



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

The Inspector General

Office of Inspector General
Washington, DC 20590

November 19, 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 quarterly report presents our assessment of Amtrak’s fiscal year 2009 unaudited financial performance, as well as our review of Amtrak’s fiscal year 2010–2014 Five-Year Financial Plan and fiscal year 2010 annual budget, as required by the Passenger Rail Investment and Improvement Act of 2008 (PRIIA).¹ This report also includes an update on Amtrak’s work to improve services, business processes, and operating results.²

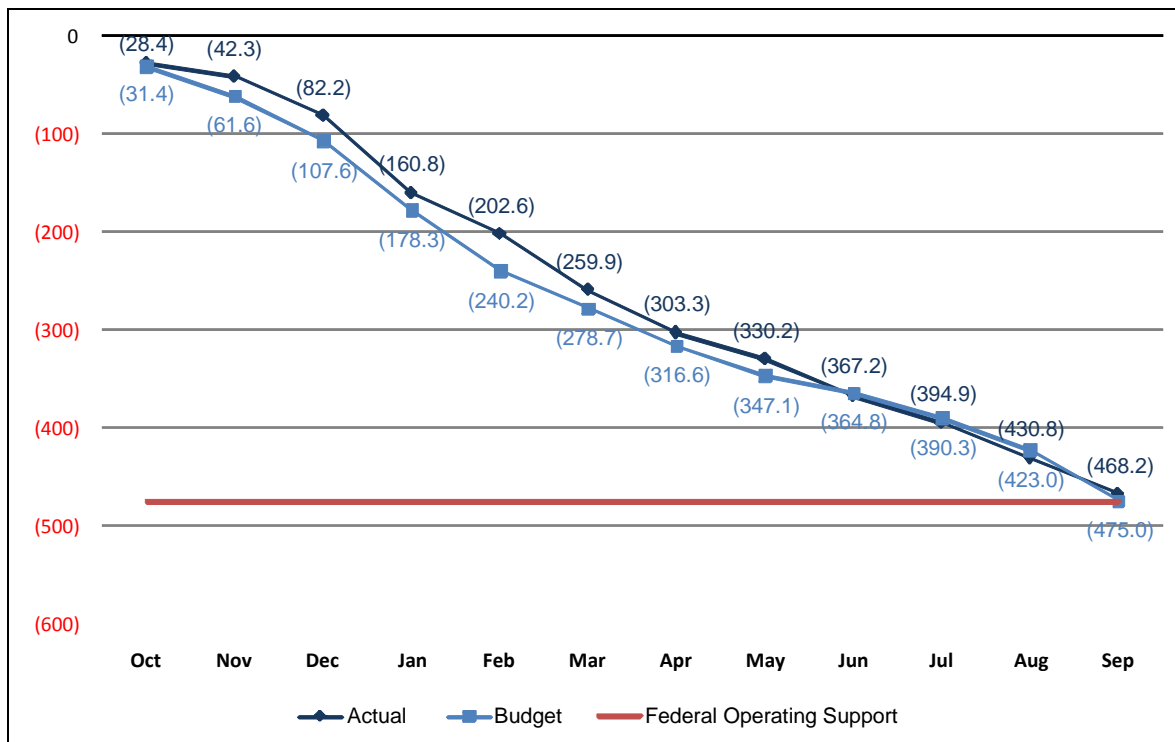
¹ PRIIA authorizes funding for Amtrak through 2013 and as a result, required Amtrak to develop its first 5-year financial plan covering fiscal years 2010–2014. After approval of the plan by its board of directors, staff submitted the plan to the Secretary of the Department of Transportation and the Office of Inspector General (OIG) on October 1, 2009. As required by PRIIA, OIG reviewed the plan to determine if it met the requirements outlined in section 204. Pub. L. No. 110-432 (2008).

² Formally known as Strategic Reform Initiatives.

SUMMARY

Amtrak's fiscal year 2009 operating loss of \$468.2 million was \$6.8 million, or 1.4 percent less than budget (see figure 1).³ This is a \$22.9 million improvement to the forecasted loss we reported last quarter. Amtrak's 5-year financial plan complied with most PRIIA requirements. However, improvement to Amtrak's reporting systems, such as the capacity to report information on key cost drivers for various expenses, will provide more detailed financial data that will bring the plan into full compliance with PRIIA requirements in future years. Finally, as outlined in its recently issued Strategic Guidance, Amtrak's approach regarding tracking and measuring its savings from various operating reform initiatives has evolved to one focused on measuring its overall performance as opposed to tracking the impact of specific reform initiatives on its operations. We believe Amtrak's new approach appears reasonable. However, as we continue to review Amtrak's quarterly performance we will evaluate the effectiveness of this approach.

Figure 1. Amtrak Actual vs. Budget Fiscal Year 2009 Operating Loss (Dollars in Millions)



Source: OIG analysis of Amtrak data

³ 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.

AMTRAK'S FISCAL YEAR 2009 OPERATING LOSS WAS SLIGHTLY LESS THAN EXPECTED

Amtrak's operating loss for fiscal year 2009 decreased relative to the budgeted loss as lower than budgeted revenues were offset by lower than budgeted expenses. Table 1 shows Amtrak's fiscal year 2009 actual operating revenues, expenses, and loss compared to the fiscal year 2009 budget and fiscal year 2008 actual results. As shown below, Amtrak's end-of-year operating loss of \$468.2 million was \$6.8 million less than budget but \$73.9 million more than Amtrak's fiscal year 2008 loss of \$394.3 million. Amtrak's end-of-year cash balance was \$199.1 million. Amtrak's ridership and revenues continued to decline, particularly in the northeast, due to poor economic conditions, high unemployment, lower gasoline prices, and sharp declines in business and leisure travel. Declines in expenses—driven by lower fuel, salaries and wages, and benefits—offset these lower revenues. The impact of these factors on Amtrak's fiscal year 2009 financial performance is discussed below.

Table 1: Amtrak's Fiscal Year 2009 Financial Performance

| | FY 2009 | | FY 2008 | Variance Favorable / (Unfavorable) | |
|--------------------------|-----------|-----------|-----------|---------------------------------------|-----------|
| | Actual | Budget | Actual | Budget | FY 2008 |
| Total Operating Revenues | \$2,321.4 | \$2,547.0 | \$2,425.5 | (\$225.6) | (\$104.1) |
| Total Operating Expenses | \$2,789.6 | \$3,022.0 | \$2,819.8 | \$232.4 | \$30.2 |
| Operating Profit/(Loss) | (\$468.2) | (\$475.0) | (\$394.3) | \$6.8 | (\$73.9) |

Source: OIG analysis of Amtrak data

Operating Revenue. Total passenger and other operating revenue in fiscal year 2009 was \$2.3 billion—\$225.6 million below budget and \$104.1 million less than fiscal year 2008. Amtrak's total ridership in fiscal year 2009 was 27.2 million trips, 9.3 percent below budget and 5.4 percent lower than the prior year. As a result, passenger-related revenue was below budget by \$277.7 million or 13.2 percent. Partially offsetting the lower passenger-related revenues were Amtrak's commuter and other operating revenues, which were above budget by \$52.1 million or 11.5 percent, primarily due to a settlement regarding outstanding fees from New Jersey Transit, increased reimbursable work, and higher than budgeted building rents and other fee receipts.

Acela ticket revenues, which were below budget by \$93.9 million or 18.7 percent, and lower Northeast Regional train ticket revenues, which were below budget by \$75.5 million or 14.9 percent, were major factors in Amtrak's disappointing passenger revenues (see table 2). Unlike the first and second quarters, Amtrak's long distance trains performed below budget in the second half of fiscal year 2009 but to a lesser degree than *Acela* or the regional Northeast Corridor (NEC) trains. Overall in fiscal year 2009, Amtrak's long distance train revenues were lower than budget by \$28.4 million or 6.5 percent. This occurred despite a 0.7 percent increase in ridership compared to fiscal year 2008.

Table 2. Amtrak Ridership and Passenger Ticket Revenues, Actual vs. Budget – Fiscal Year 2009

| | Ridership (in millions) | | | Ticket Revenue (\$ in millions) | | |
|--|----------------------------|-------------|---------------|------------------------------------|------------------|----------------|
| | Actual | Budget | % Diff. | Actual | Budget | % Diff. |
| NEC: [†] | 9.9 | 11.2 | (11.3%) | \$841.7 | \$1,011.7 | (16.8%) |
| • <i>Acela</i> | 3.0 | 3.5 | (14.4%) | \$409.3 | \$503.2 | (18.7%) |
| • <i>Northeast Regional</i> | 6.9 | 7.7 | (9.8%) | \$431.4 | \$506.9 | (14.9%) |
| State-Supported and Other Corridors | 13.0 | 14.4 | (9.5%) | \$346.2 | \$397.0 | (12.8%) |
| Long Distance | 4.2 | 4.3 | (3.3%) | \$411.6 | \$439.9 | (6.5%) |
| Amtrak Total | 27.2 | 29.9 | (9.3%) | \$1,599.5 | \$1,848.6 | (13.5%) |

Source: Amtrak

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

†: Total includes NEC Special Trains, not shown.

Operating Expenses. Total fiscal year 2009 operating expenses were \$2.8 billion—\$232.4 million or 7.7 percent better than budget and \$30.2 million lower than fiscal year 2008. These lower expenses continue to be primarily due to lower salaries, wages, and railroad retirement (RRTA) taxes, as well as lower fuel costs. Offsetting these lower expenses was a \$14.9 million increase in incentive payments to the host railroads for improved on-time performance. In addition, health benefits for agreement employees reversed their trend in the fourth quarter, ending fiscal year 2009 \$0.3 million over budget.

The lower RRTA taxes and fuel costs reflect the continuation of trends from the first through third quarters of fiscal year 2009. Amtrak overestimated the amount of RRTA taxes it was required to pay by \$11.4 million. Additionally, it continued

to save on train fuel costs through the fourth quarter of fiscal year 2009, posting \$182.2 million in savings compared to budget.

AMTRAK'S FIVE-YEAR FINANCIAL PLAN IS A GOOD STARTING POINT FOR MANAGING OPERATIONS FOR THE LONG TERM

Although Amtrak's 5-year plan complied fully with 14 out of 16 PRIIA requirements, we found that additional detailed financial information could bring the plan into full compliance. Prior to the development of its 5-year plan and Strategic Guidance, Amtrak lacked a long-term, integrated approach for managing operations. Now with these management tools in place, Amtrak's fiscal year 2010 budget and plan incorporates the strategic goals of the company and establishes a clear understanding of what it is trying to accomplish with its resources and company activities.

Amtrak's 5-Year Plan Generally Complies with PRIIA

Amtrak's 5-year financial plan complies with the majority of requirements outlined in sections 204(b) and (c) of PRIIA. However, we found that the plan could have provided additional information for two requirements. This additional information, such as key cost drivers for various expenses and Amtrak's strategy for managing its aging workforce, could provide additional insight to key stakeholders in understanding Amtrak operations. Specifically:

- Section 204(b)(3) requirement to report expenditure forecasts for non-passenger operations, in our opinion was not completely fulfilled. The cost data for "Materials; Facilities, Communication, & Office; Advertising and Sales; and Other Non-labor Fees/Services," which accounted for approximately 35 percent of "Total Expenses," was reported on a summary account level. Unlike other cost data forecasts included in the plan, there was no detailed financial data such as the cost drivers for these categories of expenditures.
- Section 204(b)(7) requirement to assess Amtrak's continuing financial stability, as indicated by factors such as anticipated Federal funding of capital and operating costs; an ability to efficiently recruit, retain, and manage the workforce; and an ability to effectively provide passenger rail service, did not include detailed information on Amtrak's workforce planning efforts.

Amtrak officials acknowledged the absence of detailed information regarding these requirements, but stated that their reporting was limited by their financial systems' capabilities. These officials noted that reporting will improve next year and beyond, in large part due to the integration of key operational, financial and

human resources business processes and the replacement of core outdated financial, work management, and other systems as mandated by PRIIA.

Despite these limited reporting capabilities, Amtrak staff did not appropriately address its workforce planning efforts. Section 204(b)(7) requires Amtrak to provide an assessment of continuing financial stability, as indicated by factors such as anticipated Federal funding of capital and operating costs; an ability to efficiently recruit, retain, and manage the workforce; and an ability to effectively provide passenger rail service. The plan only addressed anticipated funding and capital and operating costs. According to Amtrak officials, information on Amtrak staffing was covered in the Salaries and Wages section of the plan, specifically noting that each department was responsible for determining individual staffing levels. However, we believe this information is inconsistent with the spirit of the requirement. As Amtrak states in its 2009 Strategic Guidance, over half of its workforce is over age 50, and a large round of retirements is due within the next 10 years. As a result, planning in order to recruit, retain, and manage its workforce is critical to managing operations.

We believe Amtrak's 5-year planning efforts could lead to improved reporting for Amtrak's budgetary needs in the near future. Amtrak submits its Legislative and Grant request for the upcoming year to Congress each February, outlining the Federal assistance needed for its operations and capital improvements, ahead of the completion of its budget for that year. Since bottom-up budgeting was completed for each of the departments as part of the development of the 5-year financial plan, Amtrak officials believe the fiscal year 2011 Legislative and Grant Request will be a more accurate estimate of Amtrak's budgetary needs. According to Amtrak officials, in previous years, finance staff would apply an inflation factor to the current year's revenue and expense figures to develop the Legislative and Grant request. In preparing future budgets, Amtrak officials stated that finance staff will now only have to make adjustments based on feedback from individual departments on factors that might affect the base numbers for fiscal years 2011–2014. In addition, we believe once Amtrak implements improved financial and operating reporting systems, better data will support the analysis included in its 5-year plan and budget requests.

Amtrak's Fiscal Year 2010 Budget Reflects the Goals Outlined in its Strategic Guidance

Amtrak's fiscal year 2010 budget reflects the strategic goals of the company, as stated in the fiscal year 2009 Strategic Guidance, fiscal year 2010 Legislative and Grant Request, and fiscal year 2010 operating and capital budget manuals.

In 2009, Amtrak’s board of directors and management developed new Strategic Guidance for the company. Similar to a strategic plan, the guidance outlines a number of goals for Amtrak to achieve its mission:

- *Safer*—operate the safest possible passenger railroad.
- *Greener*—increase efficiency, reduce emissions, and make better use of resources.
- *Healthier*—improve the condition, durability, and wholesomeness of the company.
- *Improve financial performance*—improve the bottom line.
- *Improve customer service*—improve the quality and attractiveness of service for customers.
- *Meet national needs*—help with disaster relief and mobilization and help advance national policies and plans.

In addition, Amtrak’s Strategic Guidance outlines a set of criteria, Key Performance Indicators (KPI) that will be used to measure Amtrak’s progress in achieving its goals. KPIs will measure both efficiency and effectiveness and will be linked to one or more goals.

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.

Source: Amtrak 2009 Strategic Guidance

AMTRAK HAS TRANSITIONED FROM OPERATING REFORMS

As reported in our February 2009 quarterly report, Amtrak did not include any new operational reforms as part of its fiscal year 2009 budget. The operational reforms, known as Strategic Reform Initiatives (SRI) were intended to improve Amtrak's operating efficiencies and lower its dependence on Federal operating subsidies. Our previous quarterly reports tracked Amtrak's operating savings as a result of specific initiatives. According to Amtrak officials at the time, a new strategic plan, which was then under development, would provide further guidance on the possibility for future operational reforms.

Amtrak's approach has evolved with regard to tracking and measuring its savings from operational reforms. According to the 5-year plan, although some of the early initiatives were suspended or modified due to unforeseen issues, Amtrak has continued to pursue improvement initiatives tied to the original SRIs. However, Amtrak officials stated that management will not measure the net impact of individual initiatives because it is too difficult to determine the incremental impact of any given initiative or project on one metric. For example, if Amtrak's marketing department invests additional funds to promote the *Acela* and revenues increase for that route, there is no clear way to determine if or what portion of the increase is due to higher gasoline prices, deteriorating airline service, or the marketing campaign. Instead, executives will discuss the results of improvement initiatives and when intended outcomes are not achieved, they will require the relevant departments to take action to address the targeted KPIs. If the departments achieve the KPIs, then the improvement initiatives will be deemed successful. The Strategic Guidance states that KPIs will be used to evaluate management and to ensure that leadership's attention and effort are properly focused.

The 5-year plan includes an analysis of Amtrak's new approach to evaluating the impact of its improvement initiatives on overall performance. Specifically, it includes (1) an analysis of improvement initiatives that are expected to save an estimated \$67.3 million between fiscal year 2010 and 2014 and (2) an analysis of the impact on revenues per seat mile (RASM), cost per seat mile (CASM), and cost recovery ratio (CRR) with the implementation of the improvement initiatives and without. The second analysis shows that the impact of improvement initiatives can have a significant effect on Amtrak's KPIs. Amtrak officials stated that because the 5-year plan will be updated annually, staff will be able to periodically evaluate the targets established for its KPIs and update them along with the savings and investments for the improvement initiatives accordingly.

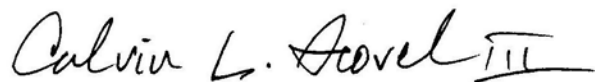
OIG'S ONGOING REVIEW OF AMTRAK'S QUARTERLY PERFORMANCE WILL FOCUS ON KPIS

As a result of Amtrak's shift in focus for measuring its operating reforms, the OIG will take a similar approach. The fiscal year 2009 Appropriations Act requires the OIG to report quarterly to the House and Senate Committees on Appropriations estimates of the savings accrued as a result of all operational reforms instituted by Amtrak. In addition to reporting on Amtrak's financial performance each quarter, we will track and evaluate Amtrak's KPIS. In particular, we will track the efficiency measures of CASM, RASM, and CRR.

Evaluating the KPIS will provide a better measure of Amtrak's focus on improving operating efficiencies and achieving its corporate goals. For example, CRR and CASM are tied to the goal "improving financial performance." Therefore, by improving its ratio of earnings to costs, Amtrak can improve its CRR. Similarly, CASM—which measures the money that is spent to generate Amtrak's basic unit of commerce, the seat mile—can provide a comparison of costs and relate those costs to the number of products generated. Amtrak officials believe that this approach provides more transparency in evaluating their efforts to be a more efficient provider of intercity passenger rail service, as well as improves their efforts to reduce reliance on Federal operating subsidies more than the previous SRIs and the related tracking of operating savings as a result of specific initiatives. This is in part because the SRIs may have inadvertently shifted Amtrak management's focus to the performance of the SRIs themselves and the financial savings achieved, rather than allowing management to retain its focus to the larger goal of becoming a more efficient operator of intercity passenger rail service that is less reliant on Federal operating support. We believe Amtrak's approach to focus on corporate performance metrics and the impact of improvement initiatives on those metrics appears reasonable. However, as we continue to review Amtrak's quarterly performance, we will evaluate the effectiveness of this approach.

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, Program Director, Office of Inspector General for Amtrak, High Speed Rail, and Economic Analysis, at (202) 366-1995.

Sincerely,

A handwritten signature in black ink that reads "Calvin L. Scovel III". The signature is written in a cursive style with a distinct "III" at the end.

Calvin L. Scovel III
Inspector General

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