



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

The Inspector General

Office of Inspector General
Washington, DC 20590

July 25, 2013

The Honorable John D. Rockefeller, IV
Chairman
Committee on Commerce, Science, and
Transportation
United States Senate
Washington, DC 20510

The Honorable Bill Shuster
Chairman
Committee on Transportation and
Infrastructure
United States House of Representatives
Washington, DC 20515

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 Tom Latham
Chairman
Subcommittee on Transportation,
Housing and Urban Development, and
Related Agencies
Committee on Appropriations
United States House of Representatives
Washington, DC 20515

Dear Chairmen Rockefeller, Murray, Shuster, and Latham:

This report presents the results of our review of Amtrak's 5-Year Financial Plan for fiscal years 2013 through 2017 (Plan) and annual budget for fiscal year 2013 (Budget). The Passenger Rail Investment and Improvement Act of 2008 (PRIIA)¹ requires us to conduct this review. Overall, we found that Amtrak's Plan addresses most of the requirements outlined in PRIIA, but lacks some required information, most notably regarding the company's continued financial stability and several other performance metrics intended to ensure the railroad is improving its operating efficiency. Our previous assessments also found similar deficiencies in prior Plans. Details of our analysis are included below.

¹ Pub. L. No. 110-432, Div. B (October 16, 2008). PRIIA authorizes funding for Amtrak through 2013, and requires Amtrak to annually issue a 5-year financial plan. OIG reviews each plan to determine if it meets requirements outlined in PRIIA Section 204(b).

AMTRAK'S PLAN LACKS SOME PRIIA-REQUIRED INFORMATION

Amtrak's 2013 Plan lacks comprehensive information on the company's continuing financial stability and enhanced efficiency. Furthermore, unlike the previous plan, this Plan omits several important PRIIA-required metrics—such as debt service costs and equipment reliability statistics—that would demonstrate improvements in the railroad's operating efficiency. Table 1 summarizes the current Plan's compliance in comparison with Amtrak's previous Plan.

Table 1. Fiscal Year 2012 and 2013 Plans' Compliance with PRIIA

PRIIA Requirement	Plan's Compliance	
	2013	2012
Projected revenues, expenditures, cash flow, and ridership	Partial	Full
Operational and capital funding requirements and expenditures and predicted funding sources	Full	Full
Estimates of long- and short-term debt and associated principal and interest payments	Not Compliant	Full
Projected capital and operating requirements, ridership, and revenue for any new passenger service operations or service expansions	Not Compliant	Not Applicable
Capital and operating expenditures for anticipated security needs	Partial	Full
Assessment of Amtrak's continuing financial stability	Partial	Partial
Prior fiscal year and projected operating ratio, cash operating loss, cash operating loss per passenger, and labor productivity statistics on a route, business line, and corporate basis	Partial	Partial
Prior fiscal year and projected costs and savings estimates resulting from reform initiatives	Not Compliant	Partial
Prior fiscal year and projected equipment reliability statistics	Not Compliant	Full
Specific measures that demonstrate measurable improvement year over year in the financial results of Amtrak's operations	Full	Full
A statement describing methods of estimation and significant assumptions	Not Compliant	Full

Source: OIG analysis

The Plan Lacks Information on Amtrak's Financial Stability and Operating Efficiency

PRIIA requires that the Plan include an assessment of Amtrak's continued financial stability, and that one of the factors to consider is the company's ability to efficiently recruit, retain, and manage its workforce. However, the Plan does not contain an analysis of Amtrak's human capital strategies. In addition, the Plan lacks information on Amtrak's labor productivity. Specifically, PRIIA mandates that the Plan report "labor productivity statistics on a route, business line, and corporate basis."² The Plan reflects this information by route but does not show an assessment of labor productivity by business line or for the company as a whole as PRIIA requires.

The Plan also lacks required information on projected ridership and revenue, as well as operating and capital expenditures associated with any new or expanded passenger rail service. In fiscal year 2013, Amtrak expanded its Washington to Richmond service to Norfolk, Virginia. While it provides current and projected ridership, revenue, capital expenditure, and operating expense data for the entire route, the Plan does not specify the amounts attributable exclusively to the new Richmond to Norfolk extension as required by PRIIA. This data is essential to Amtrak's efforts to meet increasing passenger demand while being judicious in the resources it deploys to pursue these opportunities.

In addition, the Plan lacks certain PRIIA-required information that was reported in the previous Plan—most notably a comprehensive assessment of the company's debt service costs and equipment reliability statistics. The fiscal year 2012 through 2016 Financial Plan provided principle and interest payment projections for each of the 5 years covered by that plan. The current Plan, however, does not contain a projection of the company's principle and interest payments for fiscal years 2013 through 2017. Rather, it focuses on the reduction in future debt service obligations Amtrak will achieve if it is able to exercise the early buy-out options on its fleet leases. The Plan's omission of equipment reliability statistics is also significant. Amtrak is implementing a new fleet planning approach that focuses on fleet needs dictated by the particular market served. However, to effectively implement this new fleet management strategy, Amtrak management will need accurate fleet reliability data.

² Section 204(b)(14)

The Plan Lacks a Statement of Estimates and Assumptions

The Plan provides a substantial amount of information on Amtrak's current and projected financial results, but does not contain the PRIIA-required statement describing the methods Amtrak used to develop its financial and performance estimates and projections. While the Plan identifies several risks to Amtrak's ongoing financial stability, it does not explain the extent to which these risks might impact the projections included in the Plan. For example, even though the Plan highlights the impending implementation of PRIIA's Section 209³ as a key financial risk, it makes no adjustments in its revenue and expense projections to reflect this risk. When PRIIA Section 209 goes into effect in October 2013, the amounts States must compensate Amtrak for operating short-distance trains will likely increase. Only two States, however, have so far committed to continuing their services. Still, the Plan projects that Amtrak's State-supported service revenue, as a percentage of total Amtrak passenger revenue, will increase from 8 percent in fiscal year 2013 to 11 percent in fiscal year 2017—a significant assumption that Amtrak should clarify in its methodology.

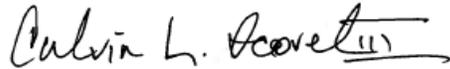
AMTRAK'S ANNUAL BUDGET ALIGNS WITH ITS FINANCIAL PLAN

Amtrak's annual Budget is in line with its Five-Year Financial Plan for fiscal year 2013. The Budget provides details on Amtrak's ongoing efforts to improve its financial performance and overall business results with initiatives that will reduce the company's reliance on Federal operating support. In the past, these initiatives have included reductions in Amtrak's non-union workforce and in professional service fees incurred to retain consultants and external legal counsel. As a result, Amtrak's operating loss declined from \$446 million to \$362 million (19 percent) between fiscal years 2011 and 2012. However, the company projects that the loss will increase 15 percent—from \$362 million to \$415 million—in fiscal year 2013, largely due to unexpected costs resulting from Superstorm Sandy. Amtrak estimates the direct operating repair costs associated with the storm at approximately \$66 million, but the costs could increase over time.

³ Section 209 of PRIIA directs the States and Amtrak to “develop and implement a single, nationwide standardized methodology for establishing and allocating the operating and capital costs among the States and Amtrak” related to trains that operate on corridors of 750 miles or less.

We are transmitting copies of this letter to the Ranking Members of your committees. If you have any questions, please contact me at (202) 366-1959, or Mitchell Behm, Assistant Inspector General for Rail, Maritime, Pipelines, and Hazmat Transport and Economic Analysis, at (202) 366-9970.

Sincerely,

Handwritten signature of Calvin L. Scovel III in black ink. The signature is written in a cursive style and includes the name "Calvin L. Scovel" followed by the Roman numeral "III" and a horizontal line.

Calvin L. Scovel III
Inspector General

cc: Ranking Member Thune, Committee on Commerce, Science, and
Transportation, United States Senate

Ranking Member Rahall, Committee on Transportation and Infrastructure,
United States House of Representatives

Ranking Member Collins, Subcommittee on Transportation, Housing and
Urban Development, and Related Agencies, Committee on Appropriations,
United States Senate

Ranking Member Pastor, Subcommittee on Transportation, Housing and
Urban Development, and Related Agencies, Committee on Appropriations,
United States House of Representatives