this year, but has begun to take appropriate measures to mitigate those risks. Further steps can be taken to improve policymakers' understanding of the magnitude of those risks going forward. Amtrak's internal reliance on performance measurement and related requirements in PRIIA provide a critical opportunity to establish, report on, and manage towards meaningful efficiency and related performance measures. These performance measures need to be incorporated in a more detailed strategic plan for the corporation. Finally, Amtrak has begun to quickly implement a plan to invest the \$1.3 billion in capital funds provided by

ARRA but can improve the transparency of its project reporting to enhance public understanding of how these investments relate to and support Amtrak's previously stated priorities.

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.

Calvin L. Scovel III
Inspector General

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