REPORT TO THE SUBCOMMITTEE
ON TRANSPORTATION
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES

Information On Loan Guarantee Programs Under The Rail Passenger Service Act And The Regional Rail Reorganization Act

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

FEB. 26, 1975

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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The Honorable John J. McFall
Chairman, Subcommittee on
Transportation
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

This is our report covering the questions raised in your June 5, 1974, request relating to the Department of Transportation's loan guarantee programs administered under the Rail Passenger Service Act of 1970, as amended, and the Regional Rail Reorganization Act of 1973. Your letter expressed concern about the impact that the loan guarantee programs will have on future operating deficits and Federal grant requirements of the loan guarantee recipients.

As of October 1974, no Federal loan guarantees had been issued by the Department under the 1973 act. Under the amended 1970 act, the National Railroad Passenger Corporation (AMTRAK) had outstanding guaranteed obligations totaling about $256 million as of October 1974. These obligations, comprising loans and "leveraged" leases, are projected to increase to about $425 million by the end of fiscal year 1975.

Information presented in the report starting on page 27 indicates that AMTRAK could not be expected to be in a position to retire its guaranteed debt in the near future. At the time of our review, AMTRAK had no plan for the permanent repayment of its debt. To the contrary, its 5-year (1975-79) financial program envisioned a steadily increasing debt resulting from the financing of new proposed capital improvements totaling about $2 billion for the 5 years. AMTRAK expected its annual operating deficits, without any provision for wage and price increases and certain other anticipated costs, to increase from $238 million for 1975 to $303 million for 1979 and its annual interest costs to grow from $26 million to $129 million during that period. Moreover, in its second supplemental budget request for fiscal year 1975, submitted to the Congress on December 5, 1974, AMTRAK projected that its operating deficit for fiscal year 1975 would climb to an estimated $328 million.

In a recent application to the Department of Transportation for loan guarantees, AMTRAK said that it was a deficit operation and would not be able to meet its guaranteed financial obligations unless the Congress appropriated sufficient funds for that purpose.

It is AMTRAK's practice to finance new rolling stock through federally guaranteed leveraged lease transactions in which AMTRAK purchases rolling stock under a conditional sale agreement and then sells and leases the equipment back from a trustee (lessor) who obtains title to the equipment. The method involves a number of interrelated transactions dealing with assignments of rights and obligations between various parties and the placement of interim and permanent financing. The interest rates obtained under the financing arrangements are major factors in determining the lease rates AMTRAK has to pay for the equipment.

AMTRAK has stated that leveraged leases help to keep its financing costs down because the implicit financing costs for leveraged leases would be less than the cost of direct borrowings needed to purchase the equipment outright. It seems to us, however, that, in addition to the financing costs incurred by AMTRAK as part of its lease payments and as a result of its direct borrowings from the Federal Financing Bank to finance the principal portion of the lease payments, there are other consequences from an overall Federal Government standpoint that have an important bearing on the total financial ramifications of these transactions.

Two major considerations central to AMTRAK's leveraged lease transactions are the tax benefits obtained by a trustee through equipment depreciation writeoffs and through an investment tax credit permitted under Federal Law. AMTRAK is entitled to these tax benefits as a for-profit corporation, but due to its operating deficit position, it cannot benefit directly from such tax allowances. To the extent that a trustee improves his overall tax situation through these allowances, the Federal Government's tax revenue can be reduced. Such loss may outweigh any corporate benefits to AMTRAK from reduced financing costs.

According to AMTRAK, however, if it did not use this method of financing and if similar tax benefits were available to potential lessors from other sources, as AMTRAK believes to be the case, the impact on the Federal Government's overall revenues would be about the same, but Federal costs, in the form of higher grants to AMTRAK, would increase.

The Subcommittee may wish to consider whether leveraged leases are an acceptable method of financing new rolling stock for AMTRAK.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Contents

	Page
INTRODUCTION	1
SCOPE OF REVIEW	1
UNITED STATES RAILWAY ASSOCIATION	1
GUARANTEED DIRECT LOANS TO AMTRAK	2
GUARANTEES UNDER LEVERAGED LEASES	3
Matter for the Subcommittee's consideration	5
PERTINENT STATUTORY PROVISIONS FOR LOAN GUARANTEE PROGRAMS (QUESTION 1)	5
Rail Passenger Service Act of 1970, as amended	5
Regional Rail Reorganization Act of 1973	7
GENERAL PROCESSES LEADING TO FEDERAL GUARANTEES OF AMTRAK OBLIGATIONS (QUESTIONS 2, 4, AND 10)	9
Departmental review of budget and long-range planning	9
Review and approval by Interstate Commerce Commission	10
Application submitted to Federal Railroad Administration	10
Application review and approval	11
Drawdowns on direct loans	12
TERMS AND CONDITIONS ATTACHED TO LOAN GUARANTEES (QUESTION 3)	13
MEANS USED TO DETERMINE ADHERENCE TO LOAN GUARANTEE TERMS AND CONDITIONS (QUESTION 5)	17
REQUIREMENTS FOR REGULAR REPORTING ON THE STATUS OR PROGRESS OF THE LOAN GUARANTEE PROGRAMS (QUESTION 6)	19
REQUIREMENTS FOR AMTRAK TO NOTIFY THE DEPARTMENT AS TO POTENTIAL FOR DEFAULT UNDER A GUARANTEED OBLIGATION (QUESTION 7)	20

Page

ACCOUNTING FOR LOAN PROCEEDS, FEDERAL GRANTS, AND OTHER FUNDS (QUESTION 8) 21

PENALTIES FOR NONCOMPLIANCE WITH LOAN PROGRAM REGULATIONS AND PROCEDURES (QUESTION 9) 22

ASSETS ACQUIRED BY THE GOVERNMENT IN EVENT OF LOAN DEFAULT (QUESTION 11) 22

NUMBER AND AMOUNTS OF AMTRAK's GUARANTEED OBLIGATIONS (QUESTIONS 12 AND 18) 23

SOURCE OF FUNDS FOR PAYMENTS OF GUARANTEED OBLIGATIONS (QUESTION 13) 25

INTEREST RATES AND PERIODS APPLICABLE TO FEDERAL GUARANTEES UNDER LOAN CREDIT AGREEMENTS (QUESTION 14) 26

AMTRAK's LOAN REPAYMENT PROSPECTS UNDER VARIOUS STATED ASSUMPTIONS (QUESTION 15) 27

Assumption A--No more Federal grants beyond those contained in FY 1975 budget 29

Assumption B--Federal grants of $100 million a year through FY 1980 35

Assumption C--Current grant amounts authorized for AMTRAK and loan guarantee amounts authorized in Regional Rail Reorganization Act represent the full extent of Federal funding involvement 37

AMTRAK's CAPITAL IMPROVEMENT PROGRAMS FOR 1975 AND 1976 BUDGETS (QUESTION 16) 40

OPERATING TRENDS ASSUMED IN AMTRAK's 1975 BUDGET (QUESTION 17) 42

Page

APPENDIX

I Letter dated June 5, 1974, from the Chairman, Subcommittee on Transportation, House Committee on Appropriations, to the General Accounting Office 45

II Procedures for submission of loan guarantee applications under the Rail Passenger Service Act of 1970, as amended--Excerpt from Code of Federal Regulations 48

III AMTRAK notes (October 1974) and Department of Transportation terms and conditions attached to the notes 54

IV Basic assumptions applicable to computations included in report discussion of AMTRAK's loan repayment prospects 78

ABBREVIATIONS

AMTRAK National Railroad Passenger Corporation

INFORMATION ON LOAN GUARANTEE PROGRAMS UNDER THE RAIL PASSENGER SERVICE ACT OF 1970, AS AMENDED, AND THE REGIONAL RAIL REORGANIZATION ACT OF 1973

INTRODUCTION

The Rail Passenger Service Act of 1970 (45 U.S.C. 501) created the National Railroad Passenger Corporation (AMTRAK) as a private, for-profit corporation to operate and revitalize intercity rail passenger service in the United States. Section 602 of the act authorizes the Secretary of Transportation to guarantee the principal and interest on obligations issued by AMTRAK to finance capital improvements.

The Regional Rail Reorganization Act of 1973 (45 U.S.C. 701) created the United States Railway Association as a nonprofit Government corporation to finance the establishment of a reorganized rail service system in the Northeast and Midwest. Section 210(c) of the act states that, when requested by the Association, the Secretary of Transportation shall guarantee the principal and interest on all obligations issued by the Association to carry out the purposes of the act.

SCOPE OF REVIEW

We made our review at the headquarters of the Department of Transportation, AMTRAK, and the Association in Washington, D.C. We reviewed the basic legislation authorizing the guaranteed loan programs and related regulations, procedures, and practices of the Department. We also examined pertinent records, files, and documents and discussed related matters with responsible officials of the Department, AMTRAK, and the Association.

UNITED STATES RAILWAY ASSOCIATION

As of October 31, 1974, no Federal guarantees of loans had been issued under the Regional Rail Reorganization Act of 1973. Although some regulations were issued by the Department and the Association covering financial assistance to authorized recipients under the act, Department and Association officials said that the general processes under which applications for Federal guarantees would be made and approved were still unstructured and evolving. The primary basis for reviewing applications for guarantees will be the merits of the proposed uses of funds to be provided by the guaranteed obligations.

As in the case of AMTRAK, the Secretary of Transportation has delegated the loan guarantee function to the Administrator, Federal Railroad Administration. Such guarantees will require the concurrence of the Department's General Counsel and the Deputy Under Secretary for Budget and Program Review.

According to Department and Association officials, formal terms and conditions have not been established for Federal loan guarantees under the act and a policy dealing with the default issue and other loan guarantee matters will not be established until the details of loan financing under the act have been worked out.

GUARANTEED DIRECT LOANS TO AMTRAK

To meet its capital needs, AMTRAK originally entered into revolving credit agreements with private banks and periodically drew down against the total amount of credit available under the agreements. AMTRAK issued a separate note for the amount of each drawdown. The Department issued an overall guarantee for all obligations to be incurred by AMTRAK under the agreements and individually guaranteed each note issued.

In July 1974 AMTRAK established a line of credit with the Federal Financing Bank, a Government instrumentality, through which it refinanced its existing debt and undertook additional capital improvements. At October 31, 1974, AMTRAK had two outstanding notes with the bank, both of which were guaranteed by the Department. One note, due on or before September 30, 1975, was issued to refinance a previous 91-day note AMTRAK had issued to the bank. The second note, a 91-day note renewable to September 30, 1975, was issued to finance additional capital needs.

Within the total amount of the 91-day note, the Department establishes a maximum amount that can be outstanding at any one time and AMTRAK can draw down funds as needed so long as they do not exceed the authorized maximum. As AMTRAK's needs for additional loan funds increase beyond the established maximum, AMTRAK requests the Department to increase the aggregate amount authorized. AMTRAK estimates that the outstanding guaranteed loans with the bank at June 30, 1975, will amount to about $304 million.

GUARANTEES UNDER LEVERAGED LEASES

According to AMTRAK, the "leveraged" lease is the primary method by which it has financed the acquisition of new rolling stock with the use of Federal guarantees. AMTRAK's guaranteed obligations under leveraged leases will amount to about $121 million at June 30, 1975. Under this method, AMTRAK purchases equipment from a builder under a conditional sale agreement. Upon delivery of the equipment, AMTRAK makes a downpayment of about 27 percent of the purchase price and agrees to pay the balance (conditional sale indebtedness) in installments. Concurrent with each closing, the builder assigns the conditional sale indebtedness (approximately 73 percent) to an interim lender. At this point, AMTRAK holds title to the equipment.

Prior to placing the equipment in service, AMTRAK sells the equipment to a trustee (lessor) under the terms of a sale and leaseback agreement and immediately leases it back under the terms of an equipment lease.

The trustee gains title to the equipment, reimburses AMTRAK for the downpayment, and agrees to pay the conditional sale indebtedness although AMTRAK remains liable to the interim lender for the discharge of all its obligations under the conditional sale agreement to the extent such obligations are not discharged by the trustee under the provisions of the sale and leaseback agreement.

The equipment lease between AMTRAK and the trustee is for 15 years and provides AMTRAK an option to purchase the equipment at the fair market value at the end of the lease term. Additionally, AMTRAK has options to renew the equipment lease at fair rental value for four additional terms of 1 year each.

The interim lender, the trustee, and the Department (with the approval of the Secretary of the Treasury) enter into a guaranty agreement under which the Department agrees to unconditionally guarantee prompt payment by AMTRAK of (1) the conditional sale indebtedness, plus accrued interest, and (2) the lease obligations, less any payments made toward the conditional sale indebtedness. Should AMTRAK default and the Department make payment of the conditional sale indebtedness and lease obligations, the Department is assigned the interim lender's and trustee's rights, titles, and interests in the equipment.

The final step is the assignment of the interim debt to institutional or other long-term lenders. The interim lender assigns the conditional sale indebtedness, along with the Government guarantee, to an agent for the long-term lenders. The long-term interest rate obtained is the final factor in determining the lease rate. The Federal Financing Bank is the long-term lender under two of AMTRAK's leveraged lease transactions.

AMTRAK has stated that leveraged leases help to keep its financing costs down because the implicit financing costs for leveraged leases would be less than the cost of direct borrowings needed to purchase the equipment outright. It seems to us, however, that, in addition to the financing costs incurred by AMTRAK as part of its lease payments and as a result of its direct borrowings from the Federal Financing Bank to finance the principal portion of the lease payments, there are other consequences from an overall Federal Government standpoint that have an important bearing on the total financial ramifications of these transactions.

Two major considerations central to AMTRAK's leveraged lease transactions are the tax benefits obtained by a trustee through equipment depreciation writeoffs and through an investment tax credit permitted under Federal law. Since AMTRAK is in an operating deficit position, it cannot benefit directly from such tax allowances. However, to the extent that a trustee improves his overall tax situation through these allowances, the Federal Government's tax revenue can be reduced. Such loss may outweigh any corporate benefits to AMTRAK from reduced financing costs.

AMTRAK pointed out that this method of financing is in accordance with the concept that AMTRAK was created as a for-profit corporation and therefore would be entitled to use its tax benefits. Moreover, AMTRAK believes that the number of institutions which engage in leveraged lease transactions is limited and that transactions with AMTRAK are one of numerous alternatives available to these institutions. AMTRAK believes that, if these institutions did not participate in an AMTRAK transaction, they would engage in other transactions of this type, and therefore the impact on overall Federal tax revenues would be about the same. It is AMTRAK's opinion that, on this basis, the savings realized by AMTRAK through leveraged leasing benefits the Federal Government in the form of reduced grant requirements.

Matter for the Subcommittee's consideration

The Subcommittee may wish to consider whether leveraged leases are an acceptable method of financing new rolling stock for AMTRAK.

PERTINENT STATUTORY PROVISIONS FOR LOAN GUARANTEE PROGRAMS (QUESTION 1)

Rail Passenger Service Act of 1970, as amended

Section 602 of the Rail Passenger Service Act of 1970, as amended (45 U.S.C. 602), authorizes the Secretary of Transportation to guarantee, with the approval of the Secretary of the Treasury, the principal and interest on securities, obligations, or loans issued by AMTRAK to finance:

1. The upgrading of roadbeds.
2. The acquisition of new rolling stock.
3. The rehabilitation of existing rolling stock.
4. Reservation systems.
5. Switch and signal systems.
6. Other capital equipment and facilities necessary for the improvement of rail passenger service.

The 1972 amendments to the act (Public Law 92-316), approved June 22, 1972, restricted the use of loan proceeds to capital expenditures by deleting from section 602 the phrase "and for other corporate purposes" contained in the original act and inserting in its place the phrase "reservation systems, switch and signal systems and other capital equipment and facilities necessary for the improvement of rail passenger service." According to hearings before the Subcommittees of both the House Committee on Interstate and Foreign Commerce and the Senate Committee on Commerce and committee reports on the 1972 amendments, the Congress was concerned that AMTRAK funds, including guaranteed loans, were being used largely for operating expenses and that the hoped-for revitalization of rail passenger service through capital improvement would not be realized.

The amount of guaranteed loans (principal) which may be outstanding at any time is limited to $900 million and is authorized as follows.

Authorizing legislation	Effective date of authorization	Amount Increase	Amount Total
		(000,000 omitted)	
Rail Passenger Service Act, approved Oct. 30, 1970	Oct. 30, 1970	$ -	$100
Rail Passenger Service Act amendments, approved June 22, 1972	June 22, 1972	$ 50	$150
	July 1, 1973	$ 50	$200
AMTRAK Improvement Act of 1973, approved Nov. 3, 1973	Nov. 3, 1973	$300	$500
AMTRAK Improvement Act of 1974, approved Oct. 28, 1974	Oct. 28, 1974	$400	$900

The Secretary of Transportation is authorized to prescribe terms and conditions for loan guarantees. However, the maturity period of such loans may not exceed 20 years, and the Secretary of Transportation may not guarantee obligations if the income therefrom is not includable as taxable income.

To meet loan guarantee obligations in the event of default, the Secretary of Transportation is authorized appropriations as may be necessary. When appropriations prove insufficient to honor obligations, the Secretary of Transportation is authorized to borrow funds from the Secretary of the Treasury and to repay such funds from subsequent appropriations.

The Secretary of Transportation is authorized to issue general guidelines designed to assist AMTRAK in formulating capital and budgetary plans. Any request by AMTRAK for the guarantee of a loan which has been approved by AMTRAK's board of directors must be approved by the Secretary of Transportation if, in his discretion, such request falls within the approved guidelines. This provision was added by the 1974 amendments to the act (Public Law 93-496, approved Oct. 28, 1974) and, according to Senate Report 93-1015, dated July 16, 1974, on the 1974 amendments, was intended to allow for a thorough and competent planning process, rather than the process currently used. According to the report, the Committee was concerned that the existing provisions of section 602 may, in effect, derogate from the proper role of AMTRAK's board of directors by permitting the Secretary of Transportation to reach decisions on capital expenditures proposed by AMTRAK after major decisions on such expenditures had already been made by the board of directors. (The previous process is explained starting on p. 9.)

Regional Rail Reorganization Act of 1973

Section 210(c) of the Regional Rail Reorganization Act of 1973 (45 U.S.C. 720(c)) requires the Secretary of Transportation to guarantee the principal and interest on bonds, debentures, trust certificates, securities, or other obligations which are issued by the Association to assist in financing the establishment of a reorganized rail service system in the Midwest and Northeast, and for other purposes, and which the Association requests be guaranteed.

From the proceeds of such obligations, the Association may make loans to:

1. The Consolidated Rail Corporation, AMTRAK, and other railroads in the region to assist in implementing the final system plan.

2. States or local or regional transportation authorities to assist in acquiring and modernizing regional rail properties.

3. Any railroad which connects with a railroad in reorganization and is in need of financial assistance to avoid bankruptcy reorganization proceedings.

Such obligations may also finance agreements with railroads in reorganization in the region (or leased, operated, or controlled by such railroads) for acquiring, maintaining, or improving railroad facilities and equipment necessary to improve property that will be in the final system plan.

The Association also may provide loan guarantees to assist States or local or regional transportation authorities in modernizing acquired regional rail properties.

Except as stated below, the amount of guaranteed obligations issued by the Association which may be outstanding at any time is limited to $1.5 billion, of which not more than $1 billion may be issued to the Corporation. Of the $1 billion issued to the Corporation, not less than $500 million is to be available solely for rehabilitating and modernizing rail properties acquired by the Corporation. The Association may have outstanding additional guaranteed obligations, not to exceed $150 million, to provide assistance to railroads in reorganization in the region (or leased, operated, or controlled by such railroads) for acquiring, maintaining, or improving properties to be included in the final system plan. The Corporation is required to assume such obligations, and, when the properties are ultimately transferred to it under the final system plan, the Corporation is not required to compensate the railroads for that portion of the property value funded by such obligations.

The Association is authorized to establish the maturity dates and interest rates for the obligations it issues, subject to the approval of the Secretary of the Treasury.

To discharge his guarantee obligations, the Secretary of Transportation is authorized appropriations as are necessary and may borrow funds from the Secretary of the Treasury when appropriations prove insufficient to discharge obligations.

GENERAL PROCESSES LEADING TO FEDERAL GUARANTEES OF AMTRAK OBLIGATIONS (QUESTIONS 2, 4, AND 10)

The following information on processing and approving AMTRAK's requests for Federal guarantees of AMTRAK obligations was obtained from Department officials and from our review of Department files.

Departmental review of budget and long-range planning

Each year AMTRAK submits to the Department and the Congress a multiyear financial program (budget) consisting of operating plans and capital acquisition plans approved by AMTRAK's board of directors of which the Secretary of Transportation is a member. As part of its review of AMTRAK's budget and long-range planning, the Department--in particular the office of the Deputy Under Secretary for Budget and Program Review--considers the expected level of loan guarantees in the ensuing fiscal year and the intended use of the loan proceeds. AMTRAK's capital acquisition plans are reviewed for conformity to departmental policy, and a more extensive review is made of any capital items on which policy issues arise. In the case of turbotrains included in AMTRAK's fiscal year 1975 capital plans, for example, the Office of Economics of the Federal Railroad Administration

--compared capital and operating costs with those of alternative equipment,

--projected fares and their effect on cash flow,

--simulated running time between points,

--compared size of premium-priced market with lower fare market segments, and

--compared availability of alternative equipment.

After the Department completes its review of AMTRAK's financial program, the Secretary expresses his approval or disagreement with all or part of AMTRAK's capital plans. Therefore, when an application is submitted for a guarantee of an AMTRAK loan, the Department has already reviewed the level and general purposes of loan guarantees for the fiscal year.

Review and approval by Interstate Commerce Commission

As a class I railroad, AMTRAK is required by section 20a of the Interstate Commerce Act (49 U.S.C. 20a) to obtain authorization from the Commission to issue securities. A Commission official said that this requirement applied to loans obtained by AMTRAK under credit agreements with banks but did not apply to leveraged leases because the Commission's definition of "securities" excludes noteless borrowings. After assuring itself of the legality, appropriateness, and necessity of the loan, the Commission authorizes AMTRAK to issue notes in amounts not exceeding the total amount requested.

Application submitted to
Federal Railroad Administration

After receiving the Commission's approval, AMTRAK submits an application for loan guarantees to the Federal Railroad Administrator, who has been delegated the authority by the Secretary to guarantee AMTRAK obligations.

Procedures for submitting loan guarantee applications are contained in part 251 of title 49 of the Code of Federal Regulations (see app. II) and require, among other things, that an application include:

1. A brief description of the loan and its purpose and a summary statement of financial obligations to, or claims against, the United States.

2. Information as to the lender's organization and relationships to the applicant and the circumstances and negotiations leading to the agreement by the lender to make the proposed loan.

3. Information showing that the applicant has endeavored to obtain a loan upon reasonable terms without a guarantee but was not able to do so.

4. Twenty-one exhibits showing various organizational and financial data pertaining to AMTRAK operations and the proposed loan.

5. Certifications as to the validity of the transaction and of the information provided in the exhibits.

The Administrator can waive or modify the application requirements and has done so on various occasions. For example, he has waived certain financial information requirements for guarantees of equipment lease obligations. Also, in July 1974 AMTRAK issued a $200 million note to the Federal Financing Bank to establish a new line of loan credit. This credit arrangement enabled AMTRAK to refinance its borrowings under existing agreements with two private banks. The Administrator waived all application requirements in this instance to expedite the arrangement which provided for lower interest rates. The Administrator noted that the new loan arrangement would be subject to the same terms and conditions as the existing agreements and that the Federal Financing Bank was an instrumentality of the Government. In October 1974 AMTRAK issued two guaranteed notes to the Federal Financing Bank--one for $180 million to refinance its obligations under the July 1974 note and the other for $100 million to establish additional loan credit. In this instance, the Administrator required AMTRAK to file its loan guarantee application in accordance with the provisions of the Federal regulations.

Application review and approval

The Office of Chief Counsel, Federal Railroad Administration, reviews AMTRAK's application for compliance with statutes and regulations and, with the assistance of the Office of Economics, insures that the proposed equipment acquisitions conform with approved capital plans. A letter requesting approval by the Secretary of the Treasury is prepared and transmitted, along with the application, to the Department's General Counsel and the Under Secretary. After review and approval of the application and underlying legal documents at the Department level, the application is submitted to the Secretary of the Treasury for approval.

After obtaining the Secretary of the Treasury's approval, the Administrator executes the Federal guarantee at the closing of the transaction. When the source of a loan is a private lender, as for leveraged leases, an opinion by the Department's General Counsel concerning the validity of the guarantee is required at the closing. When the source of the loan is the Federal Financing Bank, the General Counsel's opinion is not required.

Drawdowns on direct loans

On October 11, 1974, AMTRAK issued a guaranteed note for $180 million, due on or before September 30, 1975, to the Federal Financing Bank to refinance most of its obligations under a 91-day note issued on July 9, 1974. AMTRAK also established a new $100 million line of credit with a 91-day guaranteed note issued to the Federal Financing Bank. This note is renewable for successive 91-day periods until September 30, 1975.

Within the $100 million line of credit, the Administrator has authorized a maximum aggregate amount that can be advanced and made available for AMTRAK's use. As additional funds are needed, AMTRAK can request the Administrator to increase the maximum amount that may be advanced. AMTRAK is required to include in the request to the Administrator an explanation of the proposed use of the funds and any variations from its capital plan. After the request is reviewed and approved, AMTRAK can draw down additional funds from the bank as needed to the extent of the new aggregate amount authorized.

The 1974 amendments to the AMTRAK act, approved October 28, 1974, provide for certain changes related to the loan guarantee process. These amendments had not been implemented by the Department at the time of our review. (See p. 7.) Under these amendments, the Department is authorized to issue general guidelines designed to assist AMTRAK in formulating capital and budgetary plans. The Department must approve AMTRAK's request for the guarantee of a loan that has been approved by AMTRAK's board of directors if, in the Department's discretion, such request falls within the established guidelines.

TERMS AND CONDITIONS ATTACHED TO LOAN GUARANTEES (QUESTION 3)

Under the Rail Passenger Service Act of 1970, as amended, the Department has issued guarantees covering AMTRAK's obligations under credit agreements for direct borrowings and under lease equipment acquisitions agreements. However, the Department has attached formal terms and conditions only to its guarantees of credit agreement borrowings. Beginning in November 1971, AMTRAK has entered into six credit agreements covered by Federal guarantees, only two of which were active as of October 31, 1974. The following terms and conditions (see app. III), attached to the current agreements which AMTRAK entered into with the Federal Financing Bank in October 1974, were imposed on AMTRAK.

1. <u>Deposit and disposition of loan guarantee funds</u>

   --Deposit guaranteed loan funds in a separate account.

   --Not commingle loan funds with other AMTRAK funds.

   --Use loan funds solely for purposes and in amounts specified in its request as approved by the Department and for purposes permitted by section 602 of the act.

2. <u>Administrative and fiscal requirement</u>

   --Maintain an effective accounting system and related internal controls and appropriate records and documents to insure adequate control and documentation of guaranteed loan fund expenditures.

--Obtain the right to audit, or to receive cost evidence on, any cost reimbursement contract of $100,000 or more and to conduct such audits of cost reimbursement contracts as it may have a right to audit.

3. Retention of records and audit

--Maintain financial records and documentation for a minimum of 3 years.

--Provide the Department with access to such records for audit purposes.

4. Contracts (with certain exceptions)

--Award all contracts funded through guaranteed loans on the basis of a standard selection process approved by the board of directors.

--Award contracts amounting to more than $50,000 on the basis of a standard competitive selection process to the maximum extent possible.

--Obtain board of directors' approval for contracts amounting to more than $100,000.

5. Restrictions on use of Federal employees

--Not allow full-time Federal employees to receive certain unauthorized payments from Federal funds.

6. Prohibited interests (with certain exclusions)

--Not enter into any contract or arrangement in which any AMTRAK officer, key employee, or member of its board of directors (during his tenure) has a material interest, unless approved by the majority of disinterested directors.

7. Requests for approval of loan guarantee funds

--Submit each request for a drawdown on loan guarantee funds in a specified format accompanied by specified documents and papers. (The Department is to initially act upon requests within 5 full business days after submission.)

8. Reporting requirements

--Submit various specified statements, reports, or analyses each month.

9. Corporate planning

--Submit annual planning documents, including 4-year operating and capital plans with certain supporting details and analyses. (The Department's views are to be furnished to AMTRAK within 30 days.)

10. Civil rights

--Comply with title VI of the Civil Rights Act of 1964 and other related regulations and directives.

--Insert certain minority hiring requirements in contracts for building or station construction.

11. Miscellaneous

--Take certain steps to limit air pollution.

--Warrant that it has not paid, and agrees not to pay, any bonus or commission for obtaining the loan guarantee.

--Not contravene any State or territorial law.

--Not use certain specified public lands for its project without concurrence of the Department.

--Obtain rights in inventions, patents, and technical data for research and development work financed with loan quarantee funds.

12. Security agreement

--Convey to the Department all of its right, title, and interest in certain specified rolling stock (equipment) acquired and in all equipment thereafter acquired, except for equipment specifically excluded by the Department.

--Not sell or otherwise dispose of any equipment without prior consent of the Department.

--Notify the Department of equipment acquired, or lost, or destroyed.

--Keep equipment in good order and repair, report annually to the Department on the condition of the equipment, and keep equipment free from any encumbrances and liens.

--In the event of payment amounting to more than $500,000 by the Department under the guarantee, deliver equipment to the Department equivalent in net book value to the amount paid by the Department.

--Indemnify the Department and relieve it from liability for any claims for losses, damages, and injuries resulting from the use, operation, or condition of the equipment.

13. Approval of proposed use of loan funds

--Obtain the Department's approval of the proposed use of the proceeds of loans guaranteed pursuant to the agreement on terms and conditions.

The Department's October 1974 agreement with AMTRAK on terms and conditions states that the terms and conditions covered by the agreement shall terminate upon:

1. The cancellation of the two guaranteed notes.

2. The effective date of issuance by the Secretary of Transportation of general guidelines pursuant to section 602 of the Rail Passenger Service Act of 1970, as amended, designed to assist AMTRAK in formulating capital and budgetary plans.

3. Expiration of the date the Secretary is by statute required to issue the general guidelines mentioned in item 2 above.

The 1974 amendments to the act, approved October 28, 1974, provide for the issuance of such general guidelines within 180 days of enactment of the amendments. This provision had not been implemented at the time of our review.

MEANS USED TO DETERMINE ADHERENCE TO LOAN GUARANTEE TERMS AND CONDITIONS (QUESTION 5)

According to a Department official, the Department makes audits annually to insure that AMTRAK adheres to the terms and conditions of guaranteed loans and follows accepted financial practices. Also loan guarantee terms and conditions require AMTRAK to periodically submit to the Department certain specified financial reports and to furnish additional information with each request for additional loan funds under the existing credit agreement. When such requests are received, the Department determines whether required reports and data have been submitted.

Two audits of AMTRAK's activities had been completed by the Department and reports were issued in July 1972 and November 1973, and a third was nearing completion in September 1974. Our discussions with Department personnel responsible for the audit of AMTRAK activities and our review of internal audit working papers, programs, and reports showed that a determination of AMTRAK's adherence to loan guarantee terms and conditions was not a specific objective or work area for these audits, and, consequently, audit coverage of the subjects of the terms and conditions was limited and only incidental to the basic work aims and objectives of the audits. The first two audits generally were directed toward determining the adequacy of AMTRAK's administration and management of Federal grant funds. The reports on these audits contained recommendations dealing with the progress and results of AMTRAK's audits of participating railroads, procurement procedures, cost reduction incentives, withdrawals of Federal grant funds, salaries of key officials, and stock ownership. The third audit was programed to cover AMTRAK's controls and accounting practices under its capital acquisition program and the Department's processes for administering AMTRAK loan guarantees.

The Department told us that provisions under the 1974 amendments to the act requiring the Department to issue general guidelines to assist AMTRAK in planning (see p. 7) would necessitate a reexamination of the Department's relationship with AMTRAK, including its role in monitoring, reviewing, and analyzing AMTRAK's activities.

REQUIREMENTS FOR REGULAR REPORTING ON
THE STATUS OR PROGRESS OF
THE LOAN GUARANTEE PROGRAMS (QUESTION 6)

We found no legislative or administrative requirements for submitting a regular comprehensive report on the progress or status of the Federal loan guarantee programs authorized by the Rail Passenger Service Act of 1970, as amended, and the Regional Rail Reorganization Act of 1973. The following reports required by statute or by the terms and conditions established by the Department applicable to Federal guarantees of AMTRAK's obligations contain information that could provide some insight into AMTRAK's or the Association's activities or plans under the Federal loan guarantee programs.

1. By February 15th of each year, AMTRAK is required (45 U.S.C. 548(b)) to submit to the Congress and to the President a comprehensive and detailed report of its operations, activities, and accomplishments under the AMTRAK act, including a statement of receipts and expenditures for the preceding year.

2. At the time of its annual report, AMTRAK is required (45 U.S.C. 548(b)) to submit to the Congress and to the President its legislative recommendations, including the amount of financial assistance needed for operations and for capital improvements, the manner and form in which the amount of such assistance should be computed, and the sources from which such assistance should be derived.

3. By March 15th of each year, the Department and the Interstate Commerce Commission are required (45 U.S.C. 548 (c)) to submit joint or separate reports on the effectiveness of the AMTRAK act in meeting requirements for a balanced national transportation system and any legislative recommendations.

4. The terms and conditions established by the Department applicable to AMTRAK's current credit arrangements with the Federal Financing Bank require that each year on September 1 AMTRAK provide the Department with a 4-year capital plan and operating plan, with supporting financial analyses.

5. The terms and conditions also require AMTRAK to provide the Department with information monthly on the source and application of funds and on capital expenditures for each approved project of $100,000 or more in AMTRAK's capital plan.

6. Ninety days after the end of each fiscal year, the Association is required (45 U.S.C. 712(e)) to submit to the Congress and to the President a detailed report on all activities of the Association during the preceding fiscal year, including a statistical compilation of the obligations issued and loans made under the act and the Association's projections and plans for the next fiscal year.

7. The Association is required (45 U.S.C. 712(f)) to report annually to the Congress the amount of net lending of the Association which would be included in the totals of the budgets of the Government if the Association's activities had not been excluded from those totals under the statute (45 U.S.C. 712(f)).

REQUIREMENTS FOR AMTRAK TO NOTIFY THE DEPARTMENT AS TO POTENTIAL FOR DEFAULT UNDER A GUARANTEED OBLIGATION (QUESTION 7)

Neither AMTRAK's notes, the Department's guarantees, nor the terms and conditions related to guarantees under loan credit agreements require AMTRAK to give the Department notice of potential default. The Department told us, however, that, because of its close working relationship with AMTRAK, it would in all likelihood be aware of any potential defaults.

The Department's guaranty agreements applicable to AMTRAK's obligations under equipment lease transactions provide that copies of all correspondence between AMTRAK and the parties to whom AMTRAK is obligated, relating to any event of default or threatened event of default, must be furnished to the Department. The conditional sale agreement requires correspondence between AMTRAK and the builder (lender under the assignment) only in the "event of default" rather than for a threatened event of default. However, the equipment lease requires that AMTRAK give the trustee prompt written notice of any event of default and any "event which might mature into an event of default."

ACCOUNTING FOR LOAN PROCEEDS, FEDERAL GRANTS, AND OTHER FUNDS (QUESTION 8)

Although the purposes for which Federal grants and guaranteed loan funds may be expended are set out in the Rail Passenger Service Act, the act does not prohibit fund commingling nor specifically require separate accounting by AMTRAK. However, the terms and conditions attached to the Department's loan guarantees prohibit the commingling of loan guarantee funds with any other funds and require that loan funds be deposited in a separate account. As of October 1974, there was no specific prohibition against the commingling of Federal grants and AMTRAK's own funds.

Procedurally, AMTRAK maintains loan proceeds in a separate bank account and records them in a separate loan fund account on its books. AMTRAK's own funds ultimately flow into another bank account into which Federal grant funds also are deposited. These combined funds are recorded in a single non-loan-fund account on AMTRAK's books. In actual practice, however, funds are transferred back and forth between the loan fund account and the non-loan-fund account with such frequency and in such varying amounts that the funds, in effect, become commingled. AMTRAK accounts for the use of loan funds--available only for capital expenditures--through a special analysis and a statement prepared and submitted to the Department at the end of each month.

An AMTRAK official explained that AMTRAK considers it prudent fund management to temporarily advance nonloan funds for capital purposes and loan funds for operating purposes whenever cash requirements dictate. Such advances are made through transfers between the fund accounts, and the amounts advanced are subsequently replaced through advances or "restorations" flowing in the reverse direction. At various points in time, the loan fund account can contain nonloan funds and the non-loan-fund account can contain loan funds. One of the primary objectives of AMTRAK's funds management is to minimize loan interest costs by deferring loan drawdowns as long as other funds are available to meet loan repayment or capital needs.

The Department told us that, as part of its development of general guidelines applicable to AMTRAK's planning process--as required under the 1974 amendments to the act--it will need to reassess the objectives and the effectiveness of loan guarantee terms and conditions, including those prohibiting commingling of loan funds.

There is no specific requirement in the Regional Rail Reorganization Act of 1973 or in administrative regulations that the Association or the ultimate recipients of Federal assistance under the act keep Federal loan or grant funds in separate bank deposits or otherwise segregated before expending them. The act requires that the ultimate recipients of the Federal aid maintain adequate accounting records as prescribed by the Association or the Secretary of Transportation.

PENALITIES FOR NONCOMPLIANCE WITH LOAN PROGRAM REGULATIONS AND PROCEDURES (QUESTION 9)

We found no specific legislative or administrative provisions imposing penalties on AMTRAK for failing to adhere to Department regulations or procedures relating to loan guarantees. However, AMTRAK's requests for Federal loan guarantees, loan fund drawdowns, and grant funds require the Department's approval, which can be withheld if AMTRAK does not comply with the Department's regulations and procedures.

Department records indicate that AMTRAK initially failed to submit certain required information in October 1972 and in September 1973. In both instances, the Department withheld approval of AMTRAK's fund requests until the required information was furnished.

ASSETS ACQUIRED BY THE GOVERNMENT IN EVENT OF LOAN DEFAULT (QUESTION 11)

Under the terms and conditions attached to the Department's guarantees of AMTRAK's obligations under credit agreements with banks, AMTRAK has agreed to transfer to the Department its ownership in certain designated rolling stock acquired before August 7, 1972, and in all rolling stock subsequently acquired. Rolling stock acquired under equipment lease transactions is specifically excluded. In the event of default by AMTRAK under its credit agreement obligations, the Department may, upon payment of more than $500,000 toward AMTRAK's obligation, take possession and sell rolling stock equivalent in net book value to the amount paid. When default by AMTRAK results in payment by the Department of $500,000 or less, the Department may not take possession and sell the rolling stock covered under the credit agreement guarantee.

The Department's security rights under guarantees covering AMTRAK's equipment lease obligations are complex and depend, to some extent, on the attendant circumstances of default. As part of the total package, the Department has guaranteed obligations incurred by AMTRAK under conditional sales agreements and under lease agreements. If AMTRAK defaults under both agreements and the Department makes good under its guaranty agreement, the Department can exercise its security title to the equipment and repossess and sell the equipment. The Department has the same property rights in the event it must make good a default under the conditional sale agreement alone.

If the Department must make good a default under the lease agreement only, the Department's rights in the equipment will depend on the lease rights to be assigned by the trustee in return for the Department's payment. Whether the trustee has any rights to assign to the Department will depend on the status of AMTRAK's obligations under the conditional sale agreement.

NUMBER AND AMOUNTS OF AMTRAK's GUARANTEED OBLIGATIONS (QUESTIONS 12 and 18)

Prior to AMTRAK's present loan financing arrangements with the Federal Financing Bank, AMTRAK established a line of credit through loan agreements with commercial banks and issued separate federally guaranteed notes for each drawdown against the total amount of established credit. Under its current arrangements with the Federal Financing Bank, AMTRAK has issued two guaranteed notes covering the total amount of the established line of credit. Individual drawdowns, although requested in writing, are not covered by separate notes. The amounts shown in the following table applicable to loan credit agreements represent the cumulative gross amounts drawn and repaid.

	Actual					
	FY 1972		FY 1973		FY 19	
	Number	Amount (millions)	Number	Amount (millions)	Number	(m
Guaranteed loans on the books carried over from previous year:						
Loan credit agreements	-	$ -	2	$17.0	10	
Equipment lease acquisitions	-	-	-	-	1	
Total	-	$ -	2	$17.0	11	
New guaranteed loans made during fiscal year:						
Loan credit agreements	11	$92.0	11	$53.0	41	
Equipment lease acquisitions	-	-	1	7.6	1	
Total	11	$92.0	12	$60.6	42	
Guaranteed loan repayments made during the year (both old and new):						
Loan credit agreements	9	$75.0	3	$20.0	23	
Equipment lease acquisitions	-	-	-	-	-	
Total	9	$75.0	3	$20.0	23	
Loan guarantees existing at the end of the fiscal year:						
Loan credit agreements	2	$17.0	10	$50.0	28	
Equipment lease acquisitions	-	-	1	7.6	2	
Total	2	$17.0	11	$57.6	30	

Amounts shown as outstanding for equipment lease acquisitions represent the principal portion of the Government's maximum guarantee obligation in the event it would have to make good on its guarantees. The estimate $0.2 million in repayments in 1975 under equipment lease acquisitions represents a reduction in AMTRAK's guaranteed obligations resulting from periodic lease payments.

We found no evidence that AMTRAK received any loans other than federally guaranteed loans.

SOURCE OF FUNDS FOR PAYMENTS OF GUARANTEED OBLIGATIONS (QUESTION 13)

AMTRAK repaid loans totaling $182.2 million in fiscal year 1974 and will repay an estimated $452.7 million in fiscal year 1975. In 1974 loans totaling $157.2 million were repaid with funds obtained from new borrowings. The remaining repayments of $25 million were initially made from available nonloan funds which, according to financial data submitted by AMTRAK to the Department, were later restored from funds obtained from subsequent borrowings. In effect, these repayments also were made from new borrowings.

In 1975 actual loan repayments through October 31, 1974, amounted to $328.4 million. Funds for these repayments came from new borrowings. Using data provided by AMTRAK, we have estimated that loan repayments during the remainder of 1975 will total about $124.3 million. According to AMTRAK officials, funds for these estimated repayments also will come from new borrowings.

The table on page 24 shows an estimated $0.2 million in repayments in 1975 under equipment lease acquisitions. This amount represents a reduction in AMTRAK's guaranteed obligations resulting from periodic lease payments. The portions of such lease payments applicable to loan principal are to be paid from the proceeds of other borrowings.

AMTRAK's procedure of using nonloan funds to repay outstanding loans and then restoring nonloan funds as needed from the proceeds of subsequent borrowings has helped to minimize AMTRAK's interest costs by delaying or reducing the amount of loan drawdowns. The restored funds were considered to be available for any corporate purpose. AMTRAK has not used this procedure since October 1973 and, according to AMTRAK officials, does not anticipate using it during the remainder of fiscal year 1975.

INTEREST RATES AND PERIODS
APPLICABLE TO FEDERAL GUARANTEES UNDER
LOAN CREDIT AGREEMENTS (QUESTION 14)

Prior to its July 1974 credit arrangement with the Federal Financing Bank, AMTRAK's loan interest payments were based, in part, on the weighted average of the interest rates paid by the lending bank for its interbank borrowings of funds needed to meet Federal Reserve requirements. This rate, referred to as the Federal Funds Rate, was calculated on a Thursday-through-Wednesday basis and applied to the aggregate principal of any notes outstanding during any part of the preceding 7 days. AMTRAK also agreed to pay an added "profit percentage" above the Federal Funds Rate. Under its credit agreements with the First National Bank of Chicago and the First National City Bank, AMTRAK paid a profit percentage of 1/2 of 1 percent above the Federal Funds Rate. The Chase Manhattan Bank agreement required AMTRAK to pay a percentage of

--1/2 of 1 percent on principal amount up to $50 million and

--3/8 of 1 percent on principal amount over $50 million.

Under AMTRAK's July 1974 credit agreement with the Federal Financing Bank, each drawdown bore interest based on the coupon equivalent of the market yield on the latest Treasury 91-day bill computed on the average of the quoted bid and asked prices at noon on the day of such drawdown, plus 3/8 of 1 percent.

On October 11, 1974, AMTRAK made new credit arrangements with the Federal Financing Bank by issuing a renewable 91-day note and a second note due on or before September 30, 1975. AMTRAK's drawdowns against the 91-day note will bear interest computed on the same general basis as its previous 91-day note. On the longer term note, the interest rate on the unpaid principal balance is 8.7 percent a year.

Loan data shown for fiscal years 1972 through 1974 in the table on page 28 is based on AMTRAK's actual financing activities. Fiscal year 1975 data is based on AMTRAK's actual financing experience through October 31, 1974, and its estimated total loan activity for the year. The table does not include guarantee fees charged by the Department.

A comparison of the range of interest rates on AMTRAK loans with the range applicable to outstanding Treasury bills is shown below.

	Average percentage rate			
	High		Low	
Fiscal year	AMTRAK	Treasury	AMTRAK	Treasury
1972	5.196	4.961	3.825	4.156
1973	11.104	6.590	5.263	4.279
1974	14.015	8.416	10.240	7.081
1975	10.595	8.776	7.459	8.046

AMTRAK's LOAN REPAYMENT PROSPECTS UNDER VARIOUS STATED ASSUMPTIONS (QUESTION 15)

We have made a number of computations to show changes in income or costs, or factors affecting income and costs, which would be required for AMTRAK to overcome its operating losses and repay its guaranteed loans over a 5-, 10-, or 15-year period. The computations are based on data included in the 5-year (FYs 1975-79) financial program AMTRAK submitted to the Congress on August 30, 1974. This was the most current data available to us at the time. In its second supplemental budget request for fiscal year 1975, submitted to the Congress on December 5, 1974, AMTRAK estimated that its deficit for 1975 would be $328 million--an increase of about $90 million over that projected in its August 30, 1974, submission. Although this increased deficit is not included in the following computations, its effect would be that the additional amounts of net revenue needed under the various assumptions discussed below would be about $90 million greater than the amounts shown.

The computations are based on the assumptions that AMTRAK's estimated operating deficit of about $210 million for fiscal

Periods and Average Interest Rates for New Loan Guarantees
Made or Projected for Fiscal Years Shown

Average interest rates	Loan periods in days: 0 to 90 Number	0 to 90 Amount (millions)	91 to 180 Number	91 to 180 Amount (millions)	181 to 270 Number	181 to 270 Amount (millions)	271 t Number
1972:							
3.83 to 3.94	2	$ 8.0	-	$ -	-	$ -	-
4.28 to 5.20	4	39.0	3	24.0	1	7.0	1
Total	6	$ 47.0	3	$ 24.0	1	$ 7.0	1
1973:							
5.26	-	$ -	1	$ 3.0	-	$ -	-
10.27 to 11.10	-	-	1	10.0	7	34.0	2
Total	-	$ -	2	$ 13.0	7	$ 34.0	2
1974:							
10.24 to 11.82	12	$129.2	11	$ 97.5	-	$ -	-
12.03 to 13.47	11	33.8	3	5.5	-	-	-
14.02	4	11.0	-	-	-	-	-
Total	27	$174.0	14	$103.0	-	$ -	-
1975:							
7.46 to 7.81	2	$ 7.2	1	$152.0	-	$ -	-
8.01 to 9.95	25	140.0	3	128.0	-	-	1
10.60	1	5.0	-	-	-	-	-
Total	28	$152.2	4	$280.0	-	$ -	1

year 1975, excluding interest costs on guaranteed borrowings, would also be the amount of deficit to be overcome or partially overcome each year during the three debt repayment periods and that during these periods AMTRAK would not incur debts other than the estimated outstanding guaranteed obligations of about $425 million at the end of fiscal year 1975. The computations also assume that certain factors can be changed while related factors remain constant.

To illustrate, we assumed (1) that fare increases of any amount would not affect ridership, (2) that increased ridership could be achieved to whatever extent necessary to generate required revenue and that this ridership could be accommodated without increased operating costs or additional capital investment in plant and rolling stock, (3) that unprofitable routes could be eliminated without regard to statutory requirements, and (4) that cost reductions could be achieved through reduced customer service without adversely affecting ridership and revenues. A full description of the assumptions is contained in appendix IV.

The assumptions made were unrealistically optimistic; nevertheless, the computations do provide indications of AMTRAK's unenviable financial prospects for the near term. Moreover, the significantly higher fiscal year 1975 deficit projected by AMTRAK in December 1974, which was not included in our computations, would indicate an even less favorable financial outlook for AMTRAK.

Assumption A--No more Federal grants beyond those contained in FY 1975 budget

Under this assumption AMTRAK would have to make dramatic changes in its operation to overcome its annual operating loss and to meet annual loan principal and interest payments. The additional amounts needed each year under three assumed repayment plans are shown below.

Repayment plan	Operating deficit (excluding interest)	Debt service	Additional net revenue needed
		(millions)	
5 years	$211.4	$105.9	$317.3
10 years	211.4	64.6	276.0
15 years	211.4	51.7	263.1

If the only change made was to increase fares, increases of 123, 107, and 102 percent, respectively--without losing ridership--would be needed to raise the projected 1975 passenger revenue ($257.6 million) sufficiently to provide the additional revenue needed under the 5-, 10-, and 15-year repayment plans. Similarly, if ridership alone were increased, the same percentage increases in the ridership level projected for 1975 (19.1 million riders) would be needed to generate the same additional revenue. For example, under a 5-year repayment plan, AMTRAK would have to carry an additional 23.5 million passengers annually.

The following table gives some idea of the combination of changes that would have to be made in the levels of fares and ridership to eliminate AMTRAK's operating deficit and meet loan repayment requirements.

Fare increases		Passenger increases								
		5-year plan			10-year plan			15-year plan		
Percent	Additional revenue (millions)	Percent	Additional passengers and revenue (millions)		Percent	Additional passengers and revenue (millions)		Percent	Additional passengers and revenue (millions)	
15	$ 38.6	94	18.0	$278.7	80	15.3	$237.4	76	14.5	$224.5
35	90.2	65	12.5	227.1	53	10.2	185.8	50	9.5	172.9
50	128.8	49	9.3	188.5	38	7.3	147.2	35	6.6	134.3
100	257.6	12	2.2	59.7	4	.7	18.4	1	.2	5.5

To illustrate, a 15-percent fare increase would generate \$38.6 million of additional revenue. Under a 5-year loan repayment plan, this amount would be \$278.7 million short of the \$317.3 million additional net revenue needed. The difference could be obtained through a ridership increase of 18 million (94 percent). Similarly, a 100-percent fare increase would need to be coupled with ridership increases of 12 percent, 4 percent, or 1 percent, depending on the repayment plan used.

Assuming that no changes were made for revenue and that across-the-board cuts were made in operating costs, reductions of 64 percent, 55 percent, and 53 percent would be needed to eliminate AMTRAK's operating deficit and to meet annual loan principal and interest payments under the three repayment plans. The effect of such cost reductions on AMTRAK's projected operating results for fiscal year 1975 is shown in the following table.

Repayment period	FY 1975 Estimated revenue	FY 1975 Estimated costs	Cost reduction required	Estimated cost after reduction	Net revenue after cost reduction (equal to debt service needs)
			(millions)		
5 years	\$286.5	\$497.9	\$317.3	\$180.6	\$105.9
10 years	286.5	497.9	276.0	221.9	64.6
15 years	286.5	497.9	263.1	234.8	51.7

Some examples of the magnitude of additional amounts that would be needed if smaller cost cuts were made are presented in the following table.

Cost reductions		Additional amounts needed under indicated repayment plans		
Percent	Amount (millions)	5 years	10 years (millions)	15 years
10	$ 49.8	$267.5	$226.2	$213.3
20	99.6	217.7	176.4	163.5
50	249.0	68.3	27.0	14.1

The effect of reducing some specific cost items is illustrated below. The possible effects on revenue were not considered.

	Savings that would result from various cost percentage reductions		
Estimated costs for 1975	10 percent	20 percent (millions)	50 percent
Food services operate at an annual loss of $30 million. Costs are $49.6 million	$ 5.0	$ 9.9	$ 24.8
Locomotive and passenger car maintenance and repair costs are $79.8 million	8.0	16.0	40.0
Reservation, sales, and advertising costs are $35.8 million	3.6	7.2	17.9

Estimated costs for 1975	Savings that would result from various cost percentage reductions		
	10 percent	20 percent	50 percent
		(millions)	
Onboard crews, superintendents, and station employee costs are $50.5 million	$ 5.0	$10.1	$ 25.2
Train supplies and expenses total $33.9 million	3.4	6.8	17.0
General administrative salaries and office supplies and expenses total $21.8 million	2.2	4.4	10.9
Total	$27.2	$54.4	$135.8

Even a 50-percent reduction in the above costs would not eliminate AMTRAK's projected deficit, excluding interest costs, of $211.4 million.

AMTRAK's direct payroll costs are estimated to be $126.8 million, and payroll costs included in railroad charges billed to AMTRAK are estimated to be $163.8 million. Some decreases in payroll costs would be included in the reductions indicated for the six cost items listed above. Considering AMTRAK's direct payroll costs alone, however, across-the-board reductions of 10 percent, 20 percent, and 50 percent (without regard to any labor agreement provisions) would save $12.7 million, $25.4 million, and $63.4 million, respectively; similar cuts in payroll costs billed to AMTRAK by the railroads would save $16.4 million, $32.8 million, and $81.9 million, respectively. Thus total labor cost savings of $145.3 million from a 50-percent reduction would be insufficient to cover the operating deficit.

Route elimination

We also considered the extent to which route elimination could contribute to overcoming AMTRAK's operating deficit and repayment of its guaranteed obligations. Data is available to measure train route operations on four different bases as follows.

1. Loss per revenue-passenger-mile.
2. Loss per passenger.
3. Loss per revenue-dollar.
4. Total dollar loss per route.

The data shows that each route is operating at a loss.

If AMTRAK dropped half of its routes to eliminate the biggest losers, the total operating loss could be reduced $43.4 million under the loss-per-revenue-passenger-mile computation, $21.2 million under the loss-per-passenger computation, or $42.5 million under the loss-per-revenue-dollar computation. Such loss reductions would be less than the aggregate operating loss on the eliminated routes because certain fixed and semifixed costs (such as general overhead costs and joint and common facility costs) allocated to the routes would still remain and would have to be redistributed to the remaining routes.

The following table illustrates the potential loss reduction that might be achieved through eliminating the 10 routes having the largest total dollar losses.

	Total operating loss	Estimated fixed and semifixed costs to be redistributed	Potential loss reduction
		(millions)	
Boston to Washington	$ 32.1	$16.1	$16.0
Seattle to Chicago	21.3	16.9	4.4
New York to Florida	19.3	22.7	(3.4)
New York to Philadelphia	11.9	4.2	7.7
Florida to Chicago	11.1	5.0	6.1
Houston to Chicago	8.5	4.3	4.2
San Francisco to Chicago	7.8	10.4	(2.6)

	Total operating loss	Estimated fixed and semifixed costs to be redistributed	Potential loss reduction
	(millions)		
Chicago to Los Angeles	7.3	10.5	(3.2)
New York and Washington to Kansas City	6.8	4.3	2.5
New York to Buffalo	6.5	2.6	3.9
	$132.6	$97.0	$35.6

This data indicates that cost savings from eliminating train routes under any of the four bases shown would not help toward providing the additional net revenue that would be needed if AMTRAK were to eliminate its deficit and implement a loan repayment plan.

AMTRAK told us that it was concerned with the problem of route profitability and had recently established a cost control and distribution system which would provide more accurate and reliable route data for management analysis and decisionmaking. Also AMTRAK has initiated a series of projects involving overall analysis and reports on individual routes over the next 6 months for improving overall profitability of existing and planned routes.

Assumption B--Federal grants of $100 million a year through FY 1980

Under this assumption the additional net revenue amounts needed for the first 5 years under a 5-year, 10-year, or 15-year repayment plan would be $217.3 million, $176.0 million, and $163.1 million, respectively. Again, substantial changes would have to be made in fares and/or ridership to generate the additional revenue needed.

Under a 5-year repayment plan, AMTRAK would need an 84-percent increase in either fares or passengers. A 15-percent fare increase would have to be combined with a 11.5 million (60 percent) passenger increase, a 35-percent fare increase would need a corresponding 7 million (37 percent) passenger increase, and a 50-percent fare increase would need a 4.4 million (23 percent) passenger increase.

An across-the-board reduction of about 44 percent ($217.3 million) would be necessary to eliminate AMTRAK's operating deficit and to carry out a 5-year loan repayment plan. Cost reductions of 10 percent and 20 percent would leave $167.5 million and $117.7 million, respectively, to be met by increases in fares and/or ridership.

For the first 5 years of a 10-year repayment plan, either fares or ridership would need to increase 68 percent to provide the additional net revenue needed; under a 15-year plan, a 63-percent increase would be needed for the first 5 years. During the first 5 years, the following combinations of fare and ridership changes would provide the amounts needed.

	Passenger increases			
	10-year plan		15-year plan	
Percent of fare increase	Percent	Additional passengers (millions)	Percent	Additional passengers (millions)
15	46	8.9	42	8.0
35	25	4.7	21	4.0
50	12	2.3	9	1.7

Across-the-board cost cuts of 35 percent and 33 percent would have the same dollar effect as the fare and ridership changes discussed above. The additional amounts that would be needed during the first 5 years if smaller cost reductions were made is illustrated below.

Cost reductions		Additional amounts needed under indicated repayment plans	
Percent	Amount (millions)	10 years (millions)	15 years
10	$49.8	$126.2	$113.3
20	99.6	76.4	63.5

Under the assumptions that the $100 million grant would be discontinued after fiscal year 1980 and that AMTRAK would be required to become self-sustaining, the additional annual net revenue required beginning with the sixth year would be $276 million and $263 million for the 10-year and 15-year plans, respectively. Under these circumstances, the operating changes and computations discussed under assumption A would be applicable. For example, beginning with the sixth year, fares or ridership would need to be increased 107 percent and 102 percent, respectively.

<u>Assumption C--Current grant amounts authorized for AMTRAK and loan guarantee amounts authorized in Regional Rail Reorganization Act represent the full extent of Federal funding involvement</u>

It is AMTRAK's understanding, as well as ours, that the loan assistance authorized by the Regional Rail Reorganization Act would not help in the repaying of AMTRAK's outstanding loans. The act states that the Association can make loans to AMTRAK to assist in implementing the final system plan developed under the act. The conference report that preceded approval of the act explained that this would involve AMTRAK's acquiring and improving the northeast corridor rail properties so that improved high-speed rail passenger service could be provided in the corridor. This would result in an increased debt to AMTRAK.

The AMTRAK Improvement Act of 1974, approved October 28, 1974, increased total authorized appropriations for AMTRAK by $200 million. Assuming that $200 million in Federal grants would be available to AMTRAK each year, the additional net revenue amounts needed annually under a 5-year, 10-year, or 15-year repayment plan would be $117.3 million, $76 million, and $63.1 million, respectively. Meeting these needs under the three repayment plans would require an increase of 46 percent, 30 percent, or 24 percent in either fares or ridership. The following combinations of fare and ridership increases would also provide the amounts needed.

	Passenger increases					
	5-year plan		10-year plan		15-year plan	
Percent of fare increase	Percent	Additional passengers (millions)	Percent	Additional passengers (millions)	Percent	Additional passengers (millions)
15	27	5.1	13	2.4	8	1.6
35	8	1.5	-	-	-	-

Across-the-board cost reductions of 24 percent, 15 percent, or 13 percent would also provide the additional net revenue needed under a 5-year, 10-year, or 15-year repayment plan, respectively. A 10-percent reduction would result in savings of $49.8 million and would be $67.5 million, $26.2 million, or $13.3 million short of the amounts needed under the three plans. A 20-percent reduction would be $17.7 million short under the 5-year plan but would provide more than needed under the 10- or 15-year plans.

Reductions of 43 percent, 28 percent, or 23 percent in each of the six specific cost categories listed on pages 32 and 33 also would provide the total additional net revenue needed under the three plans. The effect of various reductions in payroll costs is shown in the following table.

	Payroll savings (millions)
Reductions in AMTRAK's direct payroll costs:	
10 percent	$12.7
20 percent	25.4
50 percent	63.4
Reductions in payroll costs billed to AMTRAK by the railroads:	
10 percent	16.4
20 percent	32.8
50 percent	81.9

	Payroll savings (millions)
Reductions in total payroll costs:	
10 percent	$29.1
20 percent	58.1
50 percent	145.3

The savings from a 50-percent reduction in total payroll costs would exceed the amounts needed under all three repayment plans. Actual reductions needed under the 5-, 10-, and 15-year repayment plans would be 40 percent, 26 percent, and 22 percent, respectively. Savings from a 50-percent reduction in the payroll costs billed to AMTRAK would provide more than needed under either a 10-year or 15-year plan--actual reductions needed would be 46 percent and 39 percent, respectively. Savings from a 50-percent reduction in AMTRAK's direct payroll costs would be sufficient to meet the needs under a 15-year plan. None of the other payroll reductions listed above would provide the additional net revenue needed under any of the repayment plans.

Also, the reduction in AMTRAK's operating loss that might be achieved through eliminating train routes, as discussed starting on page 34, would fall considerably short of the $117.3 million, $76 million, or $63.1 million needed under a 5-year, 10-year, or 15-year repayment plan.

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As indicated by the computations above, AMTRAK would not be in any position to retire its guaranteed debt in the near future. AMTRAK does not have a plan for the permanent repayment of its outstanding guaranteed loans. To the contrary, its 5-year (1975-79) financial program dated August 30, 1974, envisions a steadily increasing loan debt resulting from the financing of new proposed capital improvements totaling $2.1 billion for the 5 years. During this period, AMTRAK expects that its annual operating deficit, without any provision for wage and price increases and certain other anticipated costs, will increase from $238 million for 1975 to $303 million for 1979. Interest costs are projected to increase from $26 million for 1975 to $129 million for 1979.

As noted earlier, in December 1974 AMTRAK submitted to the Congress a second supplemental budget request showing a greatly increased deficit of $328 million for fiscal year 1975. This higher operating deficit, which is not included in the computations presented above, would indicate an even less favorable financial outlook for AMTRAK for the near term.

In making application to the Department for a Federal loan guarantee, AMTRAK is required to make a general statement setting forth the facts as to estimated prospective earnings and other funds upon which it relies to repay the loan. AMTRAK's October 1974 application contained the following statement.

> "As to the information required * * * the National Railroad Passenger Corporation is presently a deficit operation and has reported losses in each of its fiscal years. It is anticipated that, unless Congress appropriates sufficient funds, the Applicant will not be able to meet the financial obligations to be incurred in the transaction which is the subject of this Application."

AMTRAK's CAPITAL IMPROVEMENT PROGRAMS FOR 1975 AND 1976 BUDGETS (QUESTION 16)

AMTRAK's capital programs for fiscal years 1975 and 1976 are summarized in the schedule below. The fiscal year 1975 program, initially submitted to the Congress in November 1973, has undergone three revisions, the most recent of which was submitted to the Congress in August 1974.

The initial 1975 program and a slightly modified program included in AMTRAK's annual report to the Congress in February 1974 totaled $141.6 million and $135.6 million, respectively, and did not consider the impact of the energy shortage on the demand for rail passenger service. About 75 percent of the total cost of these programs represented improvements in stations, sales and repair facilities, and rights-of-way.

When data on the anticipated impact of the energy crisis became available, AMTRAK submitted a revised capital program to the Congress in April 1974, increasing the total cost of

AMTRAK Captial Program

	FY 1975 (Submitted 11-73)	FY 1975 (Submitted 2-74)	FY 1975 (Submitted 4-74)	FY 1975 (Submitted 8-74)	FY 1976 (Submitted 8-74)
	(millions)				
Passenger equipment:					
Modernization of used cars	$ 19.6	$ 19.6	$ (a)	$ 23.3	$ 8.6
Acquisition of 235 bilevel cars	-	-	168.0	168.0	-
Acquisition of 200 low-level cars	-	-	77.6	82.4	-
Standardization of 1,000 conventional cars	-	-	-	-	80.0
Total	19.6	19.6	245.6	273.7	88.6
Motive power:					
Acquisition of diesel-electric locomotives	14.0	14.0	12.5	12.5	-
Modifications of diesel-electric locomotives	-	-	-	2.0	5.0
Acquisition of 13 electric locomotives	-	-	-	-	11.0
Total	14.0	14.0	12.5	14.5	16.0
Facilities:					
Station and sales facilities	20.0	20.0	(b)	17.2	-
Repair facilities	32.0	32.0	(b)	128.2	62.3
Right-of-way	56.0	50.0	(b)	160.0	235.0
Total	108.0	102.0	98.4	305.4	297.3
Research and development:					
Autotrak	-	-	-	-	3.0
Total	-	-	-	-	3.0
Total	$141.6	$135.6	$356.5	$593.6	$404.9

[a]Amount of $19.6 million included in 1974 costs in this program revision--included in 1975 costs in August 1974 revision.

[b]Breakdown not shown in AMTRAK's plan.

the 1975 program to $356.5 million. Of that amount, $245.6 million, or about 70 percent, represented procurement of new passenger equipment to meet an anticipated increase in ridership.

AMTRAK's most recent revision of its fiscal year 1975 capital program was submitted to the Congress in August 1974 as part of a 5-year financial program covering operations and capital acquisitions. This package was the basis for AMTRAK's request for supplemental funding for 1975. It contained AMTRAK's latest revision of its 1975 capital plans and presented its anticipated capital program for fiscal year 1976.

The 1975 capital program was increased from $356.5 million to $593.6 million--an increase of $237.1 million. About 85 percent of this increase represents improvements to repair facilities and rights-of-way. The program for 1976 totals $404.9 million, of which $297.3 million (about 75 percent) represents improvements in repair facilities and rights-of-way.

OPERATING TRENDS ASSUMED IN AMTRAK's 1975 BUDGET (QUESTION 17)

AMTRAK's most recent 5-year (FYs 1975-79) financial program was submitted to the Congress on August 30, 1974, and was the basis for AMTRAK's supplemental funding request for fiscal year 1975. Some pertinent operating trends reflected in AMTRAK's program assumptions are shown below.

	FY				
	1975	1976	1977	1978	1979
Number of passengers (millions)	19.1	22.5	25.6	27.7	29.1
Seating capacity in seat-miles (billions)	8.5	10.2	12.6	14.7	15.7
Systemwide load factor (percent)	55.5	54.5	53.4	52.1	53.0

	FY 1975	FY 1976	FY 1977	FY 1978	FY 1979
Revenue-passenger miles (billions)	4.7	5.6	6.7	7.7	8.3
Revenue (millions)	$282.0	$346.7	$424.4	$471.5	$505.3
Costs (millions)	$520.2	$586.6	$690.3	$776.9	$807.9
Deficit (millions)	$238.2	$239.9	$265.9	$305.4	$302.6

Achieving the operating goals reflected in AMTRAK's 5-year program is heavily dependent on the availability of new equipment and improved facilities, as detailed in its capital plans. In some instances the new equipment will replace existing stock, and in others it will add to the total available fleet. The planned assignment of new equipment to various routes will result in an overall upgrading of service through such changes as increasing the number of trains and runs, adding cars to existing trains, and providing additional car seating capacity.

AMTRAK plans to initiate 6 new long-haul routes and 15 new short-haul routes during fiscal years 1975 through 1979. In 1975 new routes are planned between New York and Montreal; Port Huron, Michigan, and Chicago; Detroit and Jackson; and Norfolk and Cincinnati. In 1976 AMTRAK plans to add a route between Boston and Chicago and four other unidentified routes--one long-haul route and three short-haul routes. In 1977, 1978, and 1979 AMTRAK plans to add one long-haul route and three short-haul routes each year. These routes also have not been identified.

With certain requested exceptions, AMTRAK plans to take the necessary steps, starting in fiscal year 1975, to comply with the higher standards of passenger rail service required by the Interstate Commerce Commission in its Ex Parte 277 ruling. AMTRAK anticipates that the additional station staffing and onboard crews required as a result of the ruling will cost about $4.5 million a year.

In its second fiscal year 1975 supplemental budget request, submitted to the Congress on December 5, 1974, AMTRAK estimated that its operating deficits for fiscal year 1975 and 1976 would increase to about $328 million and $335 million, respectively. The operating data presented above does not consider this worsening outlook.

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June 5, 1974

Honorable Elmer Staats
Comptroller General of the United States
General Accounting Office
Washington, D.C.

Dear Mr. Staats:

The Congress provides for annual Federal grants to the National Railroad Passenger Corporation (Amtrak) to offset that Corporation's operating deficits. Our Committee is very concerned about the impact on future deficits and Federal grant requirements of the large loan guarantee programs for Amtrak, as well as those guarantee programs authorized by the Regional Rail Reorganization Act of 1973.

With respect to these programs, the Committee is interested in receiving from your office a report covering the following questions:

1. What are the specifics of the statutes under which Amtrak and the Regional Rail Reorganization Act Loan Guarantee programs are conducted?

2. What are the general processes by which loan guarantee applications are made and approved?

3. What terms and conditions does the Government require as a prerequisite for guarantees?

   a. Include a copy of specific instructions.
   b. Include copies of one to two actual cases.

4. At what level in the Department or Federal Railroad Administration organization are requests for guarantees approved?

Page 2 - Honorable Elmer Staats

5. What mechanism is there for determining that the terms and conditions are adhered to? How frequently are these reviews made?

6. Is there any regular type of status or progress reporting required by the statute or by administrative fiat?

7. At what time is a recipient required to notify the Department as to the potential for default?

8. To what extent can Amtrak or the Regional Rail Reorganization Act recipients co-mingle loan guarantees and Federal grants? Can these funds be co-mingled with the railroads' own funds? Is separate accounting required under the same process?

9. What penalties are there for failure to adhere to DOT regulations and procedures? Have any transgressions occurred? If so, what was the disposition?

10. What data is required and what analysis work is conducted by DOT before loans are guaranteed?

11. In the event of loan default, what assets does the Government acquire?

12. How many loan guarantees have been made to date, by fiscal year? In this connection, provide the information in the following format:

	(Actual or Projected, as appropriated)			
	FY 1972	FY 1973	FY 1974	FY 1975
a. Guaranteed loans on the books carried over from the prior year				
b. New loan guarantees made during the fiscal year				
c. Guaranteed loan repayments during the year (both old and new)				
d. Loan guarantees existing at the end of the fiscal year				

Page 3 - Honorable Elmer Staats

13. What was the source of funds for guaranteed loans paid during the fiscal year? Estimate the source of funds to be used for repayment or guaranteed loans in the remainder of fiscal years 1974 and 1975.

14. For the same fiscal years as in question 12, give the spread of interest rates for loan guarantees and the number and amounts of loans made, at each interest rate or group of interest rates. Also include the period of the guaranteed loans by fiscal year and the number of loans in each period or group of periods.

15. Using guaranteed loans outstanding at the end of fiscal year 1973 and projecting loans outstanding at the end of 1974, and using the loan guaranteeing projection for FY 1975 in the 1975 budget, what kind of ridership increase, fare increase, or other income producing increases or cost decreases (e.g., reduction in staff, train service, routes, etc.) are needed to repay the guaranteed loans under the following assumptions:

    Within Amtrak's official repayment plan:

    a. Assuming no more Federal grants beyond those contained in the FY 1975 budget.

    b. Assuming that $100 million per year for Federal grants through FY 1980.

    c. Assuming that the current grant amounts and loan guarantee amounts for the Regional Rail Reorganization Act represents the full extent of Federal funding involvement.

16. What is the content of the Capital Improvement Program for Amtrak on which the 1975 budget is based? What is the anticipated Capital Improvement Program for Amtrak for 1976 as now being estimated?

17. What ridership, route service, etc., through FY 1980 does the Federal grant and loan guarantee program assume, as presented in the 1975 budget?

18. Has Amtrak received any loans other than those guaranteed by the Federal Government? If so, how much, how many, under what circumstances? What is their repayment schedule?

Sincerely,

John J. McFall
Chairman
Subcommittee on Transportation
Appropriations

PROCEDURES FOR SUBMISSION OF
LOAN GUARANTEE APPLICATIONS UNDER THE RAIL
PASSENGER SERVICE ACT OF 1970, AS AMENDED
--EXCERPT FROM CODE OF FEDERAL REGULATIONS
(Title 49, PART 251--Loans and Guarantee of
Loans under Rail Passenger Service Act of 1970)

§ 251.1 Applicability.

This part prescribes the procedures governing applications for loans or the guarantee of loans to railroads, the National Railroad Passenger Corporation or regional transportation agencies under section 602 or 701 of the Rail Passenger Service Act of 1970 (45 U.S.C. 501 et seq: 84 Stat. 1327).

§ 251.3 Definitions.

As used in this part—

"Act" means the Rail Passenger Service Act of 1970.

"Administrator" means the Federal Railroad Administrator.

"Commission" means the Interstate Commerce Commission.

"Railroad" means a common carrier by railroad as defined in section 1(3) of Part 1 of the Interstate Commerce Act, as amended (49 U.S.C. 1(3)).

§ 251.5 Contents of application.

(a) Each application shall include, in the order indicated and identified by applicable section numbers and letters corresponding to those used in this part, the following information as to the Applicant (or Trustee, if applicable) and the transaction:

(1) Full and correct name and principal business address.

(2) Name, title, and address of the person to whom correspondence regarding the application should be addressed.

(3) Brief description of the loan and its purpose or purposes, including statements of—

(i) The total amount of the loan;

(ii) The purpose or purposes for which the loan proceeds will be used;

(iii) The maturity date or dates;

(iv) Description of the security, if any, for the loan, including applicants' opinion of the value of any collateral and the basis for such opinion;

(v) The date or dates on which the applicant desires the funds to be made available;

(vi) The rate of interest;

(vii) Estimated total expenses in connection with the loan, including detail as to expenses estimated for legal and accounting services, printing and engraving, trustees' fees, State and Federal taxes, and commissions and discounts; and

(viii) If a guarantee, the portion of the loan concerning which guarantee by the Administrator is sought, description of the security for the loan and the guarantee, together with an opinion of the value of such collateral and the basis for such opinion.

(4) Statement, in summary form showing the Applicant's financial obligations to, or claims against, the United States, if any, as of date of application, or latest available date, listed as to—

(i) Balance on any direct loans;

(ii) Balance on any loans under which the United States is guarantor;

(iii) Status of any claims under litigation; and

(vi) Any other debits or credits existing between the Applicant and the United States, showing the department or agency involved in such loans, claims and other debts.

(b) Each application shall include, in the order indicated and identified by applicable section numbers and letters corresponding to those used in this part, the following information as to the lender or lenders:

(1) Full and correct name and principal business address.

(2) Names and addresses of principal executive officers and directors, or partners.

(3) Reference to applicable provisions of law and the charter or other governing instruments conferring authority to the lender to make the loan and to accept the mortgage or other obligation securing the loan.

(4) Brief statement of the circumstances and negotiations leading to the agreement by the lender to make the proposed loan, including the name and address of any person or persons, other than directors, officers, partners, or employees of the Applicant, representing or purporting to represent the Applicant in connection with such negotiations.

(5) Brief statement of the nature and extent of any affiliation or business relationship between the lender and any

of its directors, partners, or principal executive officers, on the one hand, and, on the other, the Applicant and any of its directors, partners, or principal executive officers, or any person or persons whose name is required to be furnished under subparagraph (4) of this paragraph.

(6) Full and complete statement of all sums paid or to be paid and of any other consideration given or to be given by lender in connection with the proposed loan, including with respect thereto:

(i) Name and address of each person to whom the payment is made or to be made;

(ii) The amount of the cash payment, or the nature and value of other consideration;

(iii) The exact nature of the services rendered or to be rendered;

(iv) Any condition upon the obligation of the lender to make such payment; and

(v) The nature of any affiliation, association, or prior business relationship between any person listed in subdivision (i) of this subparagraph and the lender or any of its directors, partners, or officers.

§ 251.7 Required exhibits.

Each application and each copy thereof required by this part must have attached the exhibits listed in Appendix A to this part. If a particular exhibit is not applicable, the application shall so state.

§ 251.9 Additional information.

(a) Each application for a loan guarantee must include the following:

(1) A statement on behalf of the Applicant that it has endeavored to obtain a loan without a guarantee by the Administrator, but has not been able to obtain a loan upon reasonable terms, including in the statement the terms that are available and describing any facts relevant to the efforts to obtain a loan.

(2) Copies of correspondence from all, and not less than three, lending institutions to which application for the financing has been made, showing that they have declined the financing unless guaranteed by the Administrator or showing the terms upon which they will undertake the financing without a guarantee.

(b) Each application for a loan must include the following:

(1) A statement on behalf of the Applicant that it has endeavored to obtain a loan but has been unable to obtain a loan therefor upon reasonable terms, and including in the statement the terms that are available and describing any facts relevant to the efforts to obtain a loan.

(2) Copies of correspondence from all, but not less than three, lending institutions to which application for the financing has been made, showing that they have declined the financing.

§ 251.11 Fees for loan guarantees.

The lender of a loan guaranteed by the Administrator shall pay to the Administrator a guarantee fee that the Administrator determines to be reasonable under the circumstances. This guarantee fee is paid on the date of closing the loan and annually thereafter until the loan is repaid.

§ 251.13 Execution and filing of application.

(a) Each original application shall bear the date of execution and be signed by or on behalf of the Applicant and the lender. Execution on behalf of the Applicant shall be by an officer having knowledge of the matters set forth in the application. Each person signing the application on behalf of the Applicant or lender shall also sign a certificate in the form as set forth in Appendix B to this part.

(b) Each original application shall include a certificate by the Chief Accounting Officer of the Applicant in the form set forth in Appendix B to this part.

(c) Each original application and supporting papers, and six copies thereof shall be filed with the Federal Railroad Administrator, Department of Transportation, Washington, D.C. One copy of the application and supporting papers for a loan under section 701 of the Act shall be filed with the Secretary of the Treasury, Washington, D.C. Each copy shall show the dates and signatures that appear in the original and shall be complete in itself.

(d) If unusual difficulties arise in the furnishing of any of the exhibits required by § 251.7, the Applicant or the lender may, upon appropriate showing and with the consent of the Administrator, omit filing those exhibits.

(e) If furnishing exhibits in the detail required by § 251.7 is shown by the Applicant or lender to be unduly burdensome in relation to the nature and amount of the loan, the Administrator may modify the requirements of said section.

(f) The Administrator may, with respect to individual loans, waive or modify any requirement of this part upon good cause shown, or make any additional requirements he deems necessary.

§ 251.15 General instructions.

(a) If the application is approved by the Administrator the documents listed in section II of Appendix A to this part shall be deposited with the Administrator at least 3 business days before the transaction is closed, together with any other document the Administrator may require.

(b) A loan or a guarantee of a loan by the Administrator under this part does not relieve the applicant from complying with section 20a of the Interstate Commerce Act (49 U.S.C. 20a) in relation to the issuance of securities.

APPENDIX A—REQUIRED EXHIBITS, DOCUMENTS, AND CERTIFICATES

I. *Exhibits.* (a) The following exhibits must be submitted with respect to the Applicant:

Exhibit 1. A duly certified copy of the Charter or Articles of Incorporation and the bylaws of the Applicant. (Submitted with the original application only.)

Exhibit 2. A certified copy of resolutions of the Board of Directors of the Applicant, or if the Applicant is in reorganization under Chapter 77 of the Bankruptcy Act, a certified copy of the order of the District Court having jurisdiction of Applicant, authorizing—

(i) The filing of the application;

(ii) The filing of an application with the Interstate Commerce Commission under section 20a of the Interstate Commerce Act, for authority to issue securities; and

(iii) The pledge of security for the loan or the guarantee.

Exhibit 3. A preliminary opinion of counsel for Applicant that he is familiar with the corporate or other organizational powers of the Applicant, that the Applicant is authorized to make the application, and that when proper corporate action has been taken, necessary authorizations obtained and the obligations executed, and security delivered as contemplated by the application, the obligations will constitute the valid and subsisting obligations of the Applicant.

Exhibit 4. A map of the railroad owned, operated, or leased by Applicant.

Exhibit 5. A statement as to whether or not any railroad affiliated with Applicant has applied for or received a loan guarantee under Title V of the Interstate Commerce Act, the Emergency Rail Services Act of 1970, or under this Act. If an affiliate has applied for or received such a guarantee, full particulars shall be given.

Exhibit 6. A statement showing total dividends declared and total dividends paid for each of the last 5 calendar years and for the current year to latest available date.

Exhibit 7. A copy of general balance sheet as of latest available date, but not earlier than the end of the third month preceding date of filing of the application, in the form and detail required in Schedules 200A and 200L of the Interstate Commerce Commission's annual report Form A, together with the following supporting schedules:

(i) Particulars of loans and notes receivable in form and detail as required in Schedule 201 of annual report Form A or the Class I railroads.

(ii) Particulars of investments in other companies in form and detail similar to that required in Schedules 205 and 206 of annual report Form A.

(iii) Particulars of balances in accounts 741 and 743, Other Assets and Deferred Charges, in form and detail as required in annual report Form A, Schedule 216.

(iv) Particulars of loans and notes payable in form and detail required in Schedule 223 of annual report Form A, as well as information as to bank loans, including the name of the bank, date and amount of the original loan, current balance, maturities, rate of interest, and any security given.

(v) Particulars of long-term debt in form and detail similar to that required in Schedules 218 and 219 of annual report Form A, including a brief statement concerning each mortgage, and indicating the property or securities encumbered.

(vi) Particulars of balance in account 784, Other Deferred Credits, in form and detail as required in Schedule 225 of annual report Form A.

(vii) Particulars as to contingent assets and liabilities in form and detail as required in Schedule 233 of annual report Form A.

(viii) Particulars as to guarantees and suretyships in form and detail as required in Schedule 110 of annual report Form A.

(ix) Particulars as to capital stock in form and detail as required in Schedules 228, 229, and 230 of annual report Form A.

The information required in this exhibit shall give effect to any modification of the Commission's Uniform System of Accounts for Railroad Companies in effect on the date the loan application is filed.

Exhibit 8. A statement showing comparative balance sheets as of December 31, for each of the last 2 years preceding the year in which the application is filed, in the form and detail required in annual report Form A, Schedules 200A and 200L, and if the Applicant's report to its stockholders includes a consolidated balance sheet for two or more railroads which differs from the returns in the balance sheet schedules of its annual reports to the Commission, reference shall be made to the sections of the

stockholders' reports which include those consolidated balance sheets.

Exhibit 9. A copy of the Applicant's report to its stockholders for each of the 3 years preceding the year in which the application is filed. (Submitted with the original of the application only.)

Exhibit 10. A comparative income statement for last full quarter of the year preceding the month of the year in which the loan application is filed, including cumulative data to latest month shown, which may not be earlier than the third month preceding date of filing the application, compared with the same quarter of each of the 2 preceding years, in account form similar to that required in column (a) of Schedule 300 of annual report Form A. The information must be modified to include any revision of the Commission's Uniform System of Accounts for Railroad Companies in effect on the date the loan application is filed.

Exhibit 11. A comparative income statement showing data for each of the last 2 years in account form and detail required by Exhibit 10.

Exhibit 12. A pro forma income statement showing estimated income account for each of the remaining months in the current year and for each month of the following year, in the account form and detail required by Exhibit 10, together with a statement setting forth the basis for such estimates.

Exhibit 13. A comparative statement of total expenditures for maintenance of (i) way and structures and (ii) equipment for each of the past 2 years and for each month of the current year, together with estimated expenditures for the remaining months of the current year and the following year, including a statement showing the basis for the estimates

Exhibit 14. A statement showing for the current calendar year and each year for 5 years thereafter, estimates for total operating revenues, total operating expenses, opperating ratio, income available for fixed charges, and net income after fixed charges and contingent interest.

Exhibit 15. A statement showing actual cash balance at the beginning of each month and the actual cash receipts and disbursements during each month of the current year to the date of the latest balance sheet furnished as Exhibit 7, together with a monthly forecast (both before and after giving effect to use of proceeds from the proposed loan) for the balance of the current year and for the following year

Exhibit 16. A statement showing, for each month to latest available month of the current year, compared with the same month of each of the 2 preceding years—

(i) Number of tons of revenue freight carried;

(ii) Number of revenue ton-miles;

(iii) Freight revenue (account 101);

(iv) Number of passengers carried;

(v) Number of passenger miles;

(vi) Passenger revenue (account 102); and

(vii) Estimated information for subdivisions (i) through (iii) for each of the remaining months in the current year and for the following year.

Exhibit 17. A comparative statement showing, for each year in the 2-year period preceding the year in which the application is filed, and on an estimated basis for the current year and each of the 4 years thereafter, the following:

(i) Total charges to operating expenses for depreciation of way and structures, and equipment;

(ii) Deductions for accelerated tax amortization under section 168 of the Internal Revenue Code in excess of charges listed in subdivision (i);

(iii) Net income reported in annual reports to the Commission; and

(iv) Pro forma net income which would have resulted without the benefit of deductions for accelerated tax amortization under section 168 of the Internal Revenue Code.

Exhibit 18. A general statement setting forth the facts as to estimated prospective earnings and other funds upon which Applicant relies to repay the loan.

(b) The following exhibits must be submitted with respect to the loan transaction:

Exhibit 19. Specimens or, where specimens are not available, forms of all securities to be pledged or otherwise issued in connection with the proposed loan and in case of a mortgage, a copy of the mortgage or indenture.

Exhibit 20. Copies of the loan agreement entered into, or to be entered into, between the Applicant and lender, and of any agreements or instruments executed or to be executed in connection with the proposed loan

(c) The following must be submitted with applications under section 701 of the Act:

Exhibit 21. An executed copy of the Agreement between the Applicant and the National Railroad Passenger Corporation entered into under section 401 of the Act.

(d) If Applicant is not a carrier subject to the accounting requirements of the Commission, Exhibits 7, 8, 10–12 shall conform to generally accepted accounting principles and practices.

II. *Documents.* (a) The following documents must be submitted under § 251.15(a) before the closing of the loan transaction:

(1) A final opinion by counsel for the Applicant to the effect that he is familiar with the corporate powers of the Applicant; that the Applicant is authorized to execute and deliver the securities or other obligations evidencing them, and to pledge and hypothecate any securities pledged as collateral; that the securities or other obligations so executed and delivered constitute the valid and binding obligations of the Applicant; and that the securities or other obligations of the Applicant will obtain a lien on any

security involved of the rank and priority represented by the Applicant The opinion shall also cover the priority and lien of each item of the collateral offered.

(2) Certified copies of the resolutions of the Board of Directors of the Applicant or, where applicable, the order of the reorganization court, authorizing officers of Applicant to execute and deliver the securities or other obligations and to give the security under and according to the terms of the loan or guarantee as prescribed by the Administrator.

APPENDIX B—FORMS

I. The following is the form of the certificate to be made by each person signing an application on behalf of an Applicant or lender:

---------------------------------- certifies
(Name of official)
that he is the ---------------------- of the
(Title of official)
----------------------------------; that he
(Name of Applicant or lender)
is authorized by --------------------to sign
(Name of Applicant or lender)
and file with the Administrator this application and the attached exhibits; that he has carefully examined all of the statements contained in the application and the attached exhibits relating to ----------------------;
(Name of Applicant or lender)
that he has knowledge of the matters set forth therein and that all statements made and matters set forth therein are true and correct to the best of his knowledge, information, and belief.

------------ ------------------------
(Date) (Signature)

II. The following is the form of the certificate to be made by the Chief Accounting Officer of an Applicant:

--------------------------certifies that he
(Name of Officer)
is ------------------------------------- of
(Title of Officer)
----------------------------------; that he
(Name of Applicant)
has supervision over the books of account and other financial records of------------------
---------------------------------- and has
(Name of Applicant)
control over the manner in which they are kept: that the accounts are maintained in good faith in accordance with the orders of the Interstate Commerce Commission or with generally acceped accounting principles and practices; that he has examined the financial statements and supporting schedules included in this application and to the best of his knowledge and belief those statements accurately reflect the accounts as stated in the books of account, and that, other than the matters set forth in the attached exceptions those financial statements and supporting schedules represent a true and complete statement of the financial position of the Applicant; and that there are no undisclosed assets, liabilities, commitments to purchase property or securities, other commitments, litigation in the courts, contingency rental agreements, or other contingent transactions which might materially affect the financial position of the Applicant.

------------ ------------------------
(Date) (Signature)

AMTRAK NOTES (OCTOBER 1974) AND DEPARTMENT OF
TRANSPORTATION TERMS AND CONDITIONS ATTACHED TO THE NOTES

CONFORMED COPY

NATIONAL RAILROAD PASSENGER CORPORATION

Guaranteed Note

Note No. Amtrak - 2

For value received, the National Railroad Passenger Corporation ("Amtrak") hereby promises to pay to the Federal Financing Bank (the "Bank") the principal amount of $180,000,000.00 (One Hundred and Eighty Million Dollars) on or before September 30, 1975, with interest on the unpaid principal amount from the date of issuance to the date of payment at a rate of 8.70% (eight and 70/100------------- percent) per annum (calculated on a 365-day year basis). Interest accrued to March 31, 1975, shall be payable on that date and interest accruing on and after March 31, 1975, shall be payable at maturity.

The Bank shall recieve from Amtrak and shall pay to the Federal Railroad Administrator of the Department of Transportation of the United States of America a guaranty fee calculated at the annual rate of 1/4 of 1% (one quarter of one percent) of the aggregate principal amount outstanding thereunder from time to time. The accrued and unpaid amount of the guaranty fee shall be paid to the Federal Railroad Administrator within twenty days after the maturity date of this Note. Principal, interest, guaranty fee, and prepayment penalty (if the right of prepayment is exercised) shall be paid to the Bank in such funds as are then legal tender for payment of debts due to the Bank. When this Note shall have been paid in full, the holder shall cancel and return this Note to Amtrak.

At the option of Amtrak, this Note may be prepaid, in whole or in part, at any time before September 30, 1975, with accrued interest on the amount prepaid to date of prepayment, provided that the right of prepayment may not be exercised at any time that a balance is outstanding under Note No. Amtrak-3, or any renewals under the terms thereof, issued by Amtrak to the Bank on October 11, 1974. At the time of the first prepayment on this Note, the rate of interest on the entire loan, $180,000,000.00 (One Hundred and Eighty Million Dollars), shall increase 3/4 of 1% (three-fourths of one percent) per annum to a rate of 9.45% (nine and 45/100-------------- percent) from date of issuance to date of such prepayment and thereafter on the balance outstanding. Amtrak may require partial prepayments to be endorsed on this Note.

To the extent not inconsistent with applicable law, this Note, so long as the Bank is the holder hereof, shall be subject to modification by such amendments, extensions and renewals as may be agreed upon in writing from time to time by Amtrak and the Bank.

This Note is issued, executed, and delivered on behalf of Amtrak under and pursuant to the Rail Passenger Service Act of 1970, as amended (45 U.S.C. §501 _et seq._) and its powers as a corporation chartered under the provisions of the District of Columbia Business Corporation Act, as amended (D. C. Code §29-901 _et seq._).

CONFORMED COPY

CONFORMED COPY

Guaranteed Note

IN WITNESS WHEREOF, the undersigned, a duly authorized officer of Amtrak, has executed this Note at Washington, D. C. by signing it as of the date hereof.

NATIONAL RAILROAD PASSENGER CORPORATION

BY: Robert C. Moot

Vice President - Finance

DATE October 11, 1974

GUARANTEE CERTIFICATE

The United States of America, acting by and through the Federal Railroad Administrator, on behalf of the Secretary of the Department of Transportation of the United States of America, pursuant to Section 602 of the Rail Passenger Service Act of 1970, as amended, and Section 6(a) of the Federal Financing Bank Act of 1973, with the approval of the Secretary of the Department of the Treasury of the United States of America, hereby unconditionally guarantees to the Federal Financing Bank, its successors and assigns, the payment of principal and interest when and as due on the foregoing Note in accord with the terms thereof, with interest on the principal until paid.

FEDERAL RAILROAD ADMINISTRATOR
acting as delegate of the
Secretary of Transportation,

DATE October 11, 1974

BY: John W. Ingram
Federal Railroad Administrator

CONFORMED COPY

CONFORMED COPY

NATIONAL RAILROAD PASSENGER CORPORATION

Guaranteed Note

Note No. Amtrak - 3

For value received, the National Railroad Passenger Corporation ("Amtrak") promises to pay the Federal Financing Bank (the "Bank") within 91 days from the date of the first advance under this Note (or upon expiration of the renewal periods as set forth herein below), such sums as may be advanced hereunder, not to exceed $100,000,000.00 (One Hundred Million Dollars) outstanding at any one time. Each advance shall bear interest at a rate per annum (calculated on a 365-day year basis) from the date of the advance until payment based on the coupon equivalent of the market yield on the most recently auctioned 91-day U.S. Treasury bill computed on the mean of the quoted bid and asked prices for such bill at two-thirty p.m. on the day of such advance plus 3/8 of 1% (three-eights of one percent).

This Note shall automatically be renewed upon the ninety-first day from the day of the first advance hereunder and for successive renewal periods, each of which shall be for 91 days, except that the last period shall extend from the commencement thereof to September 30, 1975, unless the Bank or Amtrak shall notify the other party in writing within 10 days before the renewal date of any such successive renewal period. At the time of the first advance, a mutually agreed upon schedule of renewal dates shall be annexed to this Note. On each renewal date the interest rate on the balance then outstanding shall be recalculated so that it shall bear interest for that renewal period at a rate per annum (calculated on a 365-day year basis) based on the coupon equivalent of the market yield on the most recently auctioned 91-day U.S. Treasury bill computed on the mean of the quoted bid and asked prices for such bill at two-thirty p.m. on the day of such advance plus 3/8 of 1% (three-eights of one percent). Interest accrued to and including each renewal date shall be payable on each such renewal date and interest accruing on and after the last renewal date, shall be payable at maturity.

The Bank shall receive from Amtrak and shall pay to the Federal Railroad Administrator of the Department of Transportation of the United States of America a guaranty fee calculated at the annual rate of 1/4 of 1% (one quarter of one percent) of the aggregate principal amount of advances outstanding hereunder from time to time. The accrued amount of the guaranty fee shall be paid to the Federal Railroad Administrator within twenty days after the maturity date of this Note.

CONFORMED COPY

Guaranteed Note

CONFORMED COPY

Advances on this Note shall be made from time to time by the Bank upon the written request of Amtrak in an aggregate amount not to exceed that authorized in writing by the Federal Railroad Administrator. Principal, interest, guarantee fee, and prepayment penalty (if the right of prepayment is exercised) shall be paid to the Bank in such funds as are then legal tender for the payment of debts due to the Bank. When the outstanding balance of advances made under this Note shall have been paid in full at maturity, the holder shall cancel and return this Note to Amtrak.

At the option of Amtrak, the balance outstanding of advances made under this Note may be prepaid, in whole or in part, with accrued interest on the amount prepaid, at any time before September 30, 1975, upon payment to the Bank of a prepayment penalty equal to 3/8 of 1% (three-eights of one percent) per annum (calculated on a 365-day year basis) on the principal amount prepaid determined from the date of the advance or advances to the date of prepayment. Partial prepayments shall be credited on advances in the order in which advances were made from the earliest to the most recent. For purposes of this paragraph, the balance outstanding on this Note on any renewal date shall be deemed to have been initially advanced on that date.

To the extent not inconsistent with applicable law, this Note, so long as the Bank is the holder hereof, shall be subject to modification by such amendments, extensions and renewals as may be agreed upon in writing from time to time by Amtrak and the Bank.

This Note is issued, executed, and delivered on behalf of Amtrak under and pursuant to the Rail Passenger Service Act of 1970, as amended (45 U.S.C. §§501 *et seq.*) and its powers as a corporation chartered under the provisions of the District of Columbia Business Corporation Act, as amended (D.C. Code §§29-901 *et seq.*).

IN WITNESS WHEREOF, the undersigned, a duly authorized officer of Amtrak, has executed this Note at Washington, D. C. by signing it as of the date hereof.

NATIONAL RAILROAD PASSENGER CORPORATION

By Robert C. Moot

DATE October 11, 1974

Vice President - Finance

CONFORMED COPY

Guaranteed Note

CONFORMED COPY

GUARANTEE CERTIFICATE

The United States of America, acting by and through the Federal Railroad Administrator, on behalf of the Secretary of the Department of Transportation of the United States of America, pursuant to Section 602 of the Rail Passenger Service Act of 1970, as amended, and Section 6(a) of the Federal Financing Bank Act of 1973, with the approval of the Secretary of the Department of the Treasury of the United States of America, hereby unconditionally guarantees to the Federal Financing Bank, its successors and assigns, the payment of principal and interest when and as due on the foregoing Note in accord with the terms thereof, with interest on the principal until paid.

FEDERAL RAILROAD ADMINISTRATOR
acting as delegate of the
Secretary of Transportation

DATE October 11, 1974

By John W. Ingram
Federal Railroad Administrator

CONFORMED COPY

CONFORMED COPY

NATIONAL RAILROAD PASSENGER CORPORATION

(Attachment to Note No. Amtrak - 3
issued to the Federal Financing Bank)

SCHEDULE OF RENEWAL DATES

January 10, 1975

April 11, 1975

July 11, 1975

CONFORMED COPY

AGREEMENT ON TERMS AND CONDITIONS IN CONNECTION WITH NOTE NO. AMTRAK--2 AND NOTE NO. AMTRAK--3

Whereas, the Federal Railroad Administrator ("Administrator") has guaranteed certain obligations of the National Railroad Passenger Corporation ("Amtrak") issued to the Federal Financing Bank under Note No. Amtrak--2 and Note No. Amtrak--3, both dated as of October 11, 1974;

Whereas section 602 of the Rail Passenger Service Act of 1970, as amended ("the Act") authorizes the Secretary of Transportation to attach terms and conditions to the guarantee of such obligations;

Whereas, section 9(e)(1) of the Department of Transportation Act authorizes the Secretary of Transportation to delegate and redelegate his authority;

The Administrator, acting as the Secretary's delegate, and Amtrak hereby agree as follows:

(1) Amtrak agrees to comply with the terms and conditions in Attachments A, B and C;

(2) Amtrak and the Administrator hereby affirm and adopt a Security Agreement between Amtrak and the Administrator, dated December 27, 1973, contained in Attachment D;

(3) The Administrator retains the right to approve the proposed use of the proceeds of loans guaranteed pursuant to this agreement.

These terms and conditions (as contained herein and in the attachments annexed hereto) shall terminate upon the happening of any of the following events, whichever occurs first: (i) upon cancellation of the Note No. Amtrak--2 and Note No. Amtrak--3, (ii) upon the effective date of issuance by the Secretary of Transportation of general guidelines pursuant to Section 602 of the Act designed to assist Amtrak in the formulation of capital and budgetary plans, or (iii) upon expiration of the date the Secretary of Transportation is by statute required to issue general guidelines pursuant to Section 602 of the Act designed to assist Amtrak in the formulation of capital and budgetary plans.

Dated: October 11, 1974

Federal Railroad Administrator

Attest:

John W. Ingram

Patrick O'Driscoll
Counsel, Federal Railroad Administration

SEAL

National Railroad Passenger Corporation

Attest:

Robert C. Moot

Waldon N. Smith
Assistant Secretary, National Railroad Passenger Corporation

SEAL

ATTACHMENT A

(to accompany Agreement dated October 11, 1974, between the Administrator and Amtrak)

TERMS AND CONDITIONS

I. Deposit and Disposition of Loan Guarantee Funds

The National Railroad Passenger Corporation, hereinafter referred to as Amtrak, agrees that all loan guarantee funds received hereunder will not be commingled with other funds of Amtrak. All loan guarantee funds will be deposited in a separate account or accounts under the requirements as set forth in the provisions of 31 U.S.C. section 867.

Amtrak agrees that all loan guarantee funds received hereunder will be solely for the purpose and in the amounts specified in its request as approved by the Administrator of the Federal Railroad Administration. Amtrak further agrees to use the proceeds of the loan only for financing purposes permitted by Section 602 of the Act, which presently include, without limitation, the upgrading of roadbeds and the purchase by Amtrak of new rolling stock, rehabilitation of existing rolling stock, reservation systems, switch and signal systems, and other capital equipment and facilities necessary for the improvement of rail passenger service.

II. Administrative and Fiscal Requirements

Amtrak shall operate and maintain an effective accounting system and related internal controls, and insure that adequate records are being maintained, that all loan guarantee funds are being controlled and expended in accordance with the Terms and Conditions set forth in this Agreement, and are reasonable and necessary for the purposes set forth above. In complying with these purposes Amtrak shall conduct audits of such cost reimbursement agreements as it may have the right to audit. Cost reimbursement agreements are agreements where Amtrak's obligation for payment depends on the costs actually incurred by the contractor in performing the contract.

Amtrak shall obtain the right to audit or to receive convincing evidence of the allowability of claimed costs of the contractor and its cost reimbursement subcontractors under any cost reimbursement agreement of $100,000 or more entered into subsequent to the date of this agreement unless this requirement is waived in writing by the Administrator.

All expenditures of loan guarantee funds shall be supported by appropriate documents, invoices, contracts, or vouchers evidencing in proper detail, the nature and the propriety of the charges.

III. Retention of Records and Audit

All financial records of Amtrak, including books of original entry, supporting accounting transactions, the general ledger, subsidiary ledgers, personnel and payroll records, canceled checks, reports of audits, both internal and external, and all other related documents and records must be maintained by Amtrak for a minimum period of three years following the close of Amtrak's fiscal year. The Administrator, and/or his duly authorized representatives, shall have access for the purpose of audit and examination to any books, documents, papers and records of Amtrak.

IV. Contracts

In the case of any expenditures of loan guarantee funds made available under this Agreement, all contracts for section 602 purposes shall (1) be awarded pursuant to a standard selection process approved by the Board of Directors; (2) if in excess of $50,000, be awarded pursuant to a standard competitive selection process to the maximum extent possible; (3) if in excess of $100,000, unless for the replenishing parts and supplies, or purchases of real property or leases for same extending beyond one year, be considered and approved by the Board of Directors. However, this section shall not apply to contracts entered into pursuant to sections 401, 402 and 403 of the Act.

V. Restrictions on Use of Federal Employees

Full-time employees of the Federal Government may not receive consultant fees, salaries, or travel expenses (unless on leave without pay) from any Federal funds except as may be authorized by statute.

VI. Prohibited Interests

Amtrak agrees that it will not enter into any contract, subcontract, or arrangement, except those entered into pursuant to sections 401, 402 and 403 of the Act, in which any officer, key salaried employee, or member of its Board of Directors (or members of their immediate family) during his tenure has any material interest, unless the same shall have been approved by a majority of the disinterested Directors or a committee of the Directors established to make such determinations in cases not otherwise requiring Board action. The selection process noted in Paragraph IV will include provisions to assure that persons with material interest are identified at the outset of contract source selection. This prohibition shall not be applicable with respect to utility and other services, the rates for which are fixed by Government regulation.

VII. Requests for Approval of Loan Guarantee Funds

To obtain approval for any release of any loan guarantee funds, Amtrak shall file with the Administrator:

(1) Three copies of its request in the format contained in Appendix A 1/ detailing the proposed use of the funds and indicating that the funds are to be used in accordance with the purposes set forth in section 602 of the Rail Passenger Service Act of 1970, as amended, and after September 1, 1974, satisfactorily explaining any variance of more than 20% from each category of the plan submitted under Paragraph IX(a)(2) of these conditions. Variations from Amtrak's capital plan may be explained by reason of a change in the timing of the expenditures, an overrun, and underrun, or a new or deleted item. Amtrak shall provide such other information clarifying the request as shall be required by the Administrator. Each request shall be initially acted upon within 5 full business days after it has been submitted to the Administrator.

1/ GAO note:
Copy not included.

(2) A request shall be accompanied by a certification of Amtrak's Vice President-Finance, that;

(a) he has examined the request (including any attachments thereto) and to the best of his knowledge, information, and belief that such request is true and accurate;

(b) all the loan guarantee funds which are the subject of Amtrak's request will be used only for financing purposes permitted by Section 602 of the Act.

(3) to the extent action of Amtrak's Board of Directors may be necessary to authorize a loan or acquisition which is the subject of a request to the Administrator under this agreement, a certified copy of Amtrak's Board of Directors' action shall be appended to the request;

(4) An opinion of counsel stating that he has examined the request, that the request is a duly authorized and legal action of Amtrak, and that acceptance of the proceeds of any notes guaranteed under this Agreement constitutes binding acceptance of the Terms and Conditions of this Agreement.

VIII. Reporting Requirements

Beginning with the effective date of this Agreement, Amtrak shall submit in triplicate the following reports 30 days after the close of each month in the format in Appendix B 1/

(1) source and application of funds statement; and

(2) monthly report of capital expenditures for each approved project of \$100,000 or more of the Amtrak's capital plan.

1/ GAO note:
Copy not included.

Beginning with the effective date of this Agreement, Amtrak shall submit the following reports in triplicate, 90 days after the close of each month in the format in Appendix C: 1/

(1) an income (profit and loss) statement comparing actual results with the projections required by Paragraph IX of this Agreement, with a summary for the fiscal year to date;

(2) a balance sheet with a comparison with the same month of the previous year;

(3) an operating summary by month comparing actual and budget revenues and expenses for the current month, with a statement for the year to date;

(4) a detailed operating statement for each route by railroad, with a statement for the year to date;

(5) a statement of facility expenses with a statement for the year to date;

(6) a statement of city-pair interline trains, with a statement of year to date, which may be combined with (4) above;

(7) a statement of joint facility expenses, with a statement for the year to date;

(8) a statement of monthly payments to railroads, with a statement of year to date;

(9) a profit analysis of each route over which trains are operated by or for Amtrak;

1/ GAO note:
Copy not included.

(10) a profit analysis for each experimental route operated by or for Amtrak;

(11) a profit analysis for that portion of each route operated by Penn Central; and

(12) a unit cost report.

IX. Corporate Planning

(a) Submission of Annual Planning Documents

Amtrak shall submit each year on September 1 data, material, and information to the Department of Transportation to enable execution of its statutory responsibilities. To the extent such data, material and information does not permit the Secretary of Transportation, in his opinion, to execute his statutory responsibilities, Amtrak will upon request supplement its submission to the Department and provide whatever materials are requested. The data, material, and information shall have been approved by Amtrak's Board of Directors prior to submission to the Department and shall include as a minimum, the following items, stated on a June 30 fiscal year basis, including the fiscal year in which the information is submitted:

(1) a four year operating plan, broken out by quarter, supported by:

(i) source and application of funds statement;

(ii) a profit and loss statement;

(iii) an operating statement based on route-by-route estimate of revenues and expenses;

(iv) a profit improvement plan, with the supporting detail, and an adjusted route-by-route operating statement.

(2) A four year capital plan supported by the financial analysis demonstrating the merit of each item in excess of $100,000, for each of the following categories, with proposed timing of expenditures broken out by quarter:

(i) The acquisition, purchase, or refurbishing of railroad rolling stock, stating whether such equipment is a locomotive, passenger car or self propelled car, and the type, function, cost of and a prospective ridership or other proposed route-by-route utilization analysis for each type of equipment in those categories;

(ii) terminals;

(iii) fixed facilities other than terminals, including but not limited to yards, repair and refurbishing facilities, including the proposed location of the facility and the number and functions of employees to be employed on a full time basis;

(iv) research and development;

(b) Review of Annual Plan

Within 30 days after submission of the required annual planning documents, the Administrator shall transmit his questions, comments, suggestions, recommendations and intended actions to Amtrak.

ATTACHMENT B
(to accompany Agreement dated October 11, 1974
between the Administrator and Amtrak)

National Railroad Passenger Corporation ("Amtrak") hereby agrees that as a condition to receiving any loan guarantee from the Department of Transportation it will comply with Title VI of the Civil Rights Act of 1964, 78 Stat. 252, 42 U.S.C. 2000d-42 U.S.C. 2000d-4 (hereinafter referred to as the "Act"), and all requirements imposed by or pursuant to Title 49, Code of Federal Regulations, Department of Transportation, Subtitle A, Office of the Secretary, Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation--Effectuation of Title VI of the Civil Rights Act of 1964 (hereinafter referred to as the "Regulations") and other pertinent directives, to the end that, in accordance with the Act, Regulations, and other pertinent directives, no person in the United States shall, on the grounds of race, or national origin, be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under any program or activity for which Amtrak receives loan guarantees from the Department of Transportation, including the Federal Railroad Administration, and HEREBY GIVES ASSURANCES THAT it will promptly take any measures necessary to effectuate this agreement.

The National Railroad Passenger Corporation hereby agrees as a condition of receiving a loan guarantee from the United States of America, acting by and through the Federal Railroad Administrator of the Department of Transportation of the United States of

America, that it will insert in every contract for the construction of new passenger stations or other buildings a clause requiring the prime contractor and any subcontractors to participate in the area-wide construction industry minority hiring program approved by the Department of Labor of the United States of America for the standard statistical metropolitan area or other geographical territory in which the construction project is located.

These ASSURANCES are given by Amtrak in consideration of and for the purpose of obtaining loan guarantees from the United States of America acting by and through the Federal Railroad Administrator of the Department of Transportation, under the Rail Passenger Service Act of 1970, as amended and as may be further amended from time to time.

Robert C. Moot
Vice President-Finance
National Railroad Passenger
Corporation
955 L'Enfant Plaza, North, S.W.
Washington, D.C. 20024

ATTACHMENT C
(to accompany Agreement dated October 11, 1974
between the Administrator and Amtrak)

Paragraph 1. Miscellaneous

(a) Air Pollution. No facilities or equipment shall be acquired, constructed, or improved or used as a part of Amtrak's operations unless Amtrak assures that they are (or will be) designed and equipped to limit air pollution in accordance with all applicable standards, State and Federal.

(b) How Terms and Conditions Affected by Provisions Held Invalid. If any provision of these terms and conditions is held invalid, the remainder of these terms and conditions shall not be affected thereby if such remainder would then continue to conform to the terms and requirements of applicable law.

(c) Bonus or Commission. Amtrak warrants that it has not paid, and also agrees not to pay, any bonus or commission for the purpose of obtaining the guarantee of notes hereunder.

(d) State or Territorial Law. Anything in these terms and conditions to the contrary notwithstanding, nothing in these terms and conditions, shall require Amtrak to observe or enforce compliance with any provisions thereof, perform any other act or do any other thing in contravention of any applicable State or territorial law: Provided, That if any of the provisions of these terms and conditions violate any applicable State or territorial law, or if compliance with the provisions of these terms and conditions would require Amtrak to violate any applicable State or territorial law, Amtrak will at once notify the

Administrator in writing in order that appropriate changes and modifications may be made by the Administrator and Amtrak to the end that Amtrak may proceed as soon as possible with Amtrak's use of the proceeds of loan guarantees.

(e) Use of Public Lands. No publicly owned land from a park, recreation area, or wildlife and waterfowl refuge of national, State, or local significance as determined by the Federal, State or local officials having jurisdiction thereof, or any land from a historic site of national, State, or local significance as so determined by such officials may be used for the project without the prior concurrence of the Administrator.

Paragraph 2. Rights in Inventions, Patents and Technical Data

If any funds guaranteed by the Administrator and subject to this Agreement are used to pay for work done under a contract having as its principal purpose research and development, Amtrak agrees to obtain for its own benefit, as well as for the benefit of its successors in interest, rights in inventions, patents, and technical data sufficient to permit Amtrak to obtain competitive bids for the manufacture, fabrication, or construction of any material, supplies, equipment, or any other thing which would involve the use of the items, components and processes developed under any such research and development contract.

ATTACHMENT D
(to accompany Agreement dated October 11, 1974
between the Administrator and Amtrak)

SECURITY AGREEMENT

* * * * * * * *

THIS AGREEMENT, made in Washington, D.C. on December 27, 1973, between NATIONAL RAILROAD PASSENGER CORPORATION ("Amtrak"), having its principal place of business at 955 L'Enfant Plaza North S.W., Washington, D.C. 20024, and the FEDERAL RAILROAD ADMINISTRATOR ("Administrator") of the Department of Transportation of the United States of America, Washington, D.C., WITNESSETH:

WHEREAS, the Administrator and Amtrak, pursuant to Section 602 of the Rail Passenger Service Act of 1970, as amended, have entered into two Guaranty Agreements dated December 27, 1973, ("Guaranty Agreements"), copies of which are attached hereto as Appendices A 1/ and B 1/, whereby the Administrator has agreed to guarantee payment of principal and interest on notes issued by Amtrak to the First National City Bank of New York and/or to the Chase Manhattan Bank, N.A.;

WHEREAS, as an inducement for the Administrator entering into the Guaranty Agreements, the Administrator and Amtrak have entered into two identical Agreements as to Terms and Conditions, dated as of December 27, 1973, ("Agreement as to Terms and Conditions"), copies of which are attached hereto as Appendices C 1/ and D; 1/

1/ GAO note:
Copy not included.

WHEREAS, the Administrator and Amtrak have previously entered into a Guaranty Agreement dated November 16, 1971, and into a Security Agreement, dated August 7, 1972, a copy of which has been recorded with the Interstate Commerce Commission under recordation number 6690 and a copy of which is attached hereto as Appendix E 1/, whereby Amtrak conveyed to the Administrator a security interest in all rolling stock acquired, or to be acquired by AMTRAK;

WHEREAS, pursuant to the Guarantee Agreements, up to $200 million in notes issued by Amtrak are or may be guaranteed by the Administrator, as to payment of principal and interest;

NOW THEREFORE, IT IS MUTUALLY AGREED, AS FOLLOWS:

(1) The rights vested in the Administrator by the Security Agreement of August 7, 1972, shall continue in full force and effect (including particularly but without limitation the title to Amtrak rolling stock contained in Exhibit D thereto, which Title vested in the Administrator by paragraph (1) of that Agreement), except for rolling stock which has been released from any lien of the Administration as evidenced by releases from each lien filed with the Interstate Commerce Commission under recordation numbers 6690A, 6690B and 6690C, copies of which are attached hereto as Appendices F, 1/ G 1/ and H, 1/ respectively, and, further, except for other releases from such lien and other modifications or addendums which may be executed from time to time;

1/ GAO note:
Copy not included.

(2) The rights vested in the Administrator by the Security Agreement of August 7, 1972, and Amtrak's convenants therein, shall continue in full force and effect as long as either the Credit Agreement between Amtrak and the First National City Bank and/or the Credit Agreement between Amtrak and the Chase Manhattan Bank, N.A., are in effect, and paragraph (3) of the aforesaid Security Agreement of August 7 is modified accordingly.

ATTEST Robert S. Medvecky

NATIONAL RAILROAD PASSENGER CORPORATION

SEAL

BY: Robert C. Moot

FEDERAL RAILROAD ADMINISTRATOR

ATTEST D.W. Bennett

BY: Henry F. Rush Jr.

BASIC ASSUMPTIONS APPLICABLE TO COMPUTATIONS INCLUDED IN REPORT DISCUSSION OF AMTRAK's LOAN REPAYMENT PROSPECTS (See p. 27.)

1. AMTRAK's proposed capital improvement program will not continue beyond fiscal year 1975 and its total guaranteed obligations outstanding at the end of 1975, estimated to be about $425 million, will comprise the total amount of loan debt for which annual repayment requirements will be computed. This amount includes the Government's maximum guarantee obligation (principal portion) under AMTRAK's leveraged lease agreements (estimated $121 million) and its repayment obligations under line-of-credit arrangements with the Federal Financing Bank (estimated $304 million). Including the leveraged lease obligations is predicated on the further assumption that AMTRAK can obtain the necessary releases to pay off its long-term lease obligations (and obtain title to the equipment) through direct loan financing spread over various repayment periods.

2. Loan repayments will be made over 5, 10, or 15 years at an interest rate of 9 percent starting in fiscal year 1976.

3. AMTRAK's annualized costs ($497.9 million excluding interest) and revenues ($286.5 million) projected for 1975 in its 5-year (FY 1975-79) financial program dated August 30, 1974, will remain constant during the repayment years. (This does not take into consideration any cost increases due to inflation--in today's economic outlook it is unlikely that wages and prices could be held constant. Also, no consideration is given to increased costs anticipated from such things as performance incentive payments to operating railroads and a second round of passenger car overhauls.)

4. Unlimited fare increases would not have an adverse effect on ridership. (It is generally recognized that fare increases above a certain level have an adverse effect on ridership. AMTRAK officials

believe that a fare increase greater than 6 percent would result in a decrease in ridership.)

5. Any decrease in customer service that would accompany cost reductions would not adversely affect ridership. (AMTRAK believes that much of its increased ridership is attributable to better equipment and service.)

6. Route eliminations could be made without regard to statutory requirements for initiating or retaining particular routes.