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AMTRAK

Early Progress Made in Implementing Strategic and Business Plan, but Obstacles Remain

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Mr. Chairman and Members of the Subcommittee:

We are pleased to provide this statement on Amtrak's progress in implementing its strategic and business plan. Over the past year, we have issued reports on Amtrak's financial and operating conditions and on the status of the Northeast Corridor Improvement Project.[1] We have also testified before various congressional committees on Amtrak's financial condition and the prospects for recovery. We are continuing to monitor Amtrak's progress as it attempts to address its current financial crisis and to reorganize its operations to become more efficient.

In summary, our work shows:

-- To respond to its deteriorated financial condition, Amtrak has developed a strategic and business Plan. The plan is aimed at reducing costs by adjusting routes and the frequency of service, retiring some of Amtrak's oldest cars, reducing staff, and improving labor productivity. Net savings from these measures are anticipated to be $173 million in fiscal year 1995, or $364 million on an annualized basis.[2] Preliminary indications show that Amtrak has achieved some early successes in implementing its plan. From October 1994 through April 1995, Amtrak estimates it has saved about $58 million, which is $22 million more than originally projected by this time. However, fulfilling the plan is still contingent on a number of actions that will be difficult to achieve. These actions include contracting out maintenance work and increasing state and local contributions, which will require either legislation, collective bargaining, negotiations with state and local agencies, or some combination of these. Moreover, even if the plan is completely implemented, Amtrak estimates that it will still need an additional $1.3 billion between 1995 and 2000 if federal grants remain at current levels.[3] If federal operating grants are gradually phased out, as is currently under consideration, the shortfall rises to $2.6 billion.

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[1] Intercity Passenger Rail: Financial and Operating Conditions Threaten Amtrak's Long-Term Viability (GAO/RCED-95-71, Feb. 6, 1995); Amtrak's Northeast Corridor: Information on the Status and Cost of Needed Improvements (GAO/RCED-95-151BR, Apr. 13, 1995).

[2] Amtrak's plan is going into effect during fiscal year 1995 and different components will be introduced at different times. To gain a sense of the annual impact Amtrak, projected (annualized) the effect of the savings for the entire year.

[3] Amtrak's financial support from the federal government in fiscal year 1995 was $972 million and consisted of an operating grant, a capital grant, a grant for the Northeast Corridor Improvement Project, and an amount to cover Amtrak's contribution to Railroad Retirement Trust Fund.

-- Amtrak also has large capital requirements to remain competitive. About $1.3 billion of these capital needs are for acquiring locomotives and improving facilities systemwide. However, the bulk is for continuing the Northeast Corridor Improvement Project to extend high-speed, electrified rail service between New York and Boston--referred to as the north end--and to rehabilitate the infrastructure between Washington and New York--referred to as the south end. Since 1976, the federal government has invested about $3.5 billion in the corridor, but substantially more money will be needed. According to Amtrak, about $900 million will be needed to complete the electrification and purchase high-speed trains, between $2.5 and $3.5 billion will be needed to bring the south end of the corridor up to a state of good repair, and about $1.6 billion will be needed to increase capacity and rehabilitate the infrastructure on the north end of the corridor after high speed service is introduced.[4] These capital requirements are not addressed by Amtrak's plan. Moreover, if federal capital grants are also phased out, alternative financing sources, such as state and local governments, will be required.

While Amtrak is making progress in fulfilling the goals of its plan, it faces significant financial challenges to its future. Even if Amtrak is completely successful in fulfilling its plan, it is doubtful that anytime in the foreseeable future Amtrak can become self-sufficient.

BACKGROUND ON AMTRAK'S FINANCIAL AND OPERATING CONDITIONS

Amtrak's financial condition has deteriorated to the point where, without substantial changes, the corporation will be unable to continue offering quality service over a national route network. Amtrak's financial condition has always been precarious but has deteriorated steadily since 1990 to the point at which the corporation's ability to offer quality service over the current nationwide system is seriously threatened. From 1991 to 1994, revenues were $600 million below what was projected, while expenses were higher than planned. Projected revenues did not materialize for a number of reasons, including a declining service quality, competition from airlines, and a spate of passenger train accidents. As a result, Amtrak's revenues and federal operating grants did not cover operating deficits. To help cover the gap, Amtrak drew down its cash resources, deferred maintenance on train equipment, and reduced staffing levels and some service. Despite these efforts, the 1994 deficit exceeded the federal operating

[4]The monies spent in earlier years are in prior year dollars and, in fact, represent larger expenditures in today's dollars. On the other hand, estimates of future years are in today's dollars and so the actual outlay might be greater as a result of future inflation.

grant by $76 million. Amtrak projected that this gap would have increased to almost $200 million in 1995 unless it took action. At the end of 1994, Amtrak had a negative working capital balance of $227 million.

In fairness, Amtrak's situation is not atypical of other passenger train services. Even in Europe and Japan, where the operating environments are much more favorable to intercity train travel, rail passenger systems require substantial operating and capital grants.

IMPLEMENTATION OF AMTRAK'S STRATEGIC AND BUSINESS PLAN SHOWS EARLY PROGRESS, BUT MUCH REMAINS TO BE DONE

Early this year, Amtrak announced a plan to reduce costs and the corporation's reliance on federal operating grant. A principal element of Amtrak's strategy is to decentralize decision-making. Instead of having a single corporate entity, Amtrak has devolved responsibility for costs and revenues into several "strategic business units." The expectation is that, by placing responsibility for managing routes into business units dealing with specific areas of rail passenger service, Amtrak can achieve operating efficiencies and improve customer service.

The plan calls for reducing costs by about $201 million in fiscal year 1995 and substantially reducing the expected gap between Amtrak's federal operating grant and the deficit in 1995. On an annualized basis, the plan is designed to generate about $431 million in cost reductions over the next 5 years. These savings would be partially offset by $99 million annually in lost revenues due to service reductions but would be augmented by $31 million annually from revenue increases largely due to fare increases. The net projected savings, therefore, would be $363 million annually.

Preliminary indications are that Amtrak has made some progress in implementing its plan; however, much remains to be done. For example, through April 1995, Amtrak reported savings of $58 million which is $22 million more than anticipated by this time. The key components of Amtrak's plan, including the projected savings from and implementation status of each component as of June 1995, are discussed in appendix 1. For some of the components, such as overhead reduction, Amtrak appears to have taken action or to be evaluating potential actions. Other areas, such as savings from increased productivity, largely await the outcome of collective bargaining or legislative actions that would give Amtrak greater freedom to contract out. It is in route and service changes, however, where the largest financial impacts are expected. Specifically, Amtrak is projecting $70 million in net savings in fiscal year 1995 and annualized net savings of $198 million over the next 5 years. The initial results appear to support Amtrak's claim that it can reduce the frequency of service while retaining much of its customer base.

But, even if Amtrak is fully successful in implementing its plan, operating expenses will still exceed revenues by $1.3 billion over the next 5 years, and that assumes that federal support remains at current levels. If federal operating grants are gradually phased out, as is currently under consideration, the shortfall could rise to $2.6 billion.

Amtrak plans to turn increasingly to state and local governments to finance its deficits. Some states that were facing possible service reductions in February have agreed to "buy back" some services--contributing $14.5 million (annualized) to retain 1.1 million of the 8.8 million train miles that Amtrak planned to eliminate. While the states' action indicates a general willingness to pay to preserve some service, it does not necessarily mean that the states are ready and able to assume the entire responsibility for supporting Amtrak. How the responsibility for costs will be allocated among the states is a question Amtrak is studying and we are monitoring.

AMTRAK HAS SUBSTANTIAL CAPITAL NEEDS, PARTICULARLY IN THE NORTHEAST CORRIDOR

In addition to operating grants, Amtrak also receives capital grants to fund equipment needs and infrastructure requirements. Systemwide, Amtrak estimates it will need about $1.3 billion over the next 7 years for equipment (mostly locomotives) and facilities. However, Amtrak's largest capital needs are in the Northeast Corridor, where Amtrak owns most of the rights-of-way. Since 1976, the federal government has appropriated nearly $3.3 billion (in current year dollars) to develop high-speed rail service in the densely traveled corridor between Washington and Boston. The Northeast Corridor Improvement Project initially concentrated on the already electrified, southern end between New York and Washington. This service is highly successful, and Amtrak captures about 45 percent of the air/rail travel market. To achieve similar success in the New York-Boston market, Amtrak estimates that an additional $900 million will be needed to put the infrastructure in place (mainly to electrify the line between New Haven and Boston and to purchase new high-speed trains) to initiate high-speed service. Travel time between New York and Boston will be reduced to less that 3 hours.

While providing trip times below three hours would meet the legislated objectives of the Northeast Corridor Improvement Project, considerably more funding will be required if Amtrak is to (1) achieve its market-share goals for service between New York and Boston and (2) maintain the current level of high-speed service between Washington and New York. Because Amtrak shares its Northeast Corridor tracks with commuter and freight railroads which also anticipate growth into the next century, the adequacy of the track's capacity between New York and Boston is a concern. The Federal Railroad Administration (FRA) estimates that about $600 million will be required to add the capacity needed to allow 16 high-speed trains per day to operate between New York and Boston--a key element of Amtrak's market-share goals. Additionally, FRA estimates that about $1 billion will be required after the year 2000 to address future infrastructure rehabilitation requirements. This brings the total capital requirements between New York and Boston to $2.5 billion.

Maintaining the current level of high-speed service between Washington and New York will require an even larger capital investment. Much of the money spent on the New York to Washington segment has been used to upgrade the infrastructure for high-speed service. Consequently, ongoing maintenance requirements were not addressed. While Amtrak has used limited amounts of its general capital and some project funds to address some of the most pressing maintenance requirements, according to Amtrak the infrastructure now requires between $2.5 and $3.5 billion to meet the accumulated maintenance requirements. Amtrak has expressed concern that if these requirements are not addressed, the ride quality will deteriorate and trip times will lengthen, resulting in reduced ridership and revenues in Amtrak's most heavily used market. Neither the anticipated decline in revenues nor the capital required to avoid that decline is included in Amtrak's plan. Without addressing these additional capital needs, it is unlikely that the full benefits of the Northeast Corridor Improvement Project will be realized.

CONCLUSIONS

While its Strategic and Business Plan represents an aggressive first step, Amtrak still faces continuing and serious funding shortfall. Even if it achieves all of the savings envisioned by its plan and federal support continues at the present level, Amtrak will still fall $1.3 billion short of covering its costs. If federal operating grants are phased out, the shortfall will increase to $2.6 billion. Moreover, even if Amtrak were able to increase revenues or secure additional state financial assistance to cover its deficits, it would still face substantial capital needs.

While it appears Amtrak is making progress in reducing costs and closing the gap between its operating grant and its deficits, it will continue to require substantial operating and capital grants if it is expected to maintain a nationwide route network. The question that needs to be addressed is how much the federal and state governments are willing and able to spend on intercity passenger rail in this nation and how large a route network that level of funding will be able to sustain.

STATUS OF AMTRAK'S STRATEGIC AND BUSINESS PLAN AS OF APRIL 1995

The following summarizes Amtrak's progress in implementing key components of its Strategic and Business Plan. Tables I.1 and I.2 provide a quick summary of each action, Amtrak's projected savings for fiscal year 1995, and the annualized projected savings.

ACTIONS TO INCREASE REVENUES

Amtrak is projecting $24 million in additional revenues for fiscal year 1995. This equates to $31 million on an annualized basis. By increasing fares on selected routes and extending peak hour pricing Amtrak expects to increase revenues by $20 million in fiscal year 1995 ($25 million on an annualized basis). In October 1994 and January 1995, Amtrak increased fares for travel in the Northeast Corridor and expanded the definition of "peak hour" travel to include more hours and Sunday travel. Revenues are $6 million ahead of plan and passenger yields[5] have risen 5 percent compared with fiscal year 1994.

Other planned actions to increases revenues include developing additional commuter business, increasing the sale of advertising and property rights, and expanding the use of sale/leaseback for locomotives. In February 1995, Amtrak began operating new commuter rail service in San Diego, California. This is expected to generate about $1 million in additional revenue annually. An additional $3 million in 1995 revenues is expected from selling advertising and increasing telecommunications access to Amtrak property. These actions are currently being developed by the Northeast Corridor Strategic Business Unit. Finally, no action has been taken on the sale and leaseback of locomotives.

ACTIONS TO CUT COSTS

Amtrak is projecting $150 million in cost savings in fiscal year 1995. This equates to $333 million when annualized.

Route and Service Changes

A key aspect of achieving the revenue and cost goals of Amtrak's Strategic and Business Plan are route and service adjustments. Amtrak expects to achieve net savings of $70 million in 1995 ($198 million on an annualized basis) from eliminating and truncating certain routes and reducing frequencies on most others. These adjustments will be implemented in stages. Some route and service changes were implemented in February and April 1995 and

[5] Yields are defined as ticket revenue per passenger mile.

additional changes are expected in June and September 1995. In total, approximately 23 percent of Amtrak's train miles of service are expected to be eliminated.

Amtrak's Strategic and Business Plan includes eliminating the three poorest performing routes, truncating four other routes, and reducing the frequency of service on the remainder of the system. Because of the nature of train travel, Amtrak believes riders will adjust their schedules rather than abandon passenger rail. As a result, less than $100 million in annual revenues are expected to be lost. To date, information is limited on the results of route and service changes. According to Amtrak, the February 1995 changes reduced train miles of service by 8.1 percent (151,000). The April 1995 actions were expected to eliminate an additional 7.8 percent of train miles of service. Preliminary indications show that Amtrak has largely retained riders despite the service reductions. Amtrak expected to lose approximately 56,000 riders because of the service changes made in February but lost only 33,000.

Some of the planned cutbacks were not implemented. This is because states have elected to "buy back" service and increase their financial support. Through April 1995, some states have bought back service for a total of $14.5 million annually to continue over 1.1 million train miles of the 8.8 million train miles that Amtrak had proposed discontinuing.

Administrative Reforms and Overhead Reductions

Amtrak's planned administrative reforms and overhead reductions include reducing management and support staff by 25 percent, reducing health care costs by 5 to 10 percent, reforming Amtrak's purchasing process, and enhancing communications. Amtrak is projecting that these actions will save about $43 million in fiscal year 1995 ($64 million on an annualized basis). Through March 1995, Amtrak had achieved a net reduction of about 1,200 full time equivalent positions--420 of 600 management positions and about 800 support positions. Amtrak officials expect that the overall goals in reducing staff will be achieved. Although Amtrak plans to reduce health care costs, to date no specific actions have been taken. According to Amtrak, this issue is currently under study. Reform of the purchasing process is also being studied, and Amtrak has begun renegotiating contracts with outside vendors. Finally, actions are under way to improve communications. In particular, hand held computers are being used to sell tickets on some Metroliner trains.

Saving from Maintenance of Equipment Actions

Amtrak plans to save $24 million in 1995 ($42 million on an annualized basis) by improving how its equipment is maintained. The February 1995 service changes allowed Amtrak to reduce its car and locomotive fleet about 40 percent--167 of 428 cars. More cars and locomotives will likely be retired as a result of the April and June 1995 service changes. Other planned savings in equipment maintenance, from such steps as contracting out locomotive maintenance and merging maintenance crafts, will require collective bargaining or legislation. According to Amtrak, the individual business units are charged with the responsibility for achieving these savings, so it will be up to these units to find alternative ways of reducing costs if contracting out or merging crafts are not options. In the interim, Amtrak believes improvements in productivity have reduced the need for overtime.

Savings from Operating Practices and Improved Maintenance-of-Way Equipment

Amtrak's Strategic and Business Plan calls for $13 million in savings in 1995 ($29 million annualized) from reducing train and engine crews, reducing labor costs from infrastructure improvements, and expanding the contracting out of maintenance-of-way activities. To achieve these savings, either legislation and/or collective bargaining will be required. To date, there has been little progress in this area. However, Amtrak believes some savings have been achieved through reduced overtime and the introduction of new maintenance-of-way equipment on the Northeast Corridor. According to Amtrak, 200 full-time equivalent positions of overtime work have been eliminated through improved productivity.

Table I.1: Status of Amtrak's Actions to Increase Revenues

(Dollars in millions)

Action	Projected fiscal year 1995 revenue gains	Projected annualized revenue gains	Status
Increase fares and peak pricing	$20	$25	Under way. Peak hours expanded on northeast corridor
Develop additional commuter business	1	1	San Diego service begun February 1995
Sell advertising and property rights; develop telecommunications	3	5	Under way
Expand sale and leaseback of locomotives	[a]	[a]	No action to date
Total revenue gains	**$24**	**$31**	

[a]Amtrak did not provide specific revenue estimates for these items.

Source: GAO's analysis of Amtrak's data.

Table I.2: Status of Amtrak's Actions to Cut Costs

(Dollars in millions)

Action	Projected fiscal year 1995 cost savings	Projected annualized cost savings	Status
Route and Service Changes			
Eliminate/truncate certain routes and reduce frequency in some areas	$70	$198	Being implemented
Eliminate/adjust additional routes and services	[a]	[a]	Under way
Administrative reforms and overhead reductions			
Reduce management and support staff by 25 percent	30	34	Under way
Reform purchasing and information systems	13	30	Under way
Enhance point-of-sale/real-time communications	[a]	[a]	Under way
Reduce health care costs by 5 to 10 percent	[a]	[a]	Under study
Maintenance of equipment (MoE)			
Outsource locomotive maintenance and other repair operations	13	27	Legislative change required
Retire cars and locomotives	11	15	Under way.
Merge crafts in MoE facilities	[b]	[b]	Collective bargaining required

Action	Projected fiscal year 1995 cost savings	Projected annualized cost savings	Status
Operating and Maintenance of way (MoW)			
Reduce train and engine crews	9	15	Requires collective bargaining
Reduce labor costs by restoring infrastructure and introducing new MoW equipment	4	14	No action on infrastructure. Some labor cost savings
Expand MoW outsourcing	[a]	[a]	Requires legislative change
Net cost savings	**$150**	**$333**	

[a]Amtrak did not provide specific cost estimates for these items.
[b]Included as part of outsourcing locomotive maintenance and other repair operations.

Source: GAO's analysis of Amtrak data.

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