8. AMTRAK FINANCIAL VIABILITY AND MODERNIZATION

**Issue:** Since 1997, Amtrak has operated under a Federal mandate to become independent of Federal operating assistance while operating a nationwide passenger rail system. The 1997 Amtrak Reform and Accountability Act (ARAA) mandated that Amtrak develop a plan to eliminate its need for Federal operating support after FY 2002. The ARAA also established a mandate for the Office of Inspector General to conduct an annual assessment of Amtrak’s financial needs and condition in each year that Amtrak requests Federal funds.

**Progress in the Last Year:** In FY 2000, Amtrak’s cash loss was $562 million ($121 million worse than projected), largely as a function of longer-than-projected delays in the Acela high-speed rail program. While revenues and ridership improved markedly in 2000, expense growth kept pace, preventing Amtrak from making significant progress on reducing its losses and achieving its glide path to operational self-sufficiency. On October 18, 2000, Amtrak accepted delivery of the first Acela trainset and began Acela Express revenue service on December 11, 2000, between Washington, D.C. and Boston. Finally, Amtrak completed its congressionally mandated long-term capital needs estimate for the south end of the Northeast Corridor, although a comprehensive multi-year capital plan for the entire system is still in development.

**Most Significant Open Recommendations and Issues:** Amtrak’s performance in 2001 will likely be a good indicator of whether or not it will be able to reach its mandate for operational self-sufficiency by 2003. Our recent assessment of Amtrak’s business plan concluded that if no corrective actions were taken, Amtrak’s cash loss would be about $1.4 billion more than it projected over the 5-year period 2000 through 2004. Amtrak’s performance in 2001 and beyond will depend heavily on Amtrak’s ability to close a $737 million gap in savings and revenues, which Amtrak pledged to achieve through undefined management actions; and deliver and generate revenues from all 20 trainsets planned for high-speed service in the Northeast Corridor. The bottom line is Amtrak’s cash losses must drop by an average of nearly $100 million each year for Amtrak to reach operating self-sufficiency in 2003.

- **Implementing High-Speed Rail.** In FY 2000, Amtrak experienced an additional 3 months of delays in the start-up of Acela Express, which had a negative impact on Amtrak’s financial performance. Amtrak must strictly adhere to its schedule for bringing the 20 new trainsets on line and fully implementing service in order to avoid any further revenue impacts in 2001. The delayed implementation will negatively affect revenues in 2001, but may be offset if aviation delays continue to plague the Northeast. Amtrak must also be open to the possibility of adjusting fares and schedules to maximize revenues. The success of high-speed rail in the Northeast Corridor is not only
important to Amtrak’s financial improvement, but will serve as a model for other proposed high-speed corridors around the country.

- **Filling Business Plan Gaps.** In addition to reliance on revenues from its Northeast Corridor high-speed service, Amtrak’s business plan projects it will reach operating self-sufficiency largely through $737 million in undefined management actions. In essence, these undefined actions represent the gap between the cash loss improvements Amtrak needs and what it expects to get from actions it has already identified. If Amtrak’s 2001 business plan does not fully define tangible, supportable, and feasible actions to fill this gap, we strongly doubt that Amtrak will be able to achieve its mandate by 2003.

- **Eliminating Capital Funding Shortfall.** For the past 2 years, we have projected that Amtrak would face serious capital funding shortfalls beginning in 2001. Our predictions have come true. For all practical purposes, Amtrak's $2.2 billion in Taxpayer Relief Act (TRA) capital funds have been obligated, borrowed or spent, leaving only the annual Federal appropriation to cover Amtrak's operating losses and capital program. In 2001, assuming Amtrak’s cash losses are no higher than it projects, Amtrak would need another $385 million in addition to its 2001 appropriation in order to:
  - meet all minimum capital needs including mandatory debt repayment and environmental obligations (Amtrak faces an expected shortfall of $91 million in this area alone in 2001);
  - continue funding for key projects in progress, including many revenue-producing and expense-saving projects that support the self-sufficiency glide path; and
  - fulfill existing commitments to states for corridor development projects.

However, even an additional $385 million would not enable Amtrak to invest in new projects, including the development of additional high-speed corridor projects. Amtrak could not begin to address these corridor needs without a significant additional funding mechanism.

Despite expected shortfalls, Amtrak has chosen to follow an investment strategy of funding projects with expected high rates of return at the expense of some minimum infrastructure and equipment needs. If Amtrak continues to employ this strategy, in the very near future it will begin to see infrastructure breakdowns that will compromise the high quality, reliable service necessary to reach Amtrak’s revenue and ridership goals. In our September 2000 assessment report, we recommended that Amtrak reprogram any authorized, but unobligated, TRA funds that were approved for projects outside minimum needs. The reprogrammed funds should be used first to satisfy all minimum needs before any remainder is used for non-minimum purposes. In addition, we recommended that the Amtrak Board withhold future approval for any
other than minimum need capital projects and that Amtrak management prepare a long-term capital plan that identifies all capital needs, their costs, their timing and their priority.

- **Funding Long-Term Capital Needs.** In the long term, Amtrak’s ability to make critical improvements in the Northeast Corridor, as well as invest in new services to sustain and improve its operating revenues, will depend on its ability to obtain a significant and sustained capital funding source. One option proposed in the last Congress and passed by the House was the High-Speed Rail Investment Act (HSRIA), which would make $10 billion available over 10 years through the sale of bonds for development of high-speed corridors around the country. While such an instrument would solve the challenge of obtaining a sustained long-term funding source, it will be important that any proposed bill provide for sufficient Federal oversight of Amtrak’s spending of the bond proceeds. Eliminating this oversight would be tantamount to handing Amtrak a blank check. In addition, if Congress decides that something similar to HSRIA is an appropriate vehicle for addressing Amtrak’s capital requirements in the Northeast and other high-speed corridors, continuation of any bonding authority should be made contingent on Amtrak meeting its operating self-sufficiency mandate as prescribed by law.

It should be noted, however, that Amtrak’s total annual capital requirement will be close to $1.5 billion for developing new corridors, addressing general capital needs, and beginning to address a backlog of needs in the Northeast Corridor. Even if some version of HSRIA were to be reconsidered in the next Congress, Amtrak would still need an additional $500 million in annual capital appropriations.

The backlog of needs in the Northeast Corridor includes almost $900 million in critical fire-safety improvements in the tunnels beneath Penn Station-New York (see page 25, Surface Transportation Safety). A number of options are available for funding these improvements, including Federal appropriations or an instrument similar to HSRIA. Whatever option is selected, it is essential that funds be specifically earmarked for fire-safety needs in the tunnels to ensure that they are not diverted for another purpose.

**Key OIG Contact:** Mark R. Dayton, Deputy Assistant Inspector General for Competition, Economic, Rail, and Special Programs, 202-366-9970.
8. **Amtrak Financial Viability and Modernization**

<table>
<thead>
<tr>
<th>Dark Grey = Top Priority Task for 2001</th>
<th>Light Grey = Include in 2001 Top Management Challenges Efforts</th>
<th>White = Sufficiently Resolved to be Dropped from Management Challenges Efforts</th>
<th>First Year Issue Raised in OIG Management Challenges Report</th>
<th>Was Significant Progress made in last year?</th>
</tr>
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<tbody>
<tr>
<td>Identify tangible, realistic, and measurable actions to fill the undefined management actions and projected revenue increases and cost reductions at risk of not being achieved in Amtrak’s Strategic Business Plan.</td>
<td>1999</td>
<td>N</td>
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<td>Move with prudent speed to initiate and fully ramp up Acela Express and Acela Regional service between Boston, New York, and Washington, D.C. as soon as possible.</td>
<td>1999</td>
<td>Some</td>
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<td>Work with Congress and the Administration to determine an appropriate level of long-term capital funding necessary to sustain a viable railroad and identify the means by which these funds will be provided.</td>
<td>1999</td>
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<td>Develop a long-term capital plan that identifies in a comprehensive manner systemwide capital needs, New Issue</td>
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<td>Ensure that appropriate investment is made in operational reliability and other projects that are necessary to achieve and sustain revenues projected to result from high-speed rail and other key services. Absent approval of significant additional capital funding, this would include reprogramming capital funds not yet spent on non-minimum needs projects and withholding approval for any non-minimum needs projects until minimum needs have been satisfied.</td>
<td>1998</td>
<td>N</td>
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<td>Complete the overdue 20-year capital plan for the south end of the Northeast Corridor.</td>
<td>1999</td>
<td>Y</td>
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