



January 2016

AMTRAK

Better Reporting, Planning, and Improved Financial Information Could Enhance Decision Making

GAO Highlights

Highlights of [GAO-16-67](#), a report to congressional requesters

Why GAO Did This Study

Amtrak provides a range of passenger services on its Northeast Corridor, state-supported, and long-distance routes, but has not consistently reported revenues and expenses for these services. In 2008, PRIIA directed Amtrak to address this and other issues. In response, Amtrak reorganized into three business lines for its services to make its finances more transparent and management more accountable. GAO was asked to review Amtrak's efforts to reorganize and implement certain PRIIA reforms.

This report evaluates: (1) the status of Amtrak's reorganization; (2) Amtrak and stakeholder efforts to address Northeast Corridor infrastructure needs; and (3) the impact of PRIIA requirements on state-supported routes. GAO reviewed Amtrak financial data (fiscal years 2010 through 2014), planning documents, and interviewed Amtrak officials and key stakeholders from the FRA, 18 states that support Amtrak routes, and 7 commuter or intercity passenger railroads selected for their scope of operations.

What GAO Recommends

GAO recommends that Amtrak (1) prioritize the adoption of its strategic management system company-wide, (2) improve its financial reporting, and (3) detail costs of state-supported routes paid by federal grants and (4) that the Commission develop criteria to prioritize planned investments. Amtrak agreed with the first recommendation and provided context about the other recommendations. GAO continues to believe its recommendations are valid as discussed further in this report. The Commission concurred with GAO's recommendation for it.

View [GAO-16-67](#). For more information, contact Susan Fleming at (202) 512-2834 or flemings@gao.gov

January 2016

AMTRAK

Better Reporting, Planning, and Improved Financial Information Could Enhance Decision Making

What GAO Found

Amtrak's 2012 reorganization into Northeast Corridor, state-supported, and long-distance business lines established a structure to improve accountability for performance, but Amtrak could do more to accurately demonstrate its results. Most notably, Amtrak's new strategic management system as implemented by its long-distance line of business reflects several leading performance-management practices, such as linking line-of-business goals and initiatives to corporate-wide strategic goals, assigning personnel to execute initiatives, and tracking the results. However, Amtrak has not prioritized the implementation of this system across all of its remaining lines of business and departments. Furthermore, Amtrak's inconsistent and incomplete reporting of its financial data hinders Amtrak's ability to demonstrate the performance of its lines of business.

Amtrak and its stakeholders have developed a plan to address critical Northeast Corridor infrastructure needs, but its implementation faces significant challenges. Many of the corridor's bridges and tunnels are aging and in need of replacement to bring them to a state of good repair. The Northeast Corridor Infrastructure and Operations Advisory Commission (Commission)—which includes the Department of Transportation, Amtrak, states, and others—has developed a 5-year capital plan costing \$17.7 billion from fiscal years 2016 through 2020 to begin addressing the backlog of deferred investments and make other improvements. But implementing this plan presents challenges because it lacks funding for 60 percent of its costs and would require Amtrak, states, commuter railroads, or the federal government to provide additional funding of about \$2.1 billion per year through 2020. The Commission also lacks criteria for prioritizing projects; as a result, Congress and states lack information to inform their decisions about whether to provide additional funding to implement the Commission's plans.

Although requirements in the Passenger Rail Investment and Improvement Act (PRIIA) of 2008 have resulted in a methodology that increased states' share of costs on state-supported routes and reduced federal subsidies, these routes still require federal funds to support their operation. More specifically, states' increased share of operating and capital equipment costs reduced Amtrak's reliance on federal funds by about \$100 million for these routes in fiscal year 2014 compared to 2013. Amtrak still required almost \$86 million in federal grants in fiscal year 2014 to cover operating losses from these routes, and Amtrak reported that it will continue to require federal funding for these routes. However, Amtrak has not developed clear information detailing the specific costs and activities that this federal assistance is intended to cover. In the absence of such detailed information, Amtrak lacks critical information to help it assess its costs and is not well positioned to develop strategies to reduce the cost of its services. Similarly, many states have questioned the accuracy or transparency of Amtrak's cost information, and Amtrak has experienced challenges in finalizing fiscal year 2015 operating agreements with several states. In response, Amtrak, states, and the Federal Railroad Administration (FRA) have established a formal process for the parties to discuss states' concerns and make improvements to the cost allocation process moving forward. Some states have also sought opportunities to reduce costs by seeking alternative passenger rail providers, but the results of these efforts have yet to be realized.

Contents

Letter		1
	Background	5
	Reorganization Has Established a Structure to Improve Accountability, but Amtrak Lacks Tools and Data to Demonstrate Results	15
	Amtrak and Stakeholders Have Developed a Plan to Address Critical Northeast Corridor Infrastructure, but the Plan's Implementation Faces Challenges	27
	States Have Assumed a Greater Share of Costs for State-Supported Routes, but Have Raised Concerns over the Transparency of Amtrak's Charges	39
	Conclusions	51
	Recommendations for Executive Action	53
	Agency Comments and Our Evaluation	54
Appendix I	Objectives, Scope, and Methodology	58
Appendix II	Long-standing Performance Challenges to Amtrak's Long-distance Routes	63
Appendix III	Recent Legislation, Funding Proposals, and Debt-Financing Options for the Northeast Corridor Rail Network	67
Appendix IV	List of Organizations and Individuals Interviewed	71
Appendix V	Comments from Amtrak	73
Appendix VI	GAO Contact and Staff Acknowledgments	76

Tables

Table 1: Funded and Unfunded Investments in the Northeast Corridor Commission's 5-Year Capital Plan, Fiscal Years 2016–2020	36
Table 2: Amtrak's Reported Costs of State-Supported Services Not Directly Allocated to States in Fiscal Year 2014	44
Table 3: Amtrak's Southwest Chief Route with Rural Station Rollovers (Corresponds to Fig. 11)	66

Figures

Figure 1: Amtrak Revenue, Expenses and Operating Losses, Fiscal Years 2009–2014	6
Figure 2: Federal Grants to Amtrak, Fiscal Years 1971–2015	7
Figure 3: Map of Amtrak's Lines of Business and Terminals	9
Figure 4: Northeast Corridor Rail Network Ownership and Operations	11
Figure 5: Amtrak Ridership by Business Line, Fiscal Years 2009–2014	13
Figure 6: Amtrak's Reported Operating Contribution by Business Line, Fiscal Years 2009–2014	15
Figure 7: Amtrak's Reported Northeast Corridor Revenues and Ridership, Fiscal Years 2009–2014	28
Figure 8: Selected Bridges and Tunnels on Amtrak's Portions of the Northeast Corridor Identified for Rehabilitation or Replacement	30
Figure 9: Amtrak's Reported Federal and State Contributions for State-Supported Amtrak Routes, Fiscal Years 2010–2014	41
Figure 10: Iowa Pacific Holdings Passenger Rail and Dining Car Service Provided on the Hoosier State Route	49
Figure 11: Case Study of a Largely Rural Long-distance Route: Amtrak's Southwest Chief with Rollovers for Rural Stations	65

Abbreviations

DOT	Department of Transportation
FRA	Federal Railroad Administration
IPCD	Intermodal Passenger Connectivity Database
MBTA	Massachusetts Bay Transportation Authority
PRIIA	Passenger Rail Investment and Improvement Act of 2008
RRIF	Railroad Rehabilitation and Improvement Financing
SEPTA	Southeastern Pennsylvania Transportation Authority
TIFIA	Transportation Infrastructure Finance and Innovation Act

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



January 6, 2016

The Honorable Mike Enzi
Chairman
Committee on the Budget
United States Senate

The Honorable Cory Booker
Ranking Member
Subcommittee on Surface Transportation and Merchant Marine
Infrastructure, Safety and Security
Committee on Commerce, Science, and Transportation
United States Senate

The Honorable Roger Wicker
United States Senate

The Honorable Gary Palmer
House of Representatives

The National Railroad Passenger Corporation (Amtrak) provides almost all the intercity passenger rail service in the U.S., earning about \$3 billion in revenue and carrying about 31-million passengers in fiscal year 2014. Created by the federal government to take over unprofitable passenger rail service from freight railroads, Amtrak started service in 1971 using equipment inherited from these railroads. In 1976, Amtrak acquired control over much of the busy Northeast Corridor rail network, from Washington, D.C., to Boston, MA, allowing Amtrak to operate higher speed intercity passenger rail service and making it responsible for a critical part of the national rail network. Since its early years of operations, Amtrak has also increasingly contracted with states and local governments to provide them intercity rail services across the country. Today, Amtrak's 20,000 employees provide a range of passenger rail services, including frequent service along the Northeast Corridor, shorter-distance intercity services that receive some financial support from 18 states, and long-distance services that connect rural areas with major cities.

However, Amtrak has not consistently reported on the revenues and expenses for its different services and has had difficulty determining which services require more or less federal funds. The Passenger Rail

Investment and Improvement Act (PRIIA) of 2008 directed Amtrak to work with the Federal Railroad Administration (FRA) and others to address the planning, funding, and performance of Amtrak's services by:

- collaborating with stakeholders to plan infrastructure and operational improvements on the Northeast Corridor, including developing a methodology for sharing operations and infrastructure-maintenance costs among Amtrak and commuter railroads that use the corridor;¹
- working with states to develop a standardized methodology for allocating responsibility for the costs of state-supported routes to Amtrak and the states;² and,
- developing and implementing performance improvement plans for Amtrak's long-distance routes.³

In addition, PRIIA required Amtrak to report its revenues and expenditures for each route individually and by lines of business.⁴ Partly in response to PRIIA and to increase management focus on the different services it provides, Amtrak reorganized in October and November 2012 into lines of business centered on three different intercity passenger rail operations—Northeast Corridor, state-supported, and long-distance services, and a fourth business line focused on the planning and development of the Northeast Corridor's infrastructure.

You asked that we examine how Amtrak's most recent reforms have impacted its operational and financial performance and affected Amtrak's need for federal funds, among other issues. This report evaluates:

- the status of Amtrak's recent reorganization;
- Amtrak and stakeholder efforts to plan for and address the Northeast Corridor's infrastructure needs; and,

¹Pub. Law 110-432, div. B, § 212 (2008).

²PRIIA required that Amtrak, relevant states and the District of Columbia develop and implement a single, nationwide standardized methodology for establishing and allocating the operating and capital costs among the states and Amtrak associated with trains operated on each of the state-supported routes. Pub. L. No. 110-432, div. B, § 209.

³Pub. Law 110-432, div. B, § 210.

⁴Pub. L. No. 110-432, div. B, § 203(c).

-
- the impact of PRIIA requirements on state-supported routes.

To assess the status of Amtrak's reorganization, we reviewed Amtrak's documentation on (1) the creation of its lines of business, (2) its 5-year financial plans and audited financial statements for financial results from fiscal years 2010 to 2014, and (3) its strategic management system designed to manage its business improvement initiatives. We compared Amtrak's strategic management system to leading and useful practices regarding the importance of strategic planning and performance reporting.⁵ We also compared Amtrak's processes for internal and external reporting of performance and financial information against *Standards for Internal Control in the Federal Government* to determine the extent to which the information and its reporting comported with these criteria.⁶ While Amtrak is not required to abide by the *Standards for Internal Control in the Federal Government*, the management controls described in the standards are consistent with the management practices of leading organizations. We also reviewed Amtrak and FRA data from fiscal years 2010 to 2015 on the status of Amtrak's Performance Improvement Plans for all 15 of Amtrak's long-distance routes, which were created from 2010 through 2012. We used Amtrak's audited consolidated financial statements and monthly performance reports, which are unaudited, to describe Amtrak's financial performance overall and by line of business, respectively. To assess the reliability of this information, we reviewed prior reports by GAO and the Inspector General for the Department of Transportation regarding the reliability of Amtrak's financial reporting and cost allocation systems. We reviewed the methodology used by the Inspector General for the Department of Transportation in evaluating Amtrak's financial reporting and determined that it was sufficiently reasonable for us to rely upon the results. We also interviewed Amtrak's Controller and finance department officials, as well as officials in the office of Amtrak's Inspector General. Based on statements on Amtrak's internal controls from Amtrak's external auditors and interviews with Amtrak officials, we determined that Amtrak's financial information for its lines of business has limitations, as we describe in this

⁵GAO, *Executive Guide: Leading Practices in Capital Decision-Making*, [GAO/AIMD-99-32](#) (Washington, D.C.: December 1998) and GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003).

⁶GAO, *Internal Control: Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

report. However, we believe the data are reasonably sufficient to illustrate summary financial information and make general comparisons between lines of business for the purposes of this report.

To assess Amtrak and stakeholder efforts on the Northeast Corridor, we reviewed relevant PRIIA requirements and analyzed documentation from Amtrak and Northeast Corridor stakeholders describing efforts to plan for and address Northeast Corridor investment needs. These stakeholders included states along the Northeast Corridor and commuter railroads that operate over the Northeast Corridor. We compared the process used by Amtrak and these stakeholders to assemble a 5-year capital plan with leading practices for capital decision making that we previously identified.⁷ To determine the impact of the requirements in PRIIA for a standardized methodology for allocating the costs of state-supported routes to Amtrak and states, we reviewed the relevant PRIIA provisions and analyzed Amtrak financial data on changes in states' costs from fiscal years 2010 through 2014, when the PRIIA requirements went into effect.

We also interviewed Amtrak, FRA and Transport Canada officials, and representatives from 18 states, 4 labor unions, 7 commuter or other intercity passenger railroads, and 4 freight railroads, in addition to 3 experts about the status and their views of Amtrak's reorganization. We selected the commuter and freight railroads based on the scope of their operations and the experts based on their knowledge of Amtrak's reorganizational history specifically or railroad organizational structure in general as well as interactions with Amtrak concerning its Northeast Corridor infrastructure and routes, state-supported routes, or long-distance routes. The results of these interviews are not generalizable but provided important insights about how they interact with Amtrak, how Amtrak is organized, or the railroad industry in general. For more details on our objectives, scope, and methodology, see appendix I.

Our work was conducted from October 2014 to January 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our

⁷[GAO/AIMD-99-32](#). GAO identified organizations that were recognized as exhibiting leading practices in capital decision making, compared practices across the organizations, and identified innovative practices used by individual organizations as well as approaches and elements that were common across organizations.

findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

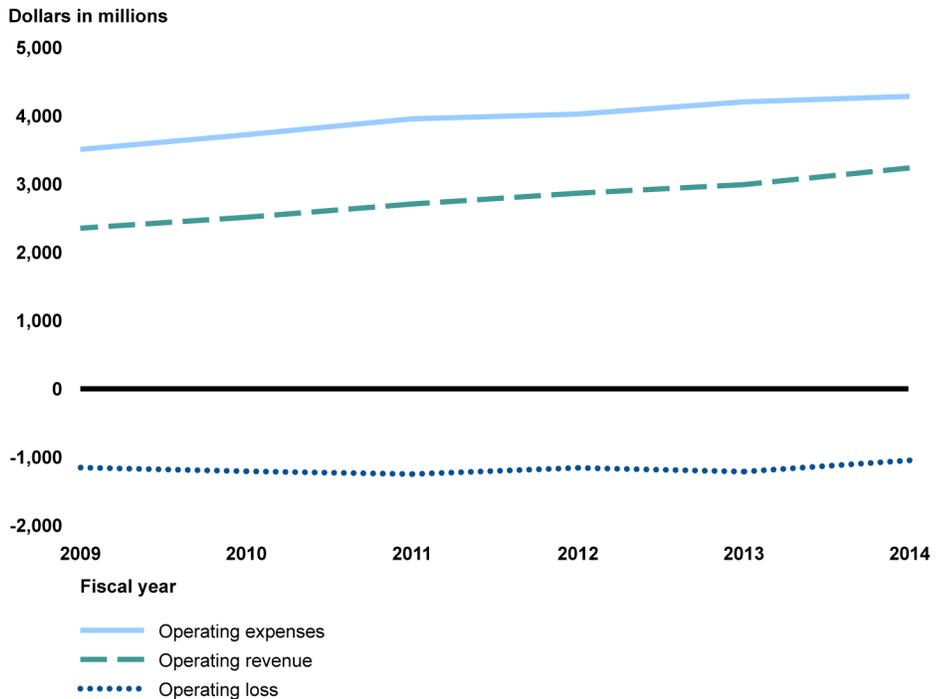
Background

While Amtrak has experienced steady revenue growth in recent years, its costs have also increased, and, like many rail systems worldwide, the railroad operates at a financial loss—about \$1.2 billion per year (see fig. 1 below) from fiscal years 2009 through 2014 (the latest audited financial results available).⁸ In 2006 we found that Amtrak faced several structural challenges to improving its financial and operational performance— (1) the capital investment backlog on Amtrak-owned Northeast Corridor tracks, (2) aging equipment, (3) difficulty controlling labor and other costs, (4) on-time performance challenges due to operating over freight railroad tracks.⁹

⁸National Rail Passenger Corporation and Subsidiaries, *Annual Consolidated Financial Statements, Years Ended September 30, 2014 and 2013* (Washington, D.C.).

⁹GAO, *Intercity Passenger Rail: National Policy and Strategies Needed to Maximize Public Benefits from Federal Expenditures*, [GAO-07-15](#) (Washington, D.C.: Nov. 13, 2006).

Figure 1: Amtrak Revenue, Expenses and Operating Losses, Fiscal Years 2009–2014



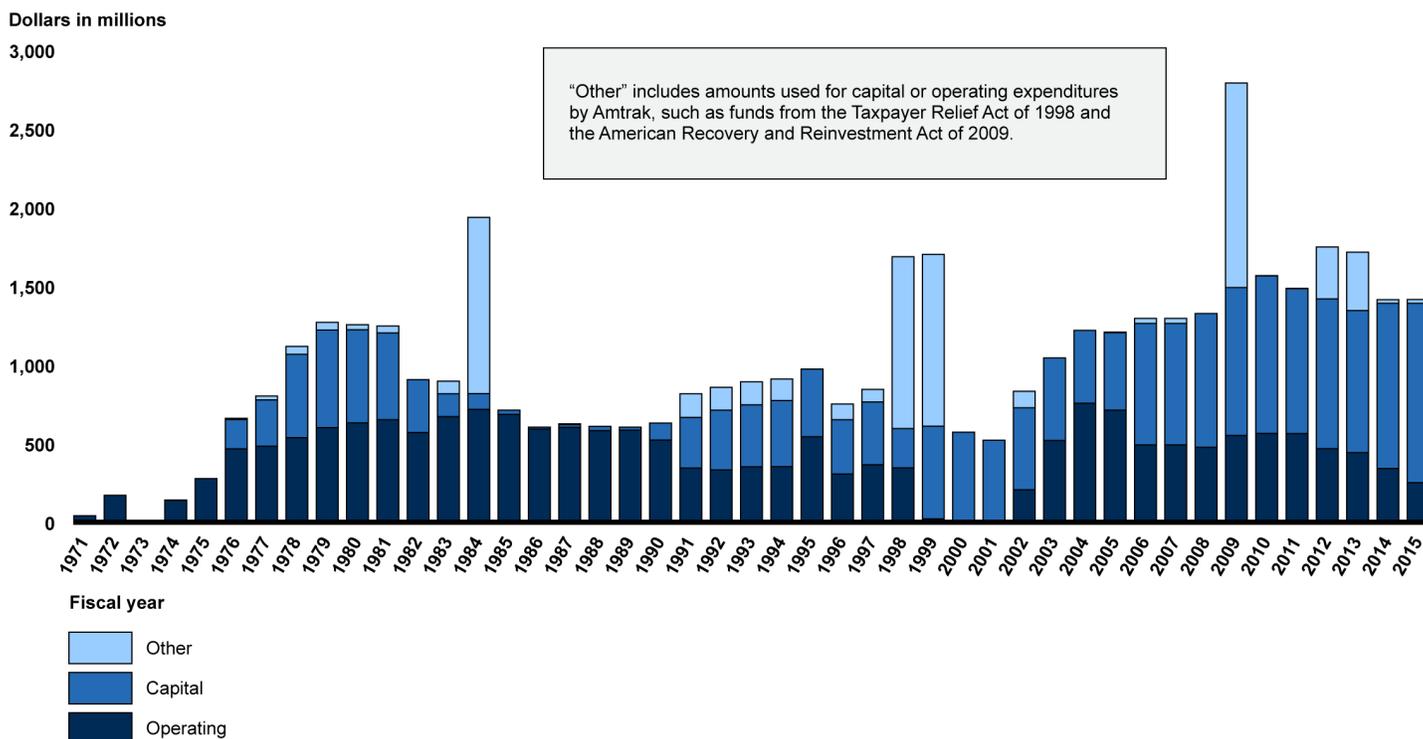
Source: GAO analysis of Amtrak audited financial data. | GAO-16-67

Note: Operating revenue includes items such as: ticket sales (about 79 percent), state capital payments (1 percent), and commuter revenue (about 5 percent) with other revenues making up the remaining 15 percent. Operating expenses includes items such as: salaries, wages, and benefits (48 percent of all operating costs); depreciation (about 16 percent); and fuel, power, and utilities (about 8 percent) with all other expenses making up the remaining 28 percent.

To maintain Amtrak’s operations and make capital improvements, Amtrak has received more than \$45 billion in federal funds since 1971 (see fig. 2). Amtrak receives its funding through grants administered by the Department of Transportation (DOT). These grants are used to cover the company’s operating losses and capital grants to fund improvements, such as to Amtrak’s rolling stock (locomotives and rail cars) and to its railroad infrastructure, both on and off of the Northeast Corridor. Unlike federal highway, transit, and air transportation programs, which are funded at least in part through dedicated funding sources based on user fees or taxes, intercity passenger rail services do not have a dedicated federal funding source. As a result, Amtrak competes with other national priorities for limited general revenue funds each year. Amtrak’s funding for operating and capital grants has varied substantially from year to year since 1971, with substantial increases in federal funding of about \$2.2

billion over fiscal years 1998 and 1999 through the Taxpayer Relief Act of 1997 and almost \$1.3 billion in grants through the American Recovery and Reinvestment Act of 2009.

Figure 2: Federal Grants to Amtrak, Fiscal Years 1971–2015



Source: GAO analysis of Federal Railroad Administration (FRA) data. | GAO-16-67

Amtrak has reorganized several times in the past 20 years. While Amtrak reported that the general goal of each reorganization was to reduce or eliminate the railroad’s need for federal operating subsidies, these efforts were either never fully implemented or did not achieve the goal of financial self-sufficiency. Until recently, Amtrak’s organizational structure consisted of separate departments focused on specific railroad functions, such as train operations, or maintenance of equipment and infrastructure.

When Amtrak initially announced its most recent reorganization strategy in its fiscal year 2011–2015 strategic plan, six lines of business were

envisioned.¹⁰ According to this plan, profit and loss statements would be created for each business line to provide greater transparency to Amtrak's financial information and provide management information needed to make decisions regarding where to deploy resources and cut costs. Amtrak officially reorganized into business lines in October and November 2012. As outlined in its most recent strategic plan for fiscal years 2014—2018, Amtrak's Northeast Corridor and, state-supported and long-distance routes were organized into its three train operation business lines. Almost all of Amtrak's 46 routes operate through one or more of Amtrak's 10 large stations, known as terminals, which are managed by these three operational business lines (see fig. 3). In November 2011, Amtrak also created a separate Northeast Corridor Infrastructure and Investment Development business line, charged with planning and developing Amtrak's Northeast Corridor infrastructure. In January 2015, this department began the ongoing transition into a new fourth business line responsible for planning, developing, and managing Amtrak's nation-wide infrastructure, real estate, and other corporate assets.

¹⁰Amtrak, *Strategic Plan FY2011-FY2015*, (Washington, D.C.: 2011). The six lines of business were to be four train operations lines of business (Northeast Corridor, state-supported, long-distance, and commuter) and two infrastructure related lines (Northeast Corridor infrastructure and commercial corporate asset development). Amtrak officials stated that since its commuter services were co-located with its intercity train operations, Amtrak integrated its commuter services within those lines of business.

Figure 3: Map of Amtrak's Lines of Business and Terminals



Sources: Amtrak's Fiscal Year 2014 business plan and Map Resources. | GAO-16-67

Amtrak's three train operations business lines each have unique characteristics that influence their operation and funding:

- The Northeast Corridor operations business line** is responsible for operating Amtrak's Acela and Northeast Regional trains, which carried 11.6-million passengers in fiscal year 2014, according to Amtrak data, representing about 38 percent of Amtrak's total ridership. Amtrak owns and is responsible for maintaining roughly 80 percent of the rail network, including the entire south-end between Washington, D.C.

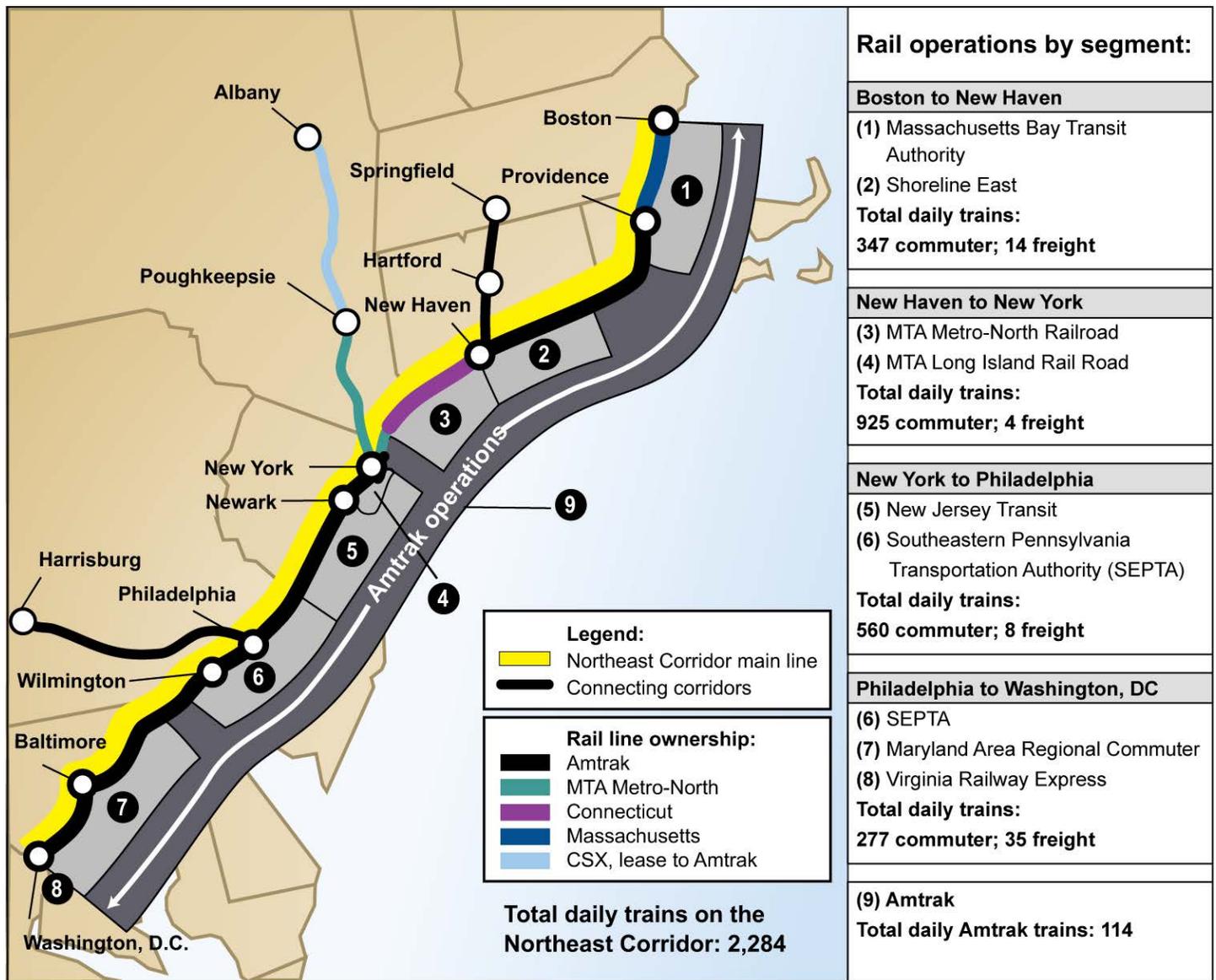
and New York City and portions of several rail corridors that connect to the Northeast Corridor mainline. Other sections are owned by three states and a freight railroad, as shown in figure 4.¹¹ The Northeast Corridor is a shared resource that is used by almost 2,300 trains each day, including those operated by Amtrak, eight commuter railroads, and four freight railroads. To promote mutual cooperation and planning on the Northeast Corridor, the Northeast Corridor Infrastructure and Operations Advisory Commission (Northeast Corridor Commission) was established and directed to, among other things, develop a standardized formula for allocating costs, revenues, and compensation for all of the operators and owners of the Northeast Corridor.¹² The Northeast Corridor Commission is composed of members representing Amtrak, the Secretary of Transportation, the Federal Transit Administration, FRA, and the eight states and the District of Columbia that constitute the Northeast Corridor, as well as representatives of freight railroads and other stakeholders that serve as non-voting members. In 2012, the FRA initiated the NEC FUTURE planning effort which is intended to develop a vision for rail service through about 2040 that reflects future estimated population and demand. According to FRA officials, NEC FUTURE will provide a comprehensive vision for Northeast Corridor stakeholders to guide project-level planning and investment actions on the corridor.¹³

¹¹Amtrak acquired its ownership stake in 1976, as part of the disposition of assets previously owned by the Penn Central Transportation Company which, along with certain other Northeastern railroads, was in bankruptcy at that time. See GAO, *Intercity Passenger Rail: Amtrak's Management of Northeast Corridor Improvements Demonstrates Need for Applying Best Practices*, [GAO-04-94](#) (Washington, D.C.: Feb. 27, 2004).

¹²Pub. Law 110-432, div. B, § 212(a).

¹³In August 2015, FRA outlined several preliminary alternatives depicting different conceptual levels of rail service and future investments. In 2016, FRA plans to select a preferred alternative and develop a service development plan that would make the general business case for the selected alternative, including the overall benefits and costs of its implementation. FRA, *NEC FUTURE Tier 1 EIS Alternatives Report* (Washington, D.C.: August 2015).

Figure 4: Northeast Corridor Rail Network Ownership and Operations



Source: Amtrak data. | GAO-16-67

- **The state-supported business line** is responsible for operating 29 routes that carried almost 15-million passengers in 2014—about 48 percent of Amtrak’s annual ridership, according to Amtrak data. A total of 18 states provide financial support to Amtrak to operate the routes in their states—with several states supporting multiple routes, and

some routes providing service to cities in more than one state. These routes range from about 65 to about 600 miles, with an average distance of about 275 miles.¹⁴ The routes also vary widely in terms of ridership, revenues, and frequency of service. For example, according to Amtrak data, the Pacific Surfliner provides 12 daily round trips between Los Angeles and San Diego and carried nearly 2.7-million passengers in 2014. In contrast, the Hoosier State operates 4 days per week from Indianapolis to Chicago with return service the other 3 days (Amtrak's Cardinal route provides service between Indianapolis and Chicago when the Hoosier State does not run), and carried about 34,000 passengers in 2014. PRIIA required Amtrak and states to develop and implement a standardized methodology for allocating operating and capital costs for state-supported routes among states and Amtrak. This new methodology went into effect in fiscal year 2014.

- **The long-distance business line** operates 15 routes that are between about 750 to about 2,400 miles long and had about 4.5-million riders (about 15 percent of Amtrak's total ridership) in fiscal year 2014, according to Amtrak data. According to Amtrak, these routes provide essential transportation services to many rural areas across the country, as well as service for leisure travelers. The routes provide a degree of national connectivity and can feed customers into Amtrak's other routes as well.¹⁵ However, they have much lower ridership than the Northeast Corridor or state-supported routes, and they generally operate less frequently than the other services, and operate on tracks owned by freight railroads.¹⁶ (See fig. 5.) In 2006, we noted that the long-distance routes accounted for about 80 percent of Amtrak's financial losses, although they served 15 percent of

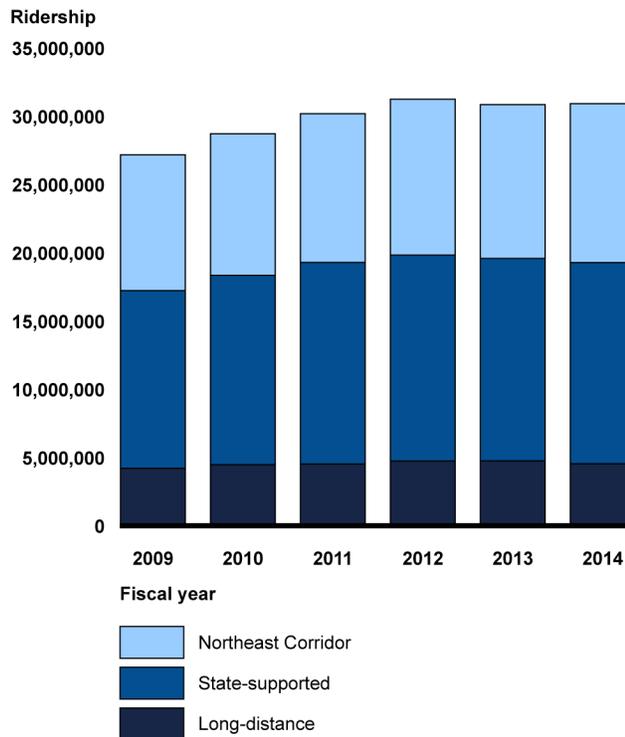
¹⁴In prior work, we noted that intercity rail services appear to be most competitive with automobile and air travel in markets between 100 and 300 miles. At distances less than 100 miles, cars and buses generally have a comparative advantage over intercity rail services due to the prevalence and convenience of car ownership and the lower costs of bus travel compared with rail fares. Intercity rail becomes less competitive with air travel over longer distances as rail travel time and prices increase.

¹⁵For example, Amtrak estimates that roughly \$10 million in annual ticket sales on the Empire Builder each year represent Chicago connections to the Capitol Limited to D.C. and state-supported routes.

¹⁶Federal law requires that freight railroads typically give Amtrak trains priority access and, in general, may request appropriate compensation associated with the use of their tracks. Pub. L. No. 93-146, § 10(2) (1973).

Amtrak's total ridership, and were characterized by poor on-time performance.¹⁷ According to Amtrak's fiscal year 2014 data, Amtrak's long-distance routes accounted for the same percentages of losses and total ridership as we found in 2006.

Figure 5: Amtrak Ridership by Business Line, Fiscal Years 2009–2014



Source: GAO analysis of Amtrak Monthly Performance Reports 2009 through 2014. | GAO-16-67

Note: Amtrak reported that in fiscal year 2014, it began counting ridership for multi-ride tickets with eTicketing, which would result in a drop in reported ridership due to fewer trips taken on a typical pass (mostly with monthly passes) than was allocated in the old methodology.

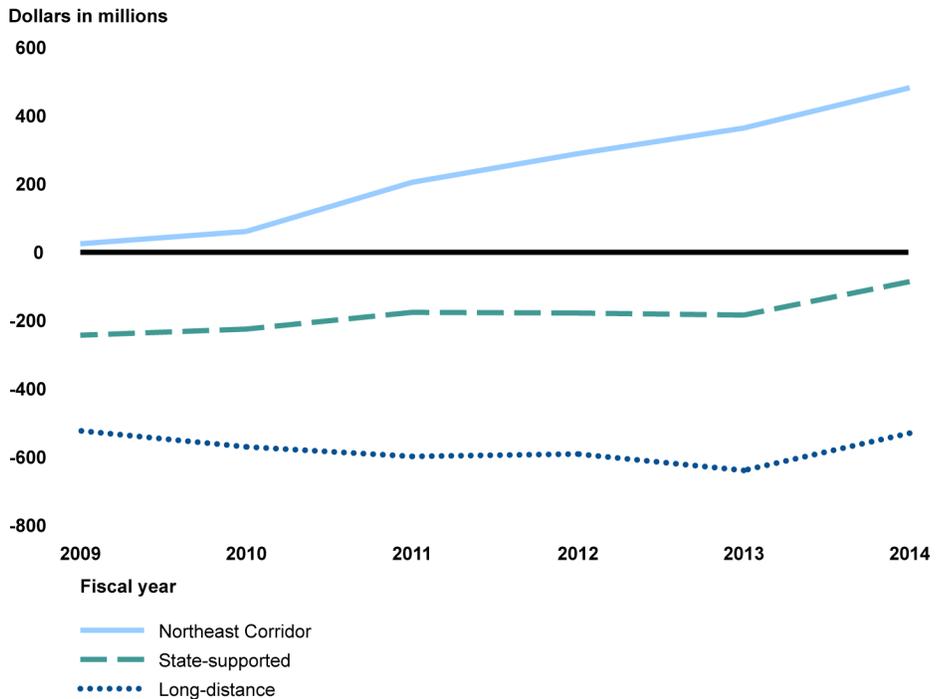
In addition, the financial performance of each business line differs considerably. According to unaudited financial performance data, Amtrak's Northeast Corridor is the only business line that generates operating revenues in excess of its operating costs, and its reported operating revenue surplus has grown steadily from almost \$25 million in

¹⁷GAO-07-15.

fiscal year 2009 to \$482 million in fiscal year 2014. The state-supported and long-distance business lines, in contrast, have consistently operated at a financial loss over the 6-year period from 2009 through 2014 (see fig. 6). According to Amtrak, the operating success of the Northeast Corridor is due, in part, to the population density of the region and Amtrak's competitiveness with other modes based on travel-time and other factors. For example, in 2015 Amtrak reported that it transported three times as many passengers between Washington, D.C., and New York City as the airlines, and that overall ridership on the Northeast Corridor has increased by nearly 50 percent since 1998 to 2014. In prior work, we noted that transportation experts generally agree that intercity passenger rail services that serve large, relatively close population centers—and that are time- and cost-competitive with other transportation modes—represent the greatest potential markets for rail worldwide.¹⁸

¹⁸[GAO-07-15](#).

Figure 6: Amtrak's Reported Operating Contribution by Business Line, Fiscal Years 2009–2014



Source: GAO analysis of Amtrak Monthly Performance Reports 2009 through 2014. | GAO-16-67

Note: Operating contribution is defined by Amtrak to be operating revenues minus operating expenses, which do not include off-sets for pension payments, depreciation or interest. As discussed in this report, we found that that Amtrak's financial information for its lines of business has limitations. We believe the data are reasonably sufficient to illustrate summary financial information and make general comparisons between lines of business for the purposes of this report.

Reorganization Has Established a Structure to Improve Accountability, but Amtrak Lacks Tools and Data to Demonstrate Results

Amtrak's reorganization into separate business lines has created a structure to improve accountability for financial and operational results, but Amtrak has not yet demonstrated results of this reorganization. Most notably, Amtrak's new strategic management system reflects several leading performance management practices. However, not all of Amtrak's lines of business and functional departments have implemented this system to date, and Amtrak lacks a mechanism to externally report its results. Additionally, while FRA has not completed a PRIIA requirement that it engage an independent entity to create a methodology that Amtrak can use to evaluate its routes and services, recent legislation transferred this responsibility to Amtrak. Without this methodology, Amtrak lacks a key tool that could provide more information to make more substantial changes to its routes, such as contracting or adding service, to reduce its

reliance on federal funding. Moreover, Amtrak's inconsistent and incomplete reporting of its financial data hinders Amtrak's ability to reliably demonstrate the financial performance of its business lines.

The Reorganization Has Established a Structure for Improving Performance Accountability, but the Structure Is Not Fully Implemented

Amtrak's reorganization was intended to increase accountability for the financial and operational performance of Amtrak's various routes and improve focus on the railroad's different customers. Prior to the reorganization, Amtrak was organized into several different departments that each focused on a separate function, such as operating trains or maintaining Amtrak's locomotives and passenger cars. However, according to a senior Amtrak official, multiple departments were involved in train operations under Amtrak's prior organizational structure, which limited Amtrak's ability to hold any one department accountable for route performance. All of Amtrak's routes are now organized under the three train operations lines of business described previously, with the Northeast Corridor, state-supported, and long-distance business lines each led by a general manager who is responsible for its operational and financial performance. Each line of business also operates different terminals where trains start and end their trips and are serviced between trips. According to Amtrak documentation, each terminal has a dedicated terminal manager and an integrated team of employees who are responsible not only for improving accountability for the operational performance of the trains coming into and out of the terminal, but for many other of the aspects of train operations as well. Other function-based departments—such as the legal, finance, or mechanical departments—are designed to support the train operations lines of business.¹⁹

Amtrak officials stated that establishing accountability for its lines of business provides potential for both financial and operational benefits.

- Financial benefits: Each business line has a profit and loss statement to track its financial performance. At the same time, route directors for Amtrak's long-distance routes are tasked to find ways to increase revenues and cut costs on individual routes, and general and deputy managers are responsible for improving the cost-recovery ratio and other metrics for all the business line's routes.

¹⁹Amtrak's Mechanical department manages its heavy maintenance facilities, where major overhauls of Amtrak's cars and locomotives are performed.

-
- Operational benefits: Under the reorganization, line-of-business managers are now evaluated and compensated partly on eight key operational and financial performance indicators for their line of business.²⁰ For example, Amtrak's senior management now holds quarterly meetings with its business line general managers to track their progress on operational metrics including the on-time performance of trains, customer satisfaction, and others. Prior to the reorganization, Amtrak managers' compensation was not affected by these performance indicators. According to Amtrak officials and presentations, line-of-business managers are also more focused on their customers and travel markets and more able to make targeted operational or marketing decisions for their routes to attract ridership or meet customer demands.

In 2014, Amtrak designed its strategic management system to help its business lines and functional departments plan for and implement improvements to realize these potential benefits. According to Amtrak documentation describing this system, each line of business or department is to:

- create a strategy map that links business-line or department goals to Amtrak's strategic goals, as published in Amtrak's strategic plan;
- develop specific initiatives designed to meet those goals, prioritize those initiatives, and assign personnel to execute them; and,
- establish milestones and track the initiatives' progress and results.

We have found that leading organizations, both public and private, use strategic planning as a foundation for strategic management activities, such as organizational realignment and improvements in capacity to reach the organization's goals. Leading organizations have shown that a performance-based framework that links to an organization's strategic goals is essential to achieving results. Such a framework includes: identifying resources, holding individuals accountable and using performance data to monitor, evaluate and report progress.²¹

²⁰These key performance indicators are: praise to complaint ratio; on-time performance; revenue per available seat mile; cost per available seat mile; food and beverage cost recovery ratio; customer service index score; ridership; and, cost recovery ratio.

²¹[GAO/AIMD-99-32](#).

As of September 2015, Amtrak's long-distance business line has been using this system for about 18 months, focusing on initiatives that increase revenue, reduce costs and increase customer satisfaction. These initiatives have included: reducing passenger cars on certain routes that have low demand in winter, installing energy efficient lighting on the Auto Train's passenger cars, increasing locomotive power to add cars to meet existing passenger demand, and enhancing customer service training for on-board service personnel. However, these initiatives do not and are not intended to address long-standing challenges we have identified in prior reports that limit the financial and operational performance of Amtrak's long-distance routes such as: poor on-time performance, competition from other intercity travel modes, and low relative frequency of the long-distance routes (see app. II for more details).

Amtrak officials also told us that they expect the new strategic management system to be a substantial improvement overall in the evaluating, selecting and implementing of initiatives. Specifically, long-distance line-of-business officials told us the long-distance business line's management focus on the strategic management system's initiatives will produce greater benefits than previous efforts to improve Amtrak's long-distance routes. For example, prior to the long-distance business lines' creation, Amtrak created route-specific performance improvement plans that were mandated by PRIIA. According to Amtrak officials, these plans' implementation was hindered by Amtrak's previous organizational structure, which did not provide oversight and accountability for the actions in the plans.²² As a result, as of September 2015, Amtrak stated that it had completed 63 out of 118, or around half of the actions within these plans, and Amtrak officials stated that 22 of the remaining actions will no longer be pursued as they determined them to be too costly or otherwise not beneficial.²³

²²FRA was required to monitor the plans implementation and outcome. Pub. L. No. 110-432, div. B, § 210. FRA officials told us that since Amtrak has completed about half of the planned actions, provided reasons why many others should not be pursued further, and continues to provide updates to FRA, Amtrak is in compliance with the PRIIA requirement.

²³For example, Amtrak proposed increasing the frequencies of two of its long-distance routes, but in both cases the host railroad demanded substantial capital contributions, making the actions untenable, according to Amtrak officials.

While the long-distance line of business has fully implemented Amtrak's strategic management system, the implementation of Amtrak's strategic management system has not been prioritized across Amtrak's remaining lines of business and departments. According to Amtrak internal documentation on the strategic management system as of September 2015, progress was slowed as managers focused on other initiatives, such as implementing the PRIIA-mandated cost allocation methodology for state-supported routes or emergencies, such as the May 2015 accident in Philadelphia, PA. As of December 2015, Amtrak officials stated that Amtrak's Northeast Corridor line of business and the Mechanical and Engineering departments made some progress to implement the strategic management system by linking improvement initiatives to specific strategic company-wide and departmental goals and identifying resources responsible for achieving those goals. However, Amtrak officials stated that neither the Infrastructure and Investment Development or state-supported line of business have started the implementation of this effort. In addition, Amtrak officials stated that the strategic management system will be introduced to Amtrak's remaining functional departments as resources allow.

Furthermore, Amtrak has not reported and does not plan to report on the progress or results of its strategic management system initiatives outside of Amtrak. We have found that leading organizations prepare annual performance reports that clearly communicate performance results compared with the goals they established.²⁴ However, Amtrak officials stated that they have not reported on the progress or results of their initiatives under the strategic management system, as it is still under development and still being implemented. In the absence of corporate-wide adoption of this system and without external reporting of progress and results of the initiatives started under this system, external stakeholders, such as Congress, lack key information on what the business lines or departments are doing to improve Amtrak's financial or operational performance. As a result, it is difficult to hold Amtrak accountable for the results of those initiatives.

Even after fully implementing its strategic management system, Amtrak may not have the tools to objectively evaluate its portfolio of routes and

²⁴GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: June 1996).

services. PRIIA required FRA to obtain the services of a qualified independent entity to develop a methodology to assess potential useful changes to Amtrak's passenger services—such as adding or eliminating routes and frequencies—taking into consideration the current performance of the routes.²⁵ The independent entity is then required to provide recommendations for useful methodologies to Amtrak and Congress. FRA stated that such recommendations could provide substantial insight to Amtrak, FRA, and stakeholders, including enhanced decision making, measurable service improvements, and transparency. As of November 2015, FRA had not implemented the requirement because, according to FRA officials, FRA did not have the resources to conduct the study on its own and Congress did not appropriate funding specifically for FRA to procure a third-party contractor for this purpose.²⁶ In December 2015, legislation was subsequently enacted that requires Amtrak to obtain the services of a qualified independent entity, instead of FRA.²⁷ Fulfilling this requirement could provide Congress, Amtrak and FRA with a useful tool to conduct a more in-depth assessment of Amtrak's various routes.

Stakeholders we spoke to provided mixed opinions on the potential impact of Amtrak's reorganization. Amtrak and FRA officials and representatives of Amtrak's labor unions we interviewed told us that the company has yet to realize many tangible results as the reorganization was only recently initiated. Representatives from two freight railroads and officials from 7 of the 18 states we spoke with generally have not seen a difference in Amtrak operations. We have found that successful major change initiatives in large organizations can often take at least 5 to 7 years.²⁸ In addition, one of the three academic experts and a railroad

²⁵Pub. L. No 110-432, div. B, § 208. FRA was required to obtain the services of an independent entity to develop and recommend objective methodologies for Amtrak to use in determining what intercity rail passenger transportation routes and services it should provide. The needs of nationwide connectivity, underserved communities, and states, among other things, were to be considered in developing the recommendations. Amtrak would then be required to provide its reasoning to Congress for adopting or rejecting the recommendations.

²⁶Department of Transportation, Office of Inspector General, *FRA Continues to Make Progress Implementing PRIIA Responsibilities But Faces Challenges with Rail Planning*, CR-2014-030 (Washington, D.C.: February 25, 2014).

²⁷Pub. L. No. 114-94, § 11206 (2015).

²⁸[GAO-03-669](#).

executive we interviewed stated that they did not expect the reorganization to result in much change to Amtrak's financial or operational performance as Amtrak has other long-standing challenges that the reorganization cannot address.

According to Amtrak officials, the reorganization has also faced other challenges including a shift in culture from a traditional railroad organizational structure to the new lines-of-business structure and continuing the reorganization while still maintaining regular operations. While these implementation challenges may be addressed over time, other corporate-wide challenges may persist that limit operational and financial performance. Amtrak officials, representatives from four of Amtrak's labor unions, and an academic expert stated that the reorganization was not designed to or could not address some of these challenges to its financial and operational performance such as:

- major capital investment projects that are not currently funded;
- the need for annual federal grants to cover its operational costs and to make capital investments; and,
- the reliance on access to freight railroad infrastructure for many of its routes, which affects their scheduling, operations and financial performance.

Inconsistent Reporting of Amtrak's Financial Information Hinders Understanding of the Reorganization's Impact

Amtrak officials told us the new organizational structure has increased the visibility of Amtrak's expenses by the different lines of business and helped to more accurately assign costs. Specifically, the costs for Amtrak's service departments—such as marketing, human capital, legal, and others—now are assigned to the different lines of business, a step that has helped business line management to better track revenues and expenses for their routes and terminals and promote more efficient use of Amtrak's internal resources. For example, Amtrak managers noticed that the Miami terminal was being billed for snow-shoveling costs incurred elsewhere on Amtrak's system. Amtrak officials stated that once that error was identified, Amtrak stopped allocating that cost to the Miami terminal. Amtrak finance department officials also stated that analysis is ongoing to further understand and refine the reporting of financial information by line of business and to increase accuracy.

While Amtrak's reorganization into lines of business could increase accountability for financial performance, Amtrak's financial data have significant weaknesses that reduce their reliability. Leading organizations have found that their management needs information to determine if

managers are meeting their performance goals for accountability for effective and efficient use of resources.²⁹ However, as we describe below, Amtrak has weaknesses in its financial information and a relatively high percentage of allocated expenses; and has inconsistently reported its financial information by line of business. While Amtrak is taking some steps to address these issues, the lack of accurate financial information that is consistently reported limits the ability of Amtrak's managers to make informed decisions on how to allocate its own resources. Thus, any benefits from Amtrak's reorganization into lines of business may be limited or difficult to determine. Further, external stakeholders do not have reasonable assurance that public funds are being used effectively and for their intended purposes.

Reliability of Amtrak's Financial Information

Amtrak has several material weaknesses and significant deficiencies that have persisted for several years, raising questions about its ability to produce reliable and timely financial information. As part of its fiscal year 2012 audit of Amtrak's consolidated financial statements, Amtrak's independent external auditor identified significant deficiencies related to the lack of proper documentation and analyses Amtrak performed to classify leases and calculate amortization, as well as its deferred tax calculations. As a result, Amtrak officials determined that Amtrak had overstated its prior years' losses resulting in an adjustment of \$271.6 million to its fiscal year 2012 financial statement.³⁰ As part of its fiscal year 2013 financial audit, Amtrak's external auditor elevated the deficiencies reported in fiscal year 2012 as a material weakness. For the fiscal year 2013 financial audit, the auditor also reported another material weakness concerning Amtrak's financial reporting.³¹ Specifically, in reporting on this material weakness, the external auditor stated that Amtrak lacked (1) a sufficient complement of personnel with an appropriate level of accounting knowledge, (2) sufficient analysis and

²⁹[GAO/AIMD-00-21.3.1](#).

³⁰However, none of these adjustments were cash-related and totaled less than one percent of Amtrak's cumulative losses for years prior to fiscal year 2012. Amtrak, *Annual Report for Fiscal Year 2013* (Washington, D.C.: 2013).

³¹A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

documentation of the application of generally accepted accounting principles to complex accounting issues, (3) adequate policies and procedures to ensure that accounting personnel were made aware of specific features of complex transactions, and (4) clear organization and accountability within the accounting function. The auditor concluded that this material weakness negatively affected the quality and timeliness of Amtrak's financial reporting. The auditor also made several recommendations to address these weaknesses, and Amtrak concurred with all of them.

In its fiscal year 2014 audit, Amtrak's external auditor reported that given the fiscal year 2013 audit was completed after Amtrak's fiscal year end, Amtrak was not positioned to have addressed the material weaknesses identified as part of the fiscal year 2013 audit. Thus, those material weaknesses continued to exist. The external auditor also found another material weakness involving Amtrak's information systems that it reported impacted controls over transactions that were significant to the financial reporting process. Thus, the auditor concluded that this weakness contributed to Amtrak's delay in issuing the fiscal year 2014 financial statements.³² The auditor made several recommendations to address these issues. Amtrak agreed with these recommendations and reported on actions it was taking to address them such as holding a series of workshops with its staff to discuss audit findings and develop action plans to remediate the findings. Moreover, Amtrak's fiscal year 2014 financial statements were released in October 2015, over a year after the end of fiscal year 2014. Federal internal control standards state that external reporting of financial information should be made on a timely basis.³³ For example, federal agencies must submit their annual financial statements for inclusion in the *Financial Report of the Federal Government* within 3 months of the end of the fiscal year.³⁴ Thus, Amtrak's release of its fiscal

³²In its fiscal year 2014 audit, the external auditor also identified another new material weakness related to Amtrak's information systems. Specifically, the auditor reported on deficiencies related to information technology general controls such as user access (i.e., Amtrak lacked approval of user access and timely removal of user access, among other things) and change management controls (lacked segregation of duties and monitoring of changes to the production environment and sufficient documentation evidencing approval and testing of program changes implemented in the production environment).

³³[GAO/AIMD-00-21.3.1](#).

³⁴Office of Management and Budget, *Financial Reporting Requirements*, Circular A-136 (Washington, D.C.: October 21, 2013).

year 2014 financial statements is indicative of its continued problems in its financial reporting. Amtrak's Controller stated that efforts to address all the issues stated in the auditor's report have been initiated. Amtrak expects these issues to be addressed over the next several years. Amtrak's Controller has indicated that the audit of Amtrak's fiscal year 2015 financial statements will be likely delayed due to the efforts necessary to address these deficiencies.

Method of Allocating Amtrak's Expenses

Federal financial accounting standards state that it is generally preferable to directly assign as many costs as can accurately be identified and to indirectly allocate those that cannot be easily assigned on some reasonable and consistent basis.³⁵ In addition, federal internal control standards maintain that an organization's management should use information communicated on a relevant, reliable and timely basis to achieve all of its objectives. Pertinent financial information is required to determine if managers are meeting performance goals, make operating decisions, monitor performance, and allocate resources.³⁶ Indirectly allocating a high percentage of costs rather than directly assigning costs increases the risk that revenues and expenses for a cost center or a line of business will be misstated.

Both our and DOT Inspector General's past reports found that Amtrak's percentage of allocated costs are high relative to percentages from other railroads. Amtrak allocates costs of services that are shared by multiple routes—such as operating stations or maintaining track—to individual routes and business lines through Amtrak's Performance Tracking (APT) cost allocation system, which was developed by Amtrak, FRA and DOT's Volpe Center in response to a requirement to improve its financial accounting system.³⁷ These costs are allocated to individual routes according to usage statistics in APT, such as passenger miles, that reflect the relative use of a shared asset by a train or its passengers. In 2006, we found that Amtrak allocated 92 percent of its costs to routes using its

³⁵ *Statement of Federal Financial Accounting Standards, Number 4.*

³⁶ [GAO/AIMD-00-21.3.1.](#)

³⁷ Pub. L. No. 110-432, div. B, §203. PRIIA required Amtrak to implement a modern financial accounting and reporting system and submit to Congressional committees a comprehensive report that allocates all of Amtrak's revenues and costs to each of its routes, lines of business and major activity within each route and line of business activity.

prior indirect costing methodology.³⁸ In 2013, the DOT Inspector General found that Amtrak had reduced that percentage to 80 percent using its current APT indirect costing methodology, but that the heavy reliance on indirectly allocating costs reduced the precision of Amtrak's financial performance reports. The DOT Inspector General also found that Amtrak's percentage was higher than those of other railroads they studied. These railroads allocated only about 20 percent of their expenses using an indirect costing methodology and recommended, among other things, that FRA work with Amtrak to identify changes that would enable it to directly assign costs where economically feasible.³⁹ Amtrak officials stated and FRA officials agreed that a significant portion of Amtrak's costs will always have to be indirectly assigned. This is due to Amtrak's nation-wide network and results in a substantial portion of Amtrak's assets being shared among Amtrak's lines of business.

Amtrak's finance department officials stated that the costs of collecting the information necessary to reduce the percentage of Amtrak's indirectly allocated expenses may be too high to justify the increase in precision. Amtrak senior officials stated that Amtrak is working on further reducing the percentage of expenses allocated through an indirect costing method by improving the quality of the financial data used as an input to that methodology. Amtrak finance department officials also stated that Amtrak assigns more of its costs directly to trains and routes than cited in the DOT Inspector General's report. However, Amtrak's Inspector General is currently conducting an audit to review the effectiveness and efficiency of the financial systems and data supporting the allocation of expenses into its lines of business and is also planning to assess the status of the implementation of the DOT Inspector General's 2013 recommendations to improve Amtrak's expense accounting system. The Amtrak Inspector General expects this report to be released in the winter of 2016.

³⁸GAO, *Amtrak Management: Systemic Problems Require Actions to Improve Efficiency, Effectiveness, and Accountability*, [GAO-06-145](#) (Washington, D.C.: Oct. 4, 2005).

³⁹Department of Transportation, Office of Inspector General, *Amtrak's New Cost Accounting System is a Significant Improvement But Concerns over Precision and Long Term Viability Remain*, CR-2013-056 (Washington, D.C.: Mar. 27, 2013). FRA concurred with the recommendation but also stated that Amtrak should focus more on other more pressing improvements to its APT system at the same time it endeavored to increase the proportion of directly assigned costs.

Consistency and
Completeness in Reporting
Financial Information by Line of
Business

Amtrak's reporting of financial information by line of business is inconsistent and incomplete. PRIIA required Amtrak to report all of its revenues and expenses by route as well as by line of business.⁴⁰ However, Amtrak's monthly performance reports show some of Amtrak's revenues and expenses by line of business but do not break out Amtrak's revenues and expenses by major function (such as for ticket revenues or salaries, wages, and benefits) for each line of business. For example, neither food and beverage revenues nor their costs are broken out from the overall revenues and expenses for each route or line of business, and so their overall contribution or loss for each business line cannot be assessed. Amtrak's 5-year financial plan also provides direct and allocated expenses to each line of business, including "corporate" or overall expenses such as for information technology, marketing, and Amtrak's police expenses.⁴¹ However, the 5-year financial plan provides revenue and expense projections in a format that does not easily align to the monthly performance report. As a result, the inconsistency between the two reports makes it difficult to compare Amtrak's past results with its future forecasts. Amtrak officials stated that the reason for this inconsistency was that the monthly performance report has historically presented this information this way. Furthermore, Amtrak's audited financial statements provide overall revenues and expenses, but not by line of business. As such, the relative financial performance of each business line cannot be assessed using audited financial data.

Amtrak's financial reporting is also incomplete because it does not allocate its depreciation costs by line of business. Leading organizations have shown that good information on, among other things, asset performance and conditions is critical to make informed capital resource allocation decisions. These data give organizations the ability to perform analyses that can be used to support strategic and operational budgeting decisions.⁴² In 2005, we reported that Amtrak did not allocate its

⁴⁰Pub. L. No. 110-432, div. B, § 203(c). Amtrak officials stated that they considered detailed revenue and expense information by route to be confidential and proprietary, although reporting this information summarized by line of business was not considered confidential and proprietary.

⁴¹Amtrak officials stated that Amtrak externally reports only summary information on its food and beverage revenues and expenses and that more information is available internally by route for Amtrak management's use. This detailed information is not provided externally because it is considered confidential and proprietary by Amtrak.

⁴²[GAO/AIMD-99-32](#).

depreciation expense by route or business line and that since depreciation is critical information for a capital intensive business such as Amtrak, by not allocating it, Amtrak was understating its reported expenses.⁴³ Amtrak finance department officials told us that they have had a methodology in place since 2010 to assign their depreciation expenses by route and subsequently to lines of business. However, Amtrak officials did not have confidence in the capital lease data used by the methodology. Amtrak officials plan to evaluate the data and determine when Amtrak would begin applying the results from the methodology in its external reports. Amtrak officials stated that they did not have a timeframe for when that data will be used to allocate their depreciation expenses. In addition, proposed changes to Amtrak's current infrastructure and corporate development line of business may change how depreciation expenses are allocated to its train operations business lines as the new line of business may be responsible for more of Amtrak's infrastructure. However, until depreciation expenses are allocated to its routes and lines of business, Amtrak will continue to be at risk of misstating financial information used for decision making, which could result in misallocation of internal and federal resources.

Amtrak and Stakeholders Have Developed a Plan to Address Critical Northeast Corridor Infrastructure, but the Plan's Implementation Faces Challenges

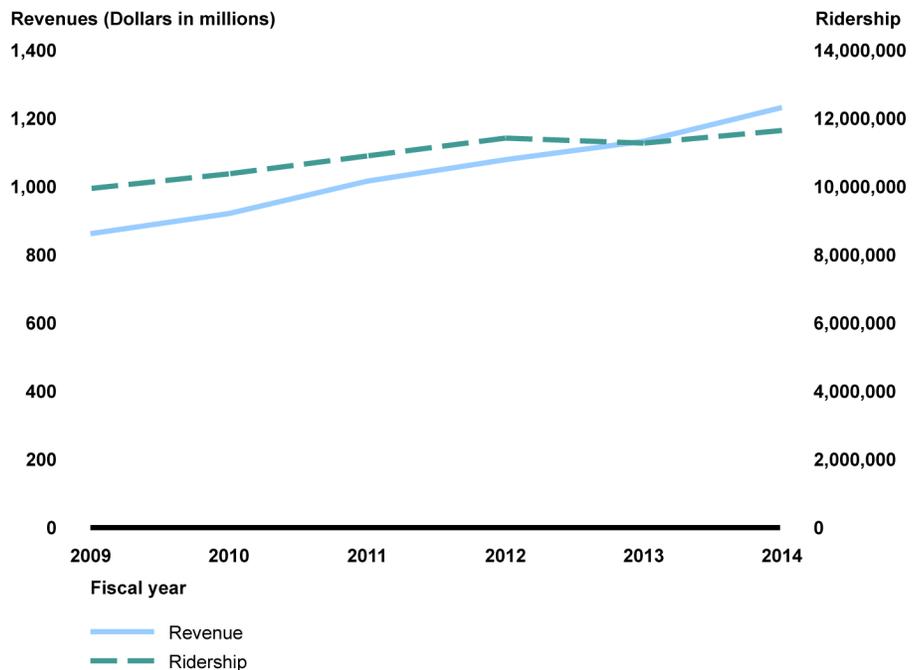
According to Amtrak data, the Northeast Corridor business line has experienced substantial revenue and ridership growth in recent years; however, its future sustainability is hampered by the condition and age of its infrastructure. The Northeast Corridor Commission estimates that addressing a large backlog of deferred infrastructure investments to bring the corridor's aging bridges, tunnels, and other assets to a state-of-good-repair would cost a total of \$21 billion. To begin addressing this backlog, the Commission has developed a 5-year capital plan that would cost \$17.7 billion from fiscal years 2016 through 2020 to implement. But implementing this plan presents challenges, because it does not have a funding source for more than \$10.5 billion, or 60 percent of the plan's total cost of \$17.7 billion. Covering this \$10.5-billion gap would require an additional average funding of about \$2.1 billion per year. In addition, the Commission members lack a defined process for prioritizing projects to demonstrate to Congress, states, and other potential funders how it would prioritize investments if additional funding were made available.

⁴³[GAO-06-145](#).

Northeast Corridor Revenues and Ridership Have Grown Substantially in Recent Years, but Aging Infrastructure Presents Sustainability Challenges

In the past 5 years, Amtrak’s revenues and ridership from its Northeast Corridor trains have increased substantially. From fiscal years 2009 through 2014, Northeast Corridor ridership increased by 17 percent (from less than 10 million to 11.6 million), while revenues increased by 43 percent (from \$860 million to \$1.2 billion)—see figure 7. According to Amtrak officials, the increase in revenues was due to several factors, including improvements made in 2014 to Amtrak’s revenue management pricing strategy, which is commonly used by airlines and which allows Amtrak to dynamically review and adjust passenger fares based on demand and capacity.⁴⁴

Figure 7: Amtrak’s Reported Northeast Corridor Revenues and Ridership, Fiscal Years 2009–2014



Sources: GAO analysis of Amtrak’s unaudited Monthly Performance Report data fiscal years 2009 through 2014. | GAO-16-67

Note: Amtrak reported that in fiscal year 2014 it began counting ridership for multi-ride tickets with eTicketing, which resulted in a drop in reported ridership due to fewer trips taken on a typical pass

⁴⁴In addition, according to Amtrak officials, the operational costs of the Northeast Corridor have remained relatively flat in recent years, contributing to a substantial increase in Amtrak’s Northeast Corridor operating surplus from almost \$25 million in fiscal year 2009 to \$482 million in fiscal year 2014, as previously discussed in figure 6 of this report.

(mostly with monthly passes) than was allocated in the old methodology. This change did not affect revenues. As discussed previously in this report, we found that that Amtrak's financial information for its lines of business has limitations. However, we believe the data are reasonably sufficient to illustrate summary financial information and make general comparisons among lines of business for the purposes of this report.

Despite the operating success of the Northeast Corridor business line, according to Amtrak officials, the future sustainability of the rail network is threatened by the substantial costs of maintaining and improving the corridor's aging infrastructure. In prior work, we and others have noted long-standing concerns about the condition of critical assets on the Northeast Corridor and the state of repair of the overall rail network.⁴⁵ According to the Northeast Corridor Commission, hundreds of bridges and tunnels on the Northeast Corridor were constructed over 100 years ago by the legacy owners of the railroad. In recent years, Amtrak and others have provided estimates for the costs to repair and improve the network to meet future growth and extend high-speed service.⁴⁶ Most recently, the Northeast Corridor Commission estimated in September 2014 that addressing a substantial backlog of deferred investments on the Northeast Corridor to bring it to a state-of-good repair would cost \$21 billion.⁴⁷ The Commission estimated that almost \$16 billion of this backlog exists on the Amtrak-owned section of the Northeast Corridor mainline. Among the assets on this state-of-good repair backlog are the Hudson

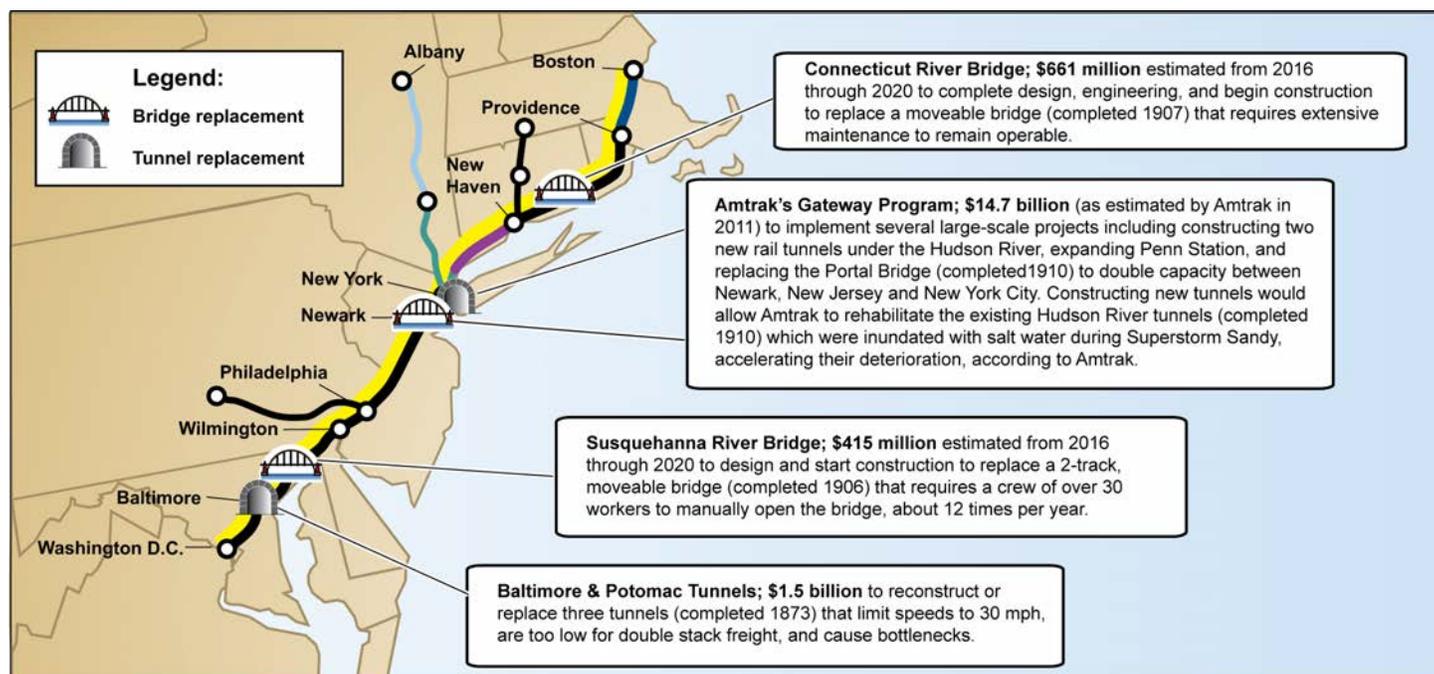
⁴⁵GAO, *Intercity Passenger Rail: Amtrak Will Continue to Have Difficulty Controlling Its Costs and Meeting Capital Needs*, [GAO/RCED-00-138](#) (Washington, D.C.: May 31, 2000) and *Intercity Passenger Rail: Issues for Consideration in Developing an Intercity Passenger Rail Policy*, [GAO-03-712T](#) (Washington, D.C.: Apr. 30, 2003).

⁴⁶For example, in 2010, Amtrak, FRA the Northeast states, and others jointly reported that the Northeast Corridor required roughly \$52 billion in capital investments from 2010 through 2030 to bring the Northeast Corridor assets to a state-of-good repair and accommodate future growth. Northeast Corridor Master Plan Working Group, *The Northeast Corridor Infrastructure Master Plan* (Washington, D.C.: May 2010). In 2012, Amtrak estimated that \$151 billion would be needed between 2012 and 2040 to bring two dedicated high-speed rail tracks and make other improvements to expand service levels and capacity across the Northeast Corridor. See Amtrak, *The Amtrak Vision for the Northeast Corridor, 2012 Update* (Washington, D.C.: July 2012).

⁴⁷Northeast Corridor Commission, *Northeast Corridor Five-Year Capital Needs Assessment, Fiscal Years 2015 to 2019* (Sept.16, 2014). DOT defines "state-of-good repair" as a condition in which the existing physical assets, both individually and as a system, are functioning within their useful lives and are sustained through regular maintenance and replacement programs. According to the Northeast Corridor Commission, the \$21 billion backlog is comprised of \$13.8 billion in major projects and \$7.3 billion in basic infrastructure projects (such as rails, ties, and catenary) currently in need of replacement.

River Tunnels (completed in 1910), which provide access from the south end of the corridor into New York City, and the Baltimore & Potomac Tunnels (completed 1873) (see fig. 8).

Figure 8: Selected Bridges and Tunnels on Amtrak's Portions of the Northeast Corridor Identified for Rehabilitation or Replacement



Sources: Northeast Corridor Infrastructure and Operations Advisory Commission, *Northeast Corridor Five-Year Capital Plan, Fiscal Years 2016-2020* (2015) and Amtrak, *The Amtrak Vision for the Northeast Corridor* (2012). | GAO-16-67

The condition of Northeast Corridor infrastructure can create operational challenges for Amtrak and other users. The Northeast Corridor mainline has a total of 13 moveable bridges, many of which are over 100 years old and require frequent openings to allow marine traffic to pass. Amtrak officials told us that due to the age of the mechanical systems and their deteriorated condition, Amtrak has experienced technical difficulties in closing two of these bridges in recent years. For example, in 2012 the Bush River Bridge (completed 1913) in Maryland failed to close and caused a 10-hour delay for all Amtrak trains between New York City and Washington. Amtrak also reported that in December 2014, it closed one of the two tracks in the Baltimore & Potomac tunnels for several days due to flooding, and it has routinely closed one tube of the Hudson River Tunnel on weekends since 1999 to perform routine maintenance that

cannot be done during the week when the tunnels are in almost constant use.

According to Amtrak officials, although the Northeast Corridor's operating revenues exceed its costs, those revenues are not sufficient to cover the costs of replacing many critical infrastructure assets. For example, Amtrak estimated that after all debt service and other related costs were included, Northeast Corridor surplus operating revenues for fiscal year 2015 were \$357 million. However the Northeast Corridor Commission estimates that the Northeast Corridor requires about \$3.5 billion in annual investment from 2016 to 2020 to begin addressing the \$21 billion state-of-good-repair backlog and make other improvements, as discussed in further detail later in this report.⁴⁸

In addition, in recent years Amtrak reported that it has been unable to invest its surplus Northeast Corridor operating revenues into its infrastructure because those revenues have been needed to cover losses in its other business lines. For example, Amtrak estimated that in fiscal year 2015, it would need to use its entire Northeast Corridor operating surplus (\$357 million) to help cover an estimated \$723-million loss in the long-distance and state-supported business lines. Amtrak estimated that the remaining losses for those business lines (about \$366 million) would be covered through federal grants of \$290 million in fiscal year 2015 for operations and with projected revenues from Amtrak's real estate holdings and other revenues (\$77 million).

Amtrak officials told us that using surplus Northeast Corridor revenues to cover the losses of other routes comes at the expense of the Northeast Corridor business line, as Amtrak is unable to invest these revenues back into the corridor, which results in deferred investments and increased future infrastructure costs. In its most recent annual legislative report, Amtrak requested that Congress fully fund the estimated losses on the long-distance and state-supported routes in fiscal year 2016 so that surplus Northeast Corridor revenues could be invested on the corridor. In December 2015, legislation was enacted requiring the Secretary of Transportation, in consultation with Amtrak, to define an accounting structure that will direct surplus operating revenues, as well as

⁴⁸Northeast Corridor Commission, *Northeast Corridor Five-Year Capital Plan Fiscal Years 2016—2020* (Washington, D.C: April 2015).

appropriations, grants, and other sources of funds associated to the Northeast Corridor to make capital improvements and cover other costs on the corridor.⁴⁹ Other funding and financing proposals for the Northeast Corridor are discussed in appendix III.

The Northeast Corridor Commission's Methodology to Share Costs among Amtrak and Commuter Railroads Does Not Address the Major Project Backlog

To address Northeast Corridor planning and funding issues, PRIIA required the Northeast Corridor Commission to develop a cost-sharing methodology—a standardized formula for allocating costs, revenues, and compensation for Northeast Corridor commuter rail transportation.⁵⁰ Prior to the development of this cost-sharing methodology, we had previously reported that the financial relationships between commuter rail agencies and Amtrak were complicated and lacked clarity, and this made it difficult to determine if commuter rail agencies were paying their fair share for access to infrastructure and services.⁵¹ The cost-sharing methodology finalized in September 2015 is intended to ensure that Amtrak and commuter rail operators are assigned proportional operating and capital costs according to their relative use of the Northeast Corridor. Under this methodology, starting in fiscal year 2016, the railroads using the Northeast Corridor, including Amtrak, will be responsible for financial obligations totaling (1) over \$600 million per year for operating costs and (2) approximately \$440 million in capital contributions for basic infrastructure investments.⁵²

Northeast Corridor Commission officials told us that the application of the cost-sharing methodology does not significantly increase the overall

⁴⁹Pub. L. No. 114-94, §§ 11201-02.

⁵⁰Pub. L. No. 110-432, div. B, § 212(a).

⁵¹GAO, *Commuter Rail: Commuter Rail Issues Should Be Considered in Debate over Amtrak*, [GAO-06-470](#) (Washington, D.C.: Apr. 21, 2006).

⁵²These contributions are to be paid by Amtrak and the eight commuter railroads that operate on the corridor to the owners of various sections of the corridor through operating agreements. As shown in figure 4, Amtrak owns the entire south-end between Washington, D.C., and New Rochelle, New York, and a section of the north-end between New Haven, Connecticut, and the Rhode Island-Massachusetts border. The Metropolitan Transportation Authority of New York (MTA), the Connecticut Department of Transportation, and the Massachusetts Bay Transportation Authority (MBTA) also own sections of the north-end. The commuter railroads that operate on the corridor are the Long Island Rail Road; Maryland Area Regional Commuter; MBTA; Metro-North Railroad; New Jersey Transit; Shoreline East; Southeastern Pennsylvania Transportation Authority (SEPTA); and Virginia Railway Express.

operating and capital contributions for the corridor, nor are the contributions to be generated by the methodology sufficient to address the \$21 billion backlog of deferred investments on the corridor. Specifically:

- *Overall operating contributions are not expected to increase.* Under the cost-sharing methodology, commuter railroads and Amtrak are expected to pay their proportional share of operating costs such as electric power usage, dispatching, and maintenance of way according to each operator's use.⁵³ According to the Commission, the overall amount of annual operating costs to be paid by Northeast Corridor operators (about \$617 million) is roughly the same amount as prior to the development of the methodology. Although two commuter rail operators are expected to pay Amtrak more than \$15 million more per year each in operating costs than they did previously, most of the other operators will be paying less in operating contributions moving forward, and the overall cost of operating the corridor is not expected to change, according to the Commission.
- *Overall capital contributions are expected to increase slightly from 2016 through 2018.* According to the Northeast Corridor Commission, the estimated \$440 million in capital contributions expected to be generated by the cost-sharing methodology in fiscal year 2016 represents an increase of almost \$38 million from the \$402 million contributed by the various users in recent years. These contributions are based on a "baseline capital charge," which will require each operator to share the costs of replacing basic infrastructure assets—such as rails, ties, and signal systems—according to a routine schedule, and based on each operator's relative use of the assets so that they are maintained in a state-of-good repair.⁵⁴ The Commission estimates that in fiscal year 2016 the required aggregate capital

⁵³For example, on portions of the Northeast Corridor that are owned by Amtrak, a commuter railroad will pay Amtrak for services established in its operating agreement according to a consistent methodology that reflects the commuter railroad's relative use, such as the number, distance, and weight of trains. Likewise, Amtrak would pay the other Northeast Corridor owners for similar services provided to its trains.

⁵⁴Under the cost-sharing methodology, the baseline capital charge is to be assigned to each operator based on factors that reflect asset condition and relative use that is calculated as a percentage of the normalized replacement amount for the asset. The normalized replacement amount is based on the population of each asset type, the average useful life of each asset type, and the unit cost for each asset type. Asset types include ties, catenary poles, signal houses and other basic infrastructure assets.

contributions from the commuter rail operators will increase by about \$90 million compared with their estimated, average investments in recent years. At the same time, Amtrak's estimated required contribution for the costs of replacing basic infrastructure assets will decrease by more than \$50 million as commuter railroads assume a larger share of the costs of the rail network. According to Amtrak officials, this savings will enable Amtrak to apply additional funds to projects on the state-of-good-repair backlog or other investments on the corridor. Under the methodology, baseline capital charge contributions are phased in over several years. Commission officials told us that operators are to contribute \$440 million annually from fiscal years 2016 through 2018, and up to \$550 million annually from fiscal years 2019 through 2020.⁵⁵ The Northeast Corridor Commission and its members have developed a one-year spending plan that identifies planned investments using funds generated by the baseline capital charge for fiscal year 2016. According to Northeast Corridor Commission officials, they plan to update this plan annually to show progress in making capital investments funded through the cost-sharing methodology.

- *Overall contributions are not sufficient to address the state-of-good-repair backlog.* While the Northeast Corridor Commission's cost-sharing methodology could result in some additional capital funding, these funds are not sufficient to address the \$21 billion state-of-good-repair backlog. According to the cost-sharing methodology, the funds generated from the baseline capital charge are to be focused on normalized replacement of basic infrastructure assets—such as rails and ties—that require regular replacement to maintain a state of good repair. According to the Commission members, these funds are not sufficient, nor are they intended, to address the estimated \$21 billion for assets that are no longer in a state-of-good repair, including the major projects such as the Hudson River and Baltimore & Potomac Tunnels. Officials representing three commuter railroads that we interviewed told us that in their view, the federal government should be primarily responsible for restoring the infrastructure to a state-of-good-repair because much of the backlog exists on assets that are

⁵⁵According to the Northeast Corridor Commission officials, the \$550 million to be generated by the baseline capital charge in fiscal years 2019 and 2020 would cover 100 percent of the estimated costs of maintaining basic infrastructure in a state-of-good repair. The \$440 million to be contributed in fiscal years 2016 through 2018 represent 80 percent of the estimated costs of maintaining basic infrastructure in a state-of-good repair.

owned by Amtrak and under federal control, and have been for many years.⁵⁶ According to Amtrak, the Northeast Corridor Commission's methodology requires that costs to address the state-of-good-repair backlog be allocated between the various users of the assets and that such investments will be made through individual agreements between the parties on a discretionary basis in addition to the baseline capital charges due each year.

The Northeast Corridor Commission Has Developed a Plan to Address the Project Backlog, but Plan Implementation Faces Challenges

The Northeast Corridor Commission has developed a 5-year capital plan which lays out an approach to begin addressing the \$21 billion state-of-good-repair backlog and other projects.⁵⁷ This 5-year plan, if funded, would direct \$17.7 billion from fiscal years 2016 through 2020 to a range of projects including beginning work on major projects in the state-of-good-repair backlog, service improvement projects to improve reliability, increase service, and reduce travel time, and others. While this plan serves as the first time that Amtrak and the commuter railroads have jointly developed a 5-year capital plan for the rail network, implementation faces significant challenges, including uncertain funding for major projects and a lack of a defined process for prioritizing projects in the plan.

Uncertain Funding for Major Projects

According to the Northeast Corridor Commission, its 5-year capital plan lacks identified funding sources for more than \$10.5 billion in investments in the plan, or 60 percent of the plan's total cost of \$17.7 billion. According to Northeast Corridor Commission data, implementing this plan would require about \$3.5 billion per year from fiscal year 2016 through 2020. Of that amount, the Commission estimates that Amtrak, states, and commuter authorities have identified averaged funding sources for about \$1.4 billion per year over the 5-year period, with many projects funded through one-time grants from the federal government, as discussed below. The Commission estimates that Amtrak, the federal government, states, or commuter authorities would need to contribute a total of \$2.1 billion per year on average in additional funding to address the unfunded investments in the plan (see table 1). According to Amtrak, its estimated share of the costs to implement the plan would be about \$1.6 billion annually from fiscal years 2016 through 2018. This amount exceeds the

⁵⁶As noted previously in this report, an estimated \$16 billion in the state-of-good repair backlog exists on portions of the corridor owned by Amtrak, which it acquired in 1976.

⁵⁷*Northeast Corridor Five-Year Capital Plan Fiscal Years 2016—2020.*

almost \$1 billion on average that Amtrak has applied to its entire capital program system-wide in recent years and is more than four times the \$350 million that Amtrak officials reported as its annual capital budget for the Northeast Corridor.

Table 1: Funded and Unfunded Investments in the Northeast Corridor Commission’s 5-Year Capital Plan, Fiscal Years 2016–2020

Total Funding (\$ millions)	2016	2017	2018	2019	2020	Total	Annual average
Funded	\$1,877	\$1,506	\$1,387	\$1,335	\$942	\$7,047	\$1,409
Unfunded	828	1,512	2,513	2,702	3,108	10,663	2,133
Total	2,705	3,018	3,900	4,037	4,050	17,710	3,542

Source: GAO analysis of Northeast Corridor Infrastructure and Operations Advisory Commission data. | GAO-16-67

In recent years, Amtrak has received federal grants for extraordinary events. These grants have helped to address priority projects, but this funding is unpredictable and can present challenges in project planning. For example, through the American Recovery and Reinvestment Act (Recovery Act) of 2009, Congress appropriated \$1.3 billion in grants for Amtrak; of which Amtrak invested about \$435 million for infrastructure improvements on the Northeast Corridor.⁵⁸ More recently, Amtrak received \$295 million in federal funds from the Disaster Relief Appropriations Act of 2013 in response to Superstorm Sandy, and used approximately \$235 million of these funds to preserve a right-of-way for future construction of a new Hudson River Tunnel and to make repairs to the existing tunnel, which was flooded during the storm.⁵⁹ Although such

⁵⁸See Northeast Corridor Master Plan Working Group, *The Northeast Corridor Infrastructure Master Plan* (2010). In June 2011 we reported that Amtrak had expended all of the \$1.291 billion in Recovery Act funding it received, and completed a variety of projects, including station upgrades, right-of-way improvements, communications and signaling systems installations, and aging bridge replacement projects, among other things. GAO, *Recovery Act: Funding Used for Transportation Infrastructure Projects, but Some Requirements Proved Challenging*, [GAO-11-600](#) (Washington, D.C.: June 29, 2011).

⁵⁹Part of the funding Amtrak received was the result of a transfer of \$185 million from the Federal Transit Administration to FRA of funding in response to Superstorm Sandy. According to Amtrak, the federal funding in response to Superstorm Sandy allowed Amtrak to make state-of-good repair improvements to the existing Hudson Tunnel, and to secure the property under the Hudson Rail Yard by building a concrete basin under the site, which would serve as the right-of-way for a future Hudson River Tunnel. According to Amtrak, the site was about to be developed for other purposes and without this project, the right-of-way to access an expanded Penn Station would have been lost forever.

funds have helped Amtrak accelerate some projects on the state-of-good-repair backlog, uncertain funding can create planning challenges, according to Amtrak. For example, Amtrak reported that it maintains a workforce relative to its authorized funding amounts and that it can be challenging to redirect limited staff resources to such projects whenever one-time funding becomes available.

We and the DOT Inspector General have reported that the uncertain nature of Amtrak's funding presents challenges in implementing major projects. In 2011, the DOT Inspector General reported that as a result of its reliance on annual appropriations for much of its capital projects, Amtrak has had to develop its capital budget on an annual basis without knowing how much funding would be available. According to the Inspector General, this method of planning has significantly affected Amtrak's ability to maintain safe and reliable infrastructure and equipment, and increased its capital program's annual costs.⁶⁰ In prior work we also noted that funding for intercity passenger rail has been constrained due to competing priorities, and possibly, due to the inability to reach consensus over the federal role in intercity passenger rail. We concluded that without consensus over the federal role in funding intercity passenger rail and competing priorities for federal funds, Amtrak will continue to operate in an uncertain environment—impairing its ability to make strategic and operational decisions, and often deferring capital and infrastructure maintenance.⁶¹ In recent years, Members of Congress, the Northeast Corridor Commission, and the administration have offered several proposals to address the funding challenges, which are described in appendix III.

Lack of Defined Process for Prioritizing Projects

Although Amtrak has its own internal framework for making capital investment decisions, the Northeast Corridor Commission membership,

⁶⁰DOT Inspector General, *Amtrak Made Significant Improvements in its Long-term Capital Planning Process*, CR-2011-036 (Washington, D.C.: Jan. 27, 2011).

⁶¹[GAO-07-15](#). We recommended that Congress consider restructuring the approach for the provision of intercity passenger rail service in the United States, including: establishing clear goals for the system; defining the roles for states and the federal government, if any, commuter rail agencies, freight railroads and other stakeholders; and focusing expenditures where they will achieve the most public benefits, among other items. In following up on this matter, we reported that while PRIIA was a comprehensive reauthorization of intercity passenger rail, it did not provide for the recommended comprehensive evaluation of intercity passenger rail, its structure, and how to maximize transportation and public benefits.

as a group, has not yet developed a formal process for selecting and prioritizing projects in its 5-year capital plan.⁶² Leading organizations evaluate and select capital asset improvements using an approach that focuses resources into investments that provide the greatest benefit over the long term.⁶³ Such an approach includes a decision-making framework that encourages the appropriate levels of review, is supported by the proper financial and risk analyses, and defined processes for ranking and selecting projects based on pre-established criteria. Once projects are ranked, they are put into a long-term capital plan, according to a budget that recognizes the full costs of projects.

Northeast Corridor Commission officials told us that projects in the Commission's 5-year capital plan for 2016 to 2020 were brought forth by each of the commuter railroads and Amtrak according to their existing plans and consolidated into a comprehensive list based on what projects could be undertaken given available staffing resources. However, the officials recognized that projects were not prioritized and ranked according to a formal process that uses pre-established criteria for selecting projects or financial and risk analyses, in part, because this was the first time this effort had been undertaken to manage the numerous commuter railroads and Amtrak in developing a single capital plan. Commission officials told us that it would like to develop a more formal process for its members to prioritize investments in future editions of its 5-year capital plan, but that implementing a more formal and consistent approach for prioritizing and selecting projects would be challenging. For example, the officials told us that the states and commuter railroad authorities have different planning processes and federal planning requirements than Amtrak that would need to be considered to coordinate efforts. In addition, according to Amtrak officials, under the cost-sharing methodology, Amtrak's capital funds may be spent anywhere on Amtrak's Northeast Corridor territory, while state and commuter railroads' funds can only be spent on projects in their areas of operation. However, as previously mentioned, the Commission and its members were able to identify planned investments in fiscal year 2016 using funds from the cost-sharing methodology, suggesting that the Commission is well situated to address the challenges in prioritizing investments over a 5-

⁶²DOT Inspector General, *Amtrak Made Significant Improvements in its Long-Term Capital Planning Process* (2011).

⁶³[GAO/AIMD-99-32](#).

year period. In addition, because the Commission's plan would require Amtrak, states, or the federal government to contribute additional capital funding totaling about \$2.1 billion per year from 2016 through 2020, without a defined process for prioritizing and selecting projects that includes pre-established criteria based on leading practices, the Commission lacks an important tool to demonstrate how investments would be prioritized. Such a tool could help inform the decisions of Congress and states about whether to provide additional funding.

States Have Assumed a Greater Share of Costs for State-Supported Routes, but Have Raised Concerns over the Transparency of Amtrak's Charges

PRIIA required that Amtrak and states develop a standard methodology for allocating costs of state-supported routes. The methodology resulted in states assuming a greater share of the operating and capital equipment costs, which reduced Amtrak's reliance on federal subsidies for these routes by almost \$100 million in fiscal year 2014 compared with fiscal year 2013. However, Amtrak still required almost \$86 million from its fiscal year 2014 federal grant to cover losses from state-supported routes. Although Amtrak estimates that it will continue to require federal assistance for these routes into the future, Amtrak has not externally reported information detailing the specific costs and activities that this federal assistance is intended to cover. Similarly, many states have questioned the accuracy or transparency of Amtrak's operating and capital-equipment costs. In addition, Amtrak experienced challenges in finalizing current fiscal-year 2015 operating agreements with several states. Some states have sought opportunities to reduce costs by seeking alternative passenger rail providers, but the results of these efforts have yet to be realized.

Many Operating and Capital Equipment Costs Have Shifted from the Federal Government to States

PRIIA required Amtrak and states to develop and implement a standardized methodology for allocating operating and capital costs for the 29 state-supported routes among states and Amtrak.⁶⁴ Under the methodology, each route and the 18 states that help support them, are to be allocated a proportional share of operating and capital costs, according to its relative use.⁶⁵ Costs are offset, or reduced, by passenger fares or other revenues generated by the routes. Prior to the methodology, 15 states provided financial support to Amtrak for their routes, and as we previously reported, the amounts paid by states varied widely and did not cover the full costs of the routes, with some states not paying anything at all for services, raising equity concerns among states.⁶⁶ The new methodology is intended to provide a consistent approach for allocating Amtrak's costs across all state-supported routes and was implemented in fiscal year 2014, with a total of 19 state agencies in the 18 states signing contracts with Amtrak.⁶⁷

According to Amtrak data, as a result of implementing the methodology, states assumed a greater share of the operating and capital-equipment costs, which reduced Amtrak's reliance on federal funds by about \$100 million for these routes in fiscal year 2014 compared to fiscal year 2013. In the 4 years before the cost-sharing methodology took effect in fiscal year 2014, the federal government and states each contributed roughly 50 percent of the total costs of the state-supported routes, which averaged \$375 million per year. In fiscal year 2014, a total of \$359 million in financial support was paid, but the federal contribution was reduced to

⁶⁴Amtrak, relevant states, and the District of Columbia were required to develop and implement a single, nationwide standardized methodology for establishing and allocating the operating and capital costs among the states and Amtrak associated with trains operated on each of the state-supported routes. Pub. L. No. 110-432, div. B, § 209.

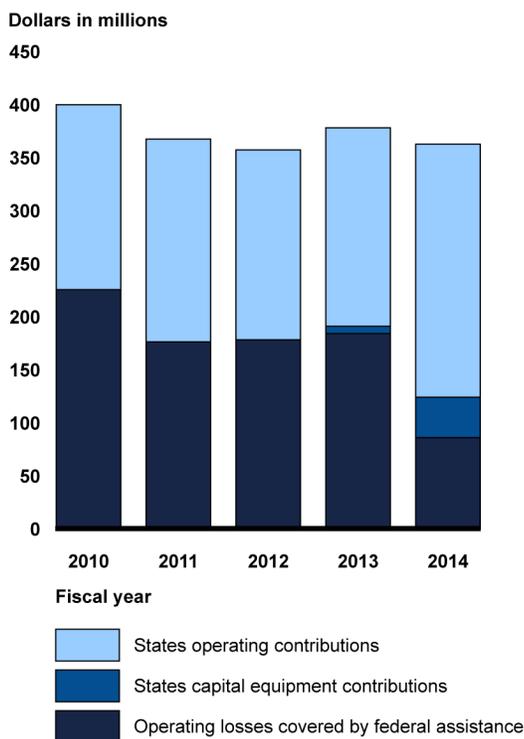
⁶⁵The 18 states that sponsor the 29 state-supported routes are California, Connecticut, Illinois, Indiana, Maine, Massachusetts, Michigan, Missouri, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Texas, Vermont, Virginia, Washington, and Wisconsin.

⁶⁶[GAO-07-15](#).

⁶⁷In fiscal year 2014 there were a total of 19 state agencies in 18 states supporting routes. California's 3 state-supported routes were represented by two state agencies: (1) the California Department of Transportation was responsible for the Pacific Surfliner and the San Joaquin routes, and (2) the Capital Corridor Joint Powers Authority was responsible for the Capital Corridor route. In fiscal year 2016, the Pacific Surfliner and the San Joaquin will each be supported by separate joint powers authorities.

about 24 percent of the total costs (almost \$86 million), while states assumed 76 percent of the costs (\$273 million) (see fig. 9).⁶⁸

Figure 9: Amtrak’s Reported Federal and State Contributions for State-Supported Amtrak Routes, Fiscal Years 2010–2014



Source: GAO analysis of Amtrak data including Amtrak’s audited consolidated financial statements, Amtrak’s unaudited Monthly Performance Reports, September 2010 – September 2014, and other unaudited financial data. | GAO-16-67

The largest percentage increase in costs to states in fiscal year 2014 was for capital equipment contributions, which are for the costs of Amtrak’s overhauls to locomotives and rail cars. According to Amtrak’s unaudited financial data, states’ capital equipment contributions were \$38 million in fiscal year 2014, a substantial increase over the \$7 million contributed by states in fiscal year 2013. According to Amtrak, state capital equipment

⁶⁸As discussed previously in this report, we found that that Amtrak’s financial information for its lines of business has limitations. However, we believe the data are reasonably sufficient to illustrate summary financial information and make general comparisons between lines of business for the purposes of this report.

contributions cover the costs of overhauling or replacing major components and systems in Amtrak's rolling stock to keep it in a state-of-good repair, extend the life of the asset, and remain compliant with FRA safety regulations. Under the methodology, Amtrak charges states an allocated portion of the costs of these overhauls based on the number of overhauls done annually for each class of equipment, and according to the share of equipment units used by each route.⁶⁹ Prior to the standardized methodology taking effect, Amtrak did not charge states an allocated portion of its overhaul costs, and most states did not pay for Amtrak equipment overhauls unless they contracted with Amtrak to make specific capital improvements to the equipment used on state-supported routes.

States' operating contributions increased by \$48 million (26 percent) in fiscal year 2014, and more than half of the cost increase was from six routes whose operating losses were paid entirely with federal contributions before the cost-sharing methodology was implemented.⁷⁰ For example, Michigan's financial support for the Wolverine service between Pontiac, MI, and Chicago, IL, increased from zero dollars in fiscal year 2013 to \$10.6 million in fiscal year 2014. States' operating contributions include costs that Amtrak can directly assign to individual routes as well as those costs for shared services that Amtrak allocates among all routes that use the service. Amtrak can directly assign labor costs for engineers, conductors, or other on-board staff assigned to specific trains, but it allocates other operating costs for services that are shared by multiple routes, such as Amtrak's police services, its reservations or call centers, or shared stations—such as Washington Union Station which is used by state-supported, Northeast Corridor, and long-distance routes.

Officials with 9 of the 19 state agencies we spoke with told us that their states experienced challenges due to the increased costs under the cost-sharing methodology. For example, Illinois DOT officials said that its state is considering service cuts to several routes in response to a 62 percent

⁶⁹As required by the cost-sharing policy, Amtrak and states established its first 5-year capital equipment improvement plan for fiscal years 2014 to 2018, which lays out the number and level of overhauls to be performed over each class of vehicle used by states.

⁷⁰Those routes are the Empire Service and Maple Leaf (New York), New Haven-Springfield Shuttle (Connecticut, Massachusetts), Pennsylvanian (Pennsylvania), Hoosier State (Indiana), and Wolverine (Michigan).

cost increase from \$26 million in fiscal year 2013 to \$42 million in fiscal year 2015 as a result of the new cost-sharing policy. According to state officials, Illinois' current governor has requested that the state's budget not exceed the fiscal year 2013 levels, and to meet that target, Illinois DOT will have to substantially cut costs, which could include reducing frequencies and services on its routes or cancelling planned capital investments.

Amtrak Requires Federal Funds for State-Supported Routes, but Lacks Specific Information on the Costs to Be Covered by Federal Grants

Although states have assumed an increased share of costs for state-supported routes, according to Amtrak, states' payments still do not cover the full costs of these routes leaving a projected \$360 million in operating costs to be covered by the federal government from fiscal year 2016 through 2019, or an average of \$90 million per year.⁷¹ However, Amtrak has not developed or reported clear information describing the specific costs and activities that this federal assistance is intended to cover. Amtrak officials told us that federal assistance for state-supported routes is primarily used to cover Amtrak's costs for general and administrative services that are used corporate-wide, including by the state-supported business line, but not specifically allocated to states through the cost allocation methodology. According to Amtrak officials, during their negotiations with states in developing the cost-sharing methodology, states were uncomfortable with paying an allocated portion of certain Amtrak overhead costs that were not directly related to their routes. As a result, general and administrative costs—including costs of corporate salaries, computer services, human resources, marketing and others—are not directly allocated to states. Instead, through the cost-sharing methodology, Amtrak charges states support fees which are a percentage of certain operating costs for the route.⁷² According to unaudited financial data provided by Amtrak, the state-supported routes consumed \$219 million in support services for general and administrative, maintenance of equipment, and other services in fiscal year 2014, and Amtrak charged states almost \$112 million in support fees. As a result, per the cost-sharing methodology, Amtrak did not charge states for a total of almost \$108 million in various services in fiscal year 2014. Such costs, according to Amtrak officials, are to be covered through federal assistance (about

⁷¹Amtrak, *Five Year Financial Plan, Fiscal Years 2015 to 2019* (Washington, D.C.: February 2015).

⁷²For example, Amtrak charges each state a support fee for general and administrative services that is a 2 percent fixed fee of the total direct operating cost for the route.

\$86 million in fiscal year 2014 as discussed previously) or with surplus operating revenues from other business lines, such as the Northeast Corridor. (See table 2.)

Table 2: Amtrak’s Reported Costs of State-Supported Services Not Directly Allocated to States in Fiscal Year 2014

(Dollars in millions)

Amtrak services not allocated to states	Cost of unallocated services	Amounts charged to states in support fees	Costs of state-supported routes not covered by state support fees
General administrative services	\$85.9	\$9.6	\$76.3
Transportation and engineering support	\$42.1	\$42.8	(\$.7)
Maintenance of equipment support	\$42.7	\$32.1	\$10.7
Other support services ^a	\$48.4	\$27.1	\$21.3
Totals	\$219	\$112	\$108

Source: Amtrak unaudited data for fiscal year 2014. | GAO-16-67

Note: Numbers may not add to total due to rounding.

^aAccording to Amtrak, these services are for support services for Amtrak on-board services, Amtrak police, marketing, and a synthetic host railroad charge for operating and maintenance costs of using Amtrak-owned right-of-way outside of the Northeast Corridor.

Although Amtrak has requested from Congress an average of \$90 million from fiscal years 2016 through 2019 to cover operating costs for state-supported routes, Amtrak does not delineate the specific costs and activities that are to be covered with the requested funds. *Standards for Internal Control in the Federal Government* state that management must have relevant, reliable, and timely financial information, and be able to communicate that information internally as well as externally to stakeholders that may have a significant impact on whether the entity achieves its goals.⁷³ While Amtrak has told us that federal operating grants for state-supported routes are to cover general and administrative and other support services, Amtrak has not reported information in either of its budget requests to Congress for fiscal years 2015 or 2016 detailing the specific activities and costs that are not covered by states’ contribution and which require additional federal operating grants. This is in part because Amtrak has not historically reported this information, and according to Amtrak officials, it has been a complicated adjustment to implement the cost allocation methodology with states, and this has

⁷³[GAO/AIMD-00-21.3.1.](#)

required substantial staff resources to meet states' needs. States have also expressed concerns regarding the accuracy or transparency of Amtrak's cost information, as discussed in the next section of this report. In the absence of detailed information on the specific costs of the state-supported routes that are not paid by states and which are to be paid for by the federal government, Amtrak lacks information necessary to assess its costs and develop strategies to reduce the costs of its services. In addition, Congress lacks information to assess Amtrak's use of federal assistance for state-supported routes. Such information would be particularly important in the future, as Amtrak would like to use all of its Northeast Corridor operating revenues to fund capital improvements on the corridor and not to cover losses in other business lines, as previously discussed in this report.

States Have Raised Concerns for the Transparency of Amtrak Costs, and Amtrak Has Faced Challenges in Managing Contracts with States

Officials representing each of the 19 state agencies we interviewed expressed general concerns for the accuracy or transparency of operating costs allocated to state-supported routes. The states' concerns often focused on the transparency of Amtrak's allocated charges to states and whether costs incurred by long-distance and Northeast Corridor trains were being incorrectly allocated to state-supported routes.⁷⁴ For example, officials with 8 state agencies expressed concerns with Amtrak's allocated costs for reservation, ticketing, and call center services which are used by Amtrak trains in each of the business lines. Officials with 5 state agencies also questioned Amtrak's allocated charges for Amtrak police services to their routes. For example, officials with Texas and Oklahoma questioned charges of \$70,000 to \$75,000 to each state in fiscal year 2014 for Amtrak police services on the Heartland Flyer route between Ft. Worth, TX, and Oklahoma City, OK. The states' officials told us that to their knowledge, no Amtrak police are staffed to stations along this route, and questioned whether Amtrak's costs for police services on

⁷⁴As previously noted, Amtrak allocates costs of shared services—such as the use of stations, call centers, and other assets—to an individual train through its APT cost accounting system based on the train's relative use of the asset. According to the DOT Inspector General, APT indirectly allocates a high percentage of its costs to individual train routes. Federal financial accounting standards state that it is generally preferable to directly assign as many costs as can accurately be identified and to indirectly allocate those that cannot be easily assigned on some reasonable and consistent basis. See, Department of Transportation, Office of Inspector General, *Amtrak's New Cost Accounting System is a Significant Improvement But Concerns over Precision and Long Term Viability Remain*, CR-2013-056 (Washington, D.C.: Mar. 27, 2013) and *Statement of Federal Financial Accounting Standards, Number 4*.

the Northeast Corridor or for long-distance services were allocated to their routes. In response to such concerns, Amtrak, FRA, and states have established a formal process for the parties to discuss states' concerns and make improvements to the cost allocation process moving forward, as described in further detail below.

Several states also expressed concerns for the accuracy or transparency of Amtrak's charges for capital equipment costs and other services. Specifically, eight state agencies expressed concerns for Amtrak's charges for capital equipment, including whether overhauls to locomotives and railcars were completed as scheduled. Seven state agencies were concerned that they were unable to verify the accuracy of third-party charges from host railroads. Under the cost-sharing policy, Amtrak is to charge states on an actual cost basis for host railroad services including charges to maintain track, and for meeting on-time performance targets established in the host railroads' operating agreements with Amtrak. Officials with two state agencies told us that Amtrak used to provide host railroad invoices directly to states, but stopped this practice after the cost-sharing methodology was implemented because it considers these invoices to be proprietary. The accuracy of third-party route costs may be of particular concern to states in light of Amtrak's history of overpaying host railroads for services. In March 2013, Amtrak's Inspector General reported that Amtrak had overpaid host railroads by about \$90 million for on-time performance incentives and service payments since 1995, and that these overpayments went undetected because Amtrak did not have an adequate invoice review process in place during this period.⁷⁵

In addition to states' concerns over the accuracy and transparency of Amtrak's charges, Amtrak has experienced challenges in completing contracts and collecting contributions from states for fiscal year 2015. Amtrak officials told us that as of June 2015 it was still finalizing fiscal

⁷⁵Amtrak, Office of Inspector General, *Amtrak Invoice Review: Internal Control Weaknesses Lead to Overpayments (Union Pacific)*, Report No. OIG-A-2013-011, (Washington, D.C. Mar. 28, 2013) and *On-Time-Performance Incentives: Inaccurate Invoices were Paid Due to Long-standing Weaknesses in Amtrak's Invoice-Review Process*, Report No. 403-2010 (Washington, D.C.: Apr. 21, 2011). In both of these reports, the Amtrak OIG recommended that Amtrak take action to recover overpayments. Amtrak agreed with the recommendations and reported that it would take action to pursue overpayment amounts recoverable under the law and continue to make improvements to the host railroad invoice-administration review process.

year 2015 operating agreements with several states, and in a couple of instances Amtrak had continued to provide services to states that did not have active operating agreements in place during its negotiations. For example, Amtrak's fiscal-year 2014 operating agreement with Illinois for three of its routes expired at the end of December 2014 after two extensions, but Amtrak continued providing service to Illinois without an operating agreement until Amtrak and Illinois agreed to a new agreement in June 2015. According to Amtrak officials, Amtrak provided approximately \$15 million in passenger rail services to the state over that 5-month time period without an operating agreement in place or without receiving any payment from Illinois for those services. Amtrak officials told us that Illinois's payments were being withheld while the state conducted a state-wide review of all existing contracts, but that as of October 2015, Illinois had paid the balance of its fiscal year 2015 contract.

In an effort to promote mutual cooperation and improve the implementation of cost-sharing methodology, Amtrak, FRA and the 18 states established the State-Amtrak Intercity Passenger Rail Committee in June 2015. According to FRA officials, the committee will serve as a forum to resolve issues identified by states and Amtrak related to the state-supported routes—a function that is similar to the purpose served by the Northeast Corridor Commission in implementing the cost-sharing methodology for the Northeast Corridor, as previously discussed in this report. According to the state officials, states are seeking a new business partnership relationship with Amtrak that would include a more clearly defined pricing model for the services provided by Amtrak, inclusion in Amtrak's annual budgeting decisions, and commitment from Amtrak to remain within budget. Officials from two states said the parties have made progress in addressing several issues, including the completion of a fiscal year 2014 to 2018 capital equipment improvement plan, as well as establishing performance standards for customer service, stations, and equipment in future contracts. Amtrak officials told us that the State-Amtrak Intercity Passenger Rail Committee will establish an ongoing process for states and Amtrak to continue to convene and address issues moving forward. Legislation enacted in December 2015 formalized this cooperative approach to addressing issues by establishing a state-supported routes committee comprised of Amtrak, FRA, and states.⁷⁶

⁷⁶Pub. L. No. 114-94, § 11204.

States Have Attempted to Reduce Costs by Seeking Alternative Passenger Rail Providers but Have Faced Challenges

To reduce costs, several states have taken steps to seek alternative providers of passenger rail services or to purchase their own equipment. However, it remains to be seen whether such efforts will result in reduced costs or improved service for states.

- *Hoosier State Service:* In August 2015, Indiana DOT entered into separate agreements through June 2017 with a private railroad, Iowa Pacific Holdings, and Amtrak to provide different elements of the Hoosier State service between Indianapolis and Chicago (which carried about 34,000 passengers in fiscal year 2014). An Indiana DOT official told us that under its agreement with Indiana DOT, Iowa Pacific Holdings is to provide and maintain a single trainset consisting of two locomotives, three passenger cars, a dome car, the crew for on-board food service, and marketing of the route. In a separate agreement with Indiana DOT, Amtrak engineers and conductors are to operate the train, manage reservations and ticketing, and work with the host railroads that maintain the track right-of-way. The new service operates under Amtrak's existing schedule of four trips a week from Indianapolis to Chicago; the state and Iowa Pacific Holdings would like to increase frequencies and provide additional weekend service in the coming years that would be contingent upon agreement with the host railroads. Prior to the cost-sharing methodology taking effect, Indiana DOT was not responsible for any operating or capital costs of the Hoosier State, and all such costs were paid by Amtrak with the assistance of its federal operating grant.

According to an Indiana DOT official, the new arrangement could result in improved service, but may not reduce costs for the state. When the cost allocation methodology took effect in fiscal year 2014, Indiana's costs were estimated to be about \$2.7 million in fiscal year 2014. Under the new arrangement, Indiana DOT and its local government partners (the cities of Crawfordsville, Lafayette, West Lafayette, Rensselaer, and Tippecanoe County) plan to spend roughly \$3 million per year for the service in fiscal years 2016 and 2017, according to an Indiana DOT official. The official stated that after seeking proposals from private operators, the state found that contracting with a third-party operator without Amtrak's assistance would be cost prohibitive. Specifically, a third-party passenger rail provider would have to negotiate separate access agreements with each of the seven railroads that host the service, a process that would be costly and time consuming. An Iowa Pacific Holdings senior officer told us that the split arrangement with Amtrak allows the company to make use of Amtrak's statutory access rights to freight railroad tracks, its skilled engineers and conductors, and insurance preferences (as

discussed below).⁷⁷ At the same time, Iowa Pacific Holdings is focusing on improved amenities, such as dining car service, and marketing the service to new users, such as college students or business and leisure travelers to Chicago and Indianapolis, according to the company officer (see fig.10).

Figure 10: Iowa Pacific Holdings Passenger Rail and Dining Car Service Provided on the Hoosier State Route



Source: GAO. | GAO-16-67

- *Amtrak Cascades Service:* In April 2014, Washington and Oregon requested information from passenger rail service providers on potential costs and service improvements for the Cascades route, which operates from Vancouver, British Columbia, to Eugene, OR, serving Seattle, WA, and Portland, OR, and transported about 783,000 passengers in fiscal year 2014. Washington DOT initiated the effort in response to a mandate from the state's legislature to find cost-savings alternatives in light of the increased costs from the cost-allocation methodology. According to Washington DOT and Oregon

⁷⁷Federal law requires freight railroads to give Amtrak trains priority access and authorizes the railroads to request appropriate compensation associated with the use of their tracks. Pub. L. No. 93-146, § 10(2). Freight railroads also provide dispatching and maintenance-of-way services for Amtrak trains operating on their tracks.

DOT, the request for information generated options for incremental service delivery changes, including developing a pilot program to contract marketing, on-board food service, baggage handling, or other services with third parties. However, state officials told us that having a private rail operator take over the entire service would likely not result in cost savings due to the high costs for private rail operators to use host railroad tracks, as discussed above, and to indemnify host railroads from potential accidents. Federal law limits overall damages from passenger claims to \$200 million and authorized passenger rail providers, such as Amtrak, to enter into indemnification agreements with host railroads to protect them from accident liabilities.⁷⁸

According to Amtrak officials, Amtrak indemnifies states for potential accidents, and alternative passenger rail providers would likely not do so which would result in higher insurance costs for the states than are required through Amtrak. As a result, Washington and Oregon decided to retain Amtrak as the operator of the Cascades Service.

- *States ownership of rolling stock:* Four states currently own at least a portion of the equipment used on their state-supported routes which enables the states to contract maintenance services to third party providers. According to the California DOT, about half of the 200 vehicles used on the state's three routes are owned by the state, including 36 locomotives and 66 railcars. Amtrak operates and performs day-to-day maintenance on the state's entire fleet, but the state separately contracts long-term maintenance and overhauls as needed through a competitive bidding process. Washington, Oregon, and North Carolina also own their own rolling stock, and officials with these states told us that their states contract with third parties for some of their maintenance. In addition, using about \$800 million in federal grant funding made available by the Recovery Act and the Consolidated Appropriations Act of 2010, seven states are in the process of acquiring rolling stock to replace Amtrak or other state-

⁷⁸49 U.S.C. § 28103. We previously reported that as a condition for using their rights-of-way, freight railroads may seek certain liability protections from the costs and risks associated with potential passenger rail accidents. For example, a freight railroad might require that the commuter rail agency contractually indemnify the railroad from any liability in the event of a passenger accident and procure a certain level of insurance coverage to guarantee its ability to pay the entire allocation of damages. GAO, *Commuter Rail: Many Factors Influence Liability and Indemnity Provisions and Options Exist to Facilitate Negotiations*, [GAO-09-282](#) (Washington, D.C.: Feb. 24, 2009). Legislation enacted in December 2015 requires that the liability limit be adjusted every five years to reflect the change in the Consumer Price Index. Pub. L. No. 114-94, § 11415(b).

owned equipment.⁷⁹ California, Washington, and Illinois (on behalf of Michigan, Missouri, Wisconsin, and Iowa) are in the process of procuring 47 new locomotives and 130 bi-level rail cars for their routes.⁸⁰ State officials told us that the purchase of this equipment will increase passenger capacity and should reduce their capital equipment contributions to Amtrak significantly as the new equipment will be more reliable and require less frequent overhauls than older Amtrak equipment. The Midwest states have begun the process of seeking firms to manage and maintain the new fleet, through an equipment pool for the participating states. According to a state official, Amtrak could be a potential provider of these services, along with other private sector firms that may bid when a request for proposals is released. Amtrak could also benefit from the states' equipment purchase, if the replaced rolling stock could be redeployed on other routes. Amtrak officials told us that it is considering its strategy as part of its 10-year fleet deployment plan, which it plans to complete later this year.

Conclusions

We concluded in 2006 that there was a clear need to change the structure and federal role for intercity passenger rail service in the U.S. to improve the focus, performance, and sustainability of federal support for Amtrak's services. PRIIA took a step toward changing this structure by requiring the development of methodologies, which resulted in a shift in between the federal government, Amtrak, commuter railroads, and states in how the costs of intercity passenger rail services are shared and future investments made. This shift also required a culture change within Amtrak that is ongoing as its various business lines try to make Amtrak a more responsive, nimble, and accountable provider of passenger rail services for its different customers. The changes required by PRIIA and Amtrak's

⁷⁹PRIIA required Amtrak to establish a Next Generation Corridor Equipment Pool Committee comprised of representatives of Amtrak, FRA, states, and others to design, develop specifications for and procure standardized next-generation corridor equipment and authorized appropriations for grants to Amtrak and states participating in the Next Generation Corridor Equipment Pool Committee to initiate procurement of this equipment. Pub. L. No. 110-432, div. B, § 305.

⁸⁰The new equipment will allow the four Midwest states to replace 17 Amtrak trainsets, including 68 single-level railcars, with 33 new locomotives and at least 88 higher-capacity, bi-level railcars. According to Amtrak's most recently updated fleet strategy (March 2012), the company owns or leases a total of 373 locomotives and 1,543 passenger cars that are used system-wide and 20 Acela trainsets that are used on the Northeast Corridor and 5 other trainsets used on the Cascades service.

recent reorganization represent progress toward this goal, but further improvements could enhance Amtrak's accountability for improving operational and financial performance.

First, the recent efforts of Amtrak's long-distance line of business to adopt a strategic management system to reduce costs and increase revenue and customer satisfaction are encouraging—especially since those routes require the most federal operating support. However, until Amtrak prioritizes the adoption of this system for Amtrak's remaining business lines and departments and the results of improvement efforts are reported externally, Congress, FRA, and others may lack confidence in Amtrak's efforts to improve its financial and operating performance and make more efficient use of federal funds. Second, while Amtrak's business line structure has improved internal accountability for performance, elements of the inconsistent and incomplete reporting of financial data, including not allocating depreciation costs to its business lines, that we found 10 years ago remain today in Amtrak's current monthly performance reports and 5-year financial plan. As a result, Congress and the states lack a clear view into the financial performance of the company that they help fund. Third, accurately reporting the revenues and expenses of all three lines of business becomes more important for Amtrak, states, and the federal government as Amtrak moves to use its Northeast Corridor revenues for capital investments on the corridor, making state-supported and long-distance routes more reliant on state or federal funds to continue operations or to make capital investments. Fourth, while states have assumed a greater share of state-supported routes' costs, the federal government is still responsible for a substantial portion. Although Amtrak has not historically reported the specific costs of these routes that are covered by the federal government, the implementation of the cost-sharing methodology with states offers the opportunity to make Amtrak's need for federal assistance for these routes more transparent. Such information, if included in Amtrak's annual budget request to Congress, would enable Congress to assess Amtrak's need for federal assistance for these routes, and help Amtrak better understand these costs so that it can identify strategies to reduce them.

All three types of Amtrak services—Northeast Corridor, state-supported and long-distance—have unique benefits and expenses that need to be better understood by Amtrak's management and by Congress and the states. The Northeast Corridor is critical to Amtrak's future financial sustainability, but the rail network is threatened by the substantial costs of maintaining and improving its aging infrastructure. The Northeast Corridor Commission's plan to bring the corridor to a state-of-good-repair could

represent a good start toward this goal. Establishing criteria for selecting and prioritizing projects in the Commission's 5-year capital plan based on leading practices would give Congress, states, and any other potential funding partners better information on how investments would be prioritized to inform future funding decisions. Moreover, any efforts to make more substantial changes in the structure or performance of Amtrak's routes, including decisions to eliminate or expand services, would require a standardized methodology for assessing routes as required in PRIIA. Recently enacted legislation requiring Amtrak to hire an independent entity could help ensure progress toward completion of this requirement. Completing this methodology would give Congress, Amtrak, and FRA an enhanced tool to make informed decisions about how to maximize the benefits of the federal government's expenditure on its routes.

Recommendations for Executive Action

We recommend that the President of Amtrak take the following five actions:

To ensure that planned improvements to Amtrak's routes are implemented and their outcomes can be evaluated, we recommend that Amtrak:

- prioritize the adoption of Amtrak's strategic management system in all of Amtrak's remaining lines of business and functional departments, and,
- externally report how Amtrak's initiatives meet the goals established under the Amtrak's strategic management system.

To improve the consistency and completeness of Amtrak's financial reporting and to provide Congress with accurate information to make funding decisions, we recommend that Amtrak:

- make the format of its monthly performance reports and its 5-year financial plan consistent to show all of Amtrak's revenues and expenses by major function for each line of business, and,
 - ensure that Amtrak's depreciation expenses are appropriately allocated to its lines of business once the underlying capital asset data are determined reliable.
- To help Congress in assessing Amtrak's need for federal assistance for state-supported routes and to help Amtrak to develop strategies to reduce the costs of its services, we recommend that Amtrak delineate the specific costs and activities for state-supported routes that are

covered by the federal government and communicate this information to Congress, such as in Amtrak's annual budget request.

In addition, to better inform congressional decision making regarding the funding of Northeast Corridor infrastructure improvements, we recommend that the Northeast Corridor Commission work with its members to establish criteria for its members to use in selecting and prioritizing capital projects to be included in future editions of its 5-year capital plan.

Agency Comments and Our Evaluation

We provided copies of the draft report to Amtrak, the Northeast Corridor Commission, and DOT for comment prior to finalizing the report. We received written comments from Amtrak, which are reproduced in appendix V. Amtrak concurred with our first recommendation but did not state whether it agreed or disagreed with the other four recommendations made to Amtrak although it did provide additional context related to each of these recommendations. On December 8, 2015, the executive director of the Northeast Corridor Commission provided oral comments stating that the Commission concurred with the recommendation made to it. Amtrak, the Northeast Corridor Commission, and DOT also separately provided technical comments, which we incorporated as appropriate.

Amtrak concurred with our first recommendation to prioritize the adoption of its strategic management system to its remaining lines of business and functional departments. We are encouraged by the actions that Amtrak is taking to implement this system in more of its lines of business and functional departments, and these efforts, if expanded company-wide, have the potential to make systemic changes that can improve Amtrak's overall financial and operational performance.

Regarding our second recommendation that Amtrak externally report how its initiatives meet the goals established under its strategic management system, Amtrak stated that while the initiatives are followed closely by Amtrak's executive team and the whole company receives updates about their progress toward Amtrak's strategic goals, Amtrak believes there is value in keeping the content of its strategy conversations regarding these initiatives confidential. While we agree that there is value to keeping business proprietary information and deliberations confidential, Amtrak should be able to externally report progress without disclosing confidential deliberations or information to show how its initiatives are meeting the goals established under its strategic management system. For example, Amtrak could externally report on the progress and results of its

initiatives, either individually or summarized by route or line of business; however, without this reporting, it is difficult for the company to demonstrate to Congress and other stakeholders how Amtrak is improving its financial and operating performance, and whether it is making the most efficient use of federal funds. Thus, we continue to believe that our recommendation is valid and that Amtrak should fully implement it.

Amtrak also provided context related to our third recommendation to make the format of its monthly performance report and its 5-year financial plan consistent to show all of Amtrak's revenues and expenses by major function and by line of business. Specifically, Amtrak stated that its 5-year financial plan is an aggregate report used for planning, prioritizing and managing their business lines and routes and that the monthly performance reports are a collection of financial and operational performance information for each route and business line. Amtrak stated that it intends to maintain these reports because they serve distinct purposes and their utility would be lost if it attempted to "standardize" them.

We believe that it is important to improve the consistency and completeness of Amtrak's financial reporting and to provide Congress with accurate information to use in making funding decisions. While we appreciate the fact that Amtrak's monthly performance report and 5-year financial plan reports are created and used internally for different purposes, the intent of our recommendation is not to "standardize" Amtrak's reporting but rather that Amtrak provide a mechanism to show how its financial results in its monthly performance reports are comparable to the financial targets by line of business that are in its 5-year financial plan. Reporting results that are comparable to targets would help ensure the reliability of Amtrak's data and build decision maker's confidence in its financial reports as Amtrak's lines of business achieve their financial targets. Thus, we continue to believe that our recommendation is valid and that Amtrak should fully implement it.

Amtrak provided context for our fourth recommendation to appropriately allocate Amtrak's depreciation expenses to its lines of business once its underlying capital asset data are determined to be reliable. Amtrak stated that: (1) while depreciation is necessary for GAAP reporting purposes, it is of limited use for management accounting in Amtrak's lines of business; (2) that many of Amtrak's assets are fully depreciated understating their replacement expense; (3) that Amtrak has a synthetic capital charge that serves as a proxy for depreciation; and (4) that the

implementation of PRIIA sections 209 and 212 may lead to further adjustments in how capital costs are allocated to its routes.

We agree that given the long-lived nature of Amtrak's capital assets, depreciation calculated for financial reporting purposes may not provide an appropriate measure of the economic costs of using the related assets. While Amtrak may be capturing depreciation or economic costs through its synthetic capital charge (which serves as a proxy for depreciation and which Amtrak does not publicly report), as we also mention in this report, Amtrak may be misstating its line-of-business financial results by not allocating depreciation costs to its lines of business. Additionally, even if the implementation of PRIIA section 209 or 212 affects future Amtrak capital investments and leads to further adjustments, it is important to establish a baseline allocation to understand how those adjustments affect Amtrak's lines of business. There are a number of methods or models used to calculate depreciation or economic costs. However, regardless of the method used, it is important that the data used to calculate depreciation or the economic costs of using long-lived assets—historical cost, useful life, residual value—are complete, accurate, and timely. Thus, we continue to believe that our recommendation is valid and that Amtrak should fully implement it.

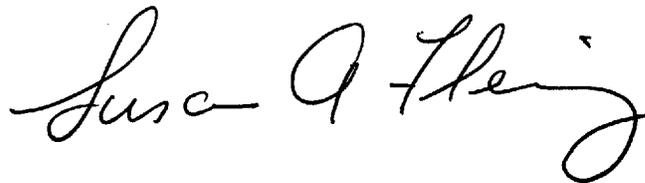
Regarding our fifth recommendation that Amtrak delineate the specific costs and activities for state-supported routes that are covered by the federal government and communicate this information to Congress, Amtrak stated that under its cost-sharing formula, states are responsible for costs that are closely associated with their routes as well as for support fees for a wide range of other activities that were agreed to by states, but not specifically defined to allow management flexibility going forward. Specifically, Amtrak stated that 18 of its 19 state partners agreed to this approach. Amtrak also noted that it is closely reviewing requirements in recent legislation passed by Congress that will require new accounting and funding structures for Amtrak services and their implications on Amtrak and states. Although the cost-sharing methodology provides a policy for charging states for the costs of state-supported routes, as we mention in the report, officials representing every state partner we interviewed expressed general concerns for the accuracy or transparency of operating costs allocated to state-supported routes. This expressed concern demonstrates the importance of Amtrak's providing accurate cost information to those who pay for its services, including the federal government, as our report notes that states' payments do not cover the full costs of these routes and that the federal government will need to contribute an estimated \$90 million per

year on average from fiscal years 2016 through 2019 to cover the shortfall. Moreover, our report notes that Amtrak has not developed or reported clear information describing the specific costs and activities that this federal assistance is intended to cover, and as a result, Amtrak and Congress lack information necessary to assess these costs. As such, we continue to believe that our recommendation is valid and that Amtrak should fully address it.

Ultimately each of our recommendations to Amtrak in this report aim to improve the transparency of how Amtrak demonstrates the value of the services it provides to the federal government and the states. Without making progress toward fulfilling these recommendations, Congress, states and taxpayers will continue to have difficulty determining how Amtrak is using federal funds.

We are sending copies of this report to the appropriate congressional committees, the Secretary of the Department of Transportation, the President of Amtrak, and the Executive Director of the Northeast Corridor Commission. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or members of your staff have questions about this report, please contact me at (202) 512-2834 or flemings@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report are listed in appendix VI.

A handwritten signature in black ink that reads "Susan Fleming". The signature is written in a cursive, flowing style.

Susan Fleming
Director, Physical Infrastructure

Appendix I: Objectives, Scope, and Methodology

This report addresses (1) the status of Amtrak's recent reorganization; (2) Amtrak and stakeholder efforts to plan for and address the Northeast Corridor's infrastructure needs; and (3) the impact of Passenger Rail Investment and Improvement Act of 2008 (PRIIA) requirements on Amtrak's state-supported routes.

To assess the status of Amtrak's recent reorganization, we reviewed Amtrak's internal reports, strategic plans, and business plans on its mission, goals and the implementation of its current lines of business structure. We interviewed Amtrak managers for each of its lines of business, including for the Northeast Corridor, state-supported, and long-distance routes, and other senior officials. We reviewed past GAO reports on Amtrak and intercity passenger rail reform for information on prior Amtrak reform efforts and reform efforts in other countries. We also reviewed Amtrak's new strategic management system, which is designed to manage Amtrak's business improvement initiatives. We compared Amtrak's strategic management system to leading and useful practices regarding the importance of strategic planning and performance reporting.¹ We assessed Amtrak's progress in implementing this system across its business lines and functional departments by reviewing Amtrak documentation and interviewing Amtrak officials. We also compared this system's initiatives and processes to a past effort, Amtrak's Performance Improvement Plans mandated by PRIIA and developed from fiscal years 2010 through 2012.² We analyzed Amtrak and Federal Railroad Administration (FRA) data from fiscal years 2010 to 2015 on the status of Amtrak's Performance Improvement Plans for all 15 of Amtrak's long-distance routes and analyzed the plans. We also interviewed Amtrak labor union representatives and officials with the FRA, commuter and freight railroad representatives, and experts selected for their knowledge of intercity passenger rail issues to obtain their views on the potential benefits and challenges of Amtrak's reorganization. We selected the commuter and freight railroads based on the scope of their operations and the experts based on their knowledge of Amtrak's reorganizational history specifically or railroad organizational structure in general as well

¹GAO, *Executive Guide: Leading Practices in Capital Decision-Making*, [GAO/AIMD-99-32](#) (Washington, D.C.: December 1998) and GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003).

²Pub. Law 110-432, div. B, § 210.

as interactions with Amtrak concerning its Northeast Corridor infrastructure and routes, state-supported routes, or long-distance routes. The results of these interviews are not generalizable but provided important insights about how they interact with Amtrak, how Amtrak is organized, or the railroad industry in general. See appendix IV for the list of organizations and individuals with whom we met.

To further assess the status of Amtrak's business line reorganization, we reviewed PRIIA requirements for Amtrak to report financial information by line of business and by major function, and compared these requirements with Amtrak's financial reporting.³ Specifically, we reviewed Amtrak's most recent 5-year Financial Plan for fiscal years 2015 to 2019, as well as prior plans which provide Amtrak's projections for its financial performance by business line and the company overall. In addition, we reviewed Amtrak's monthly performance reports published since the enactment of PRIIA, including the September reports for 2010 through 2014 which provide unaudited year-end data for fiscal years 2009 through 2014 by line of business. To assess the reliability of this information we reviewed prior reports by GAO and the Inspectors General for Amtrak and the Department of Transportation regarding the reliability of Amtrak's financial reporting and cost allocation systems, and interviewed Amtrak's Controller and finance department officials about those items. We reviewed the methodology used by the Department of Transportation's Inspector General in evaluating Amtrak's financial reporting and determined that it was sufficiently reasonable for us to rely upon the results. We also reviewed Amtrak's audited consolidated annual financial statements for fiscal years 2012, 2013, and 2014, which were the most recent available at the time of our review. Based on statements on Amtrak's internal controls from Amtrak's external financial auditors and interviews with Amtrak officials, we determined that Amtrak's financial information for its lines of business has limitations, as we describe in this report. However, we believe the data are reasonably sufficient to illustrate summary financial information and make general comparisons between lines of business for the purposes of this report. We also compared Amtrak's reporting of performance and financial information against *Standards for Internal Control in the Federal Government* to determine the extent to which the information and its reporting comported with these

³Pub. L. No. 110-432, div. B, § 203(c).

criteria.⁴ While Amtrak is not required to abide by the *Standards for Internal Control in the Federal Government*, the management controls described in the standards are consistent with the management practices of leading organizations.

To assess Amtrak's efforts to plan for and address the Northeast Corridor's infrastructure needs, we reviewed requirements in PRIIA relevant to the Northeast Corridor. Specifically, we reviewed PRIIA provisions that established the Northeast Corridor Infrastructure and Operations Advisory Commission (Northeast Corridor Commission) and directed it to develop a standardized formula for allocating costs, revenues, and compensation for Northeast Corridor commuter rail users and owners.⁵ We reviewed and analyzed Amtrak and Northeast Corridor Commission documentation, including the Commission's *Northeast Corridor Commuter and Intercity Passenger Rail Cost Allocation Policy* and its *Northeast Corridor Five-Year Capital Plan Fiscal Years 2016–2020*. We also interviewed Northeast Corridor Commission officials, and officials representing the Commission's member agencies including the Federal Railroad Administration (FRA), Amtrak, and state departments-of-transportation and commuter railroad agencies on the Northeast Corridor (see app. IV). We compared the process used by the Northeast Corridor Commission to assemble its 5-year capital plan with leading practices for capital decision making.⁶

To address the effects of PRIIA's requirements on state-supported routes, we reviewed relevant provisions in PRIIA, including a requirement that Amtrak, relevant states and the District of Columbia develop and implement a single, nationwide standardized methodology for establishing and allocating the operating and capital costs among the states and Amtrak associated with trains operated on each of the state-supported

⁴GAO, *Internal Control: Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

⁵Pub. Law 110–432, div. B, § 212 (2008). The Northeast Corridor Commission is composed of members representing Amtrak, the FRA, and the eight states and the District of Columbia that constitute the Northeast Corridor, as well as representatives of freight railroads and other stakeholders that serve as non-voting members.

⁶[GAO/AIMD-99-32](#). GAO identified organizations that were recognized as exhibiting leading practices in capital decision making, and GAO compared practices across the organizations and identified innovative practices used by individual organizations as well as approaches and elements that were common across organizations.

routes.⁷ We reviewed the PRIIA-mandated cost-allocation methodology developed by Amtrak and states, which was implemented in fiscal year 2014. We interviewed officials with Amtrak, FRA, and from each of the 18 states with state-supported routes to gather their perspectives on the effects of the policy and its implementation.⁸ To assess the effects of the PRIIA requirements on states' and the federal government's contributions for state-supported routes, we reviewed (1) unaudited year-end data from Amtrak's monthly performance reports, published in September of 2010 through 2014, (2) data in Amtrak's Audited Consolidated Financial Statements for fiscal years 2011 through 2014, and (3) additional unaudited Amtrak financial data on capital equipment costs for fiscal years 2013 and 2014. We also reviewed Amtrak's unaudited financial data for the costs of state-supported routes that are not allocated to states and which are to be covered by federal assistance, as reported by Amtrak. As previously discussed, based on statements on Amtrak's internal controls from Amtrak's external financial auditors and interviews with Amtrak officials, we determined that Amtrak's financial information for its lines of business has limitations, as we describe in this report. However, we believe the data are reasonably sufficient to illustrate summary financial information and make general comparisons between lines of business for the purposes of this report.

For appendix II, we used Amtrak ridership data from its internal database for fiscal years 2012 through 2014 and its fiscal year 2015 schedule data for its long-distance routes. For our analysis of the extent to which Amtrak stations serve rural areas and exist where other transportation modes are available, we mapped intercity bus, air, intercity rail (Amtrak), and ferry facilities from the DOT Bureau of Transportation Statistics' Intermodal Passenger Connectivity Database (IPCD), last updated in 2013, and interviewed a transportation expert and a bus association. We used the IPCD information to create Geographic Information System maps to show intercity rail, air, and bus facilities in proximity to Amtrak stations. We interviewed the officials that created this database to determine it was sufficiently reliable for our purposes. To determine the prevalence of

⁷Pub. Law 110-432, div. B, § 209.

⁸The 18 states that sponsor the 29 state-supported routes are California, Connecticut, Illinois, Indiana, Maine, Massachusetts, Michigan, Missouri, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Texas, Vermont, Virginia, Washington, and Wisconsin. In fiscal year 2014, the state of California had two separate state agencies sponsoring its three state-supported routes. As a result, we interviewed a total of 19 state agencies.

alternative facilities in areas served by Amtrak, we used a driving distance of 30 minutes from each Amtrak station based on the creation of polygons in MapInfo software to model regions surrounding Amtrak stations. Finally, we also interviewed Amtrak officials to determine their current efforts to improve their long-distance routes and interviewed representatives from freight railroads for contextual information about the impact of host railroad operations' influencing track over which Amtrak runs its long-distance trains.

Our work was conducted from October 2014 to January 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Long-standing Performance Challenges to Amtrak's Long-distance Routes

Amtrak's long-distance routes have historically faced structural challenges to significantly improving their financial and operational performance. Although intercity passenger rail services may provide benefits such as connectivity to rural areas and an option for leisure transportation, the ability to increase these benefits is limited by the following:

- *Poor on-time performance limits demand for rail:* The extent to which trains run on time has a direct bearing on Amtrak's operating revenues and expenses and on customer satisfaction. For example, although ridership on the long-distance routes, on average, has not significantly changed since fiscal year 2009, some particular routes such as the Empire Builder experienced decreases in ridership in response to the on-time performance issues in fiscal year 2014, which Amtrak has attempted to mitigate with schedule changes.¹ Amtrak and freight railroad officials told us that fiscal year 2014 was a particularly poor year for on-time performance due to severe winter weather and freight-railroad capacity issues. For example, delays from crude oil trains passing through North Dakota on the Empire Builder's route contributed to its on-time performance in fiscal year 2014 of just 21 percent, compared to 39 percent the year before. Past DOT Inspector General's work has shown that delays on routes outside of the Northeast Corridor are largely caused by host railroad effects, including speed restrictions imposed by host railroads to facilitate track improvements.² Amtrak officials stated that on-time performance is a long-standing issue in part because of the lack of an adequate enforcement mechanism to mitigate host railroad delays, but Amtrak is striving to improve coordination with host railroads as well as working to increase accountability for Amtrak-responsible delays.³

¹See figure 5 in the background for ridership across all business lines.

²Department of Transportation, Office of Inspector General, *Analysis of the Causes of Amtrak Train Delays*, CR-2012-148 (Washington, D.C.: July 10, 2012).

³PRIIA provides an option for Amtrak or the Surface Transportation Board (STB) on its own initiative to request an investigation of poor host railroad performance should the host railroad not meet the minimum on-time performance standards. Pub. L. No. 110-432, div. B, § 213. However, Amtrak officials told us this provision has not yet resulted in effective action due to, among other things, inadequate STB staff resources to conduct investigations.

- *Amtrak faces competition from other modes in the majority of rural areas served:* Our analysis found that for about 30 percent of rural Amtrak stations, Amtrak is the only intercity transportation service provider, among rail, bus, and air services, within a 30 minute drive.⁴ Therefore about 70 percent of rural Amtrak stations are located within a reasonable driving time of one or more alternative transportation options (see fig.11 for a depiction of rural stations along one long-distance route). Approximately 9 percent of all riders on the long-distance routes in fiscal years 2012 through 2014 boarded or alighted at a rural station. In addition, according to DOT data, about 94 percent of rural households owned at least one vehicle in 2009, and personal vehicles are the most commonly used mode of transportation for long-distance travel among rural households.⁵
- *Amtrak's long-distance trains are not frequent, and it is difficult to increase their frequency:* Amtrak's long-distance routes are limited by low frequencies such as triweekly service on the Cardinal and Sunset Limited routes and once-daily service on the remainder. Additionally, stopping times may not be convenient to travelers; for example, on the Southwest Chief, some service to several towns in rural Kansas and California is available only between midnight and 5 am (see fig.11). We have previously found that long-distance services tend to be infrequent and exhibit poor dependability as measured by on-time performance, due to increased trip distances, among other things, potentially limiting public benefits.⁶ As previously mentioned, increasing the frequency of trains is not a simple task and requires complex negotiations with host railroads and potentially large capital outlays.

⁴Intercity transportation services do not include commuter options. In a limited number of cases, other Amtrak stations were located in the 30-minute driving distance.

⁵U.S.DOT, Federal Highway Administration, *Summary of Travel Trends, 2009 National Household Travel Survey*, FHWA-PL-II-022 (Washington, D.C.: June 2011) and *Long Distance Transportation Patterns: Mode Choice, Findings from the National Household Travel Survey* (Washington, D.C.: May 2006).

⁶GAO, *Intercity Passenger Rail: National Policy and Strategies Needed to Maximize Public Benefits from Federal Expenditures*, [GAO-07-15](#) (Washington, D.C.: Nov. 13, 2006).

Interactive graphic

Figure 11: Amtrak Southwest Chief Route with rural station rollovers.

Directions:



Roll over the rural yellow station points located on the map to view details on alternative routes / transportation, departure & arrival times and fiscal year 2012-2014 ridership. Blue points represent non-rural stations along the route, and therefore are not included in the analysis depicted here.



Sources: GAO analysis of Map Resources; DOT Bureau of Transportation Statistics Intermodal Passenger Connectivity Database; Amtrak FY 2015 schedule data and FY 2012-2014 ridership data. | GAO-16-67

**Appendix II: Long-standing Performance
Challenges to Amtrak's Long-distance Routes**

Table 3: Amtrak's Southwest Chief Route with Rural Station Rollovers (Corresponds to Fig. 11)

Rural Stations	Other Amtrak Routes Serving This Station	Ridership for fiscal year 2012	Ridership for fiscal year 2013	Ridership for fiscal year 2014	Departure time from the station en route to Los Angeles	Departure time from the station en route to Chicago	Number of intercity bus and air facilities within 30 minute drive from station
Mendota, IL	Illinois service (state-supported)	6,571	7,008	6,934	4:24 PM	1:19 PM	Bus (2)
Princeton, IL	California Zephyr (Long-distance); Illinois service (state-supported)	6,544	7,169	7,695	4:46 PM	12:58 PM	Bus (1)
Galesburg, IL	California Zephyr (Long-distance); Illinois service (state-supported)	24,855	24,220	26,735	5:38 PM	12:08 PM	Bus (3)
Fort Madison, IA	none	7,003	7,246	6,986	6:42 PM	11:09 AM	Air (1); bus (3)
La Plata, MO	none	9,820	10,031	10,655	7:51 PM	9:55 AM	Air (1)
Hutchinson, KS	none	5,239	5,303	5,312	3:20 AM	2:19 AM	Bus (1)
Dodge City, KS	none	5,174	5,149	5,300	5:25 AM	12:27 AM	Air (1); bus (1)
Garden City, KS	none	7,887	7,355	7,870	6:21 AM	11:17 PM	Air (1); bus (1)
Lamar, CO	none	1,936	1,823	1,812	6:59 AM	8:40 PM	Bus (2)
La Junta, CO	none	6,566	6,711	6,918	8:30 AM	7:41 PM	Bus (3)
Trinidad, CO	none	4,770	4,765	4,592	9:50 AM	5:49 PM	Bus (3)
Raton, NM	none	16,292	15,733	15,875	10:56 AM	4:50 PM	Bus (3)
Gallup, NM	none	16,446	15,647	16,140	7:08 PM	8:21 AM	Bus (1)
Winslow, AZ	none	5,034	4,625	4,428	7:50 PM	5:39 AM	Bus (1)
Kingman, AZ	none	10,768	10,523	9,765	11:46 PM	1:33 AM	Air (1); bus (1)
Needles, CA	none	9,118	8,640	8,386	12:49 AM	12:23 AM	Bus (1)
Barstow, CA	none	3,433	3,586	3,096	3:39 AM	9:56 PM	Bus (2)

Source: GAO analysis of DOT Bureau of Transportation Statistics Intermodal Passenger Connectivity Database; Amtrak fiscal year 2015 schedule data, and Amtrak fiscal year 2012 through 2014 ridership data | GAO-16-67.

Appendix III: Recent Legislation, Funding Proposals, and Debt-Financing Options for the Northeast Corridor Rail Network

In recent years, Members of Congress, the Northeast Corridor Infrastructure and Operations Advisory Commission (Northeast Corridor Commission), and the administration have offered several proposals to fund Northeast Corridor improvements, including addressing a state-of-good-repair backlog of deferred investments that is estimated to cost \$21 billion by the Northeast Corridor Commission. The various funding and financing proposals have benefits and limitations.

- *Dedicating Northeast Corridor operating revenues into capital investments for the corridor:* In December 2015, legislation was enacted requiring the Secretary of Transportation, in consultation with Amtrak, to define an accounting structure that will allow Amtrak to direct surplus operating revenues, as well as appropriations, grants, and other sources of funds associated to the Northeast Corridor to make capital improvements and cover other costs on the corridor.¹ Amtrak estimates that the Northeast Corridor business line would generate \$367 million in operating revenues in excess of its operating and debt-service costs in fiscal year 2016.² However, as stated previously, Amtrak has in recent years used its surplus Northeast Corridor revenues to help cover losses in other business lines, particularly for losses on the long-distance routes. Dedicating surplus Northeast Corridor revenues to investments on that corridor would require either cuts in service on long-distance or state-supported routes, or an increase in Amtrak's operating funding to maintain the same level of service on those routes.
- *Proposed grant program:* The Northeast Corridor Commission, including Amtrak, has proposed a grant program that would require Northeast Corridor operators to contribute 20 percent of project funding to receive an 80 percent match from the federal government. In its fiscal year 2016 budget request, Amtrak has requested that Congress appropriate about \$3.2 billion from fiscal years 2016 through 2019 to cover the proposed 80 percent federal share of the state-of-good-repair backlog and improvement projects included in the Northeast Corridor Commission's 5-Year Capital Plan. To receive these funds, Amtrak, the Northeast Corridor states, and commuter railroads would contribute about \$800 million over this period for its 20

¹Pub. L. No. 114-94, §§ 11201-02.

²Amtrak, *Five Year Financial Plan, Fiscal Years 2015 to 2019* (Washington, D.C.: February 2015).

percent match. Recently enacted legislation directs the Secretary of Transportation to develop and implement a program for issuing grants to applicants, on a competitive basis, to fund capital projects that reduce the state-of-good-repair backlog with respect to qualified railroad assets.³ Federal highway, transit, and aviation programs have similar grant programs requiring a matching contribution, but these programs have dedicated funding sources which do not currently exist for federal rail programs. Ensuring stable funding for a federal matching program would either require identifying a dedicated funding source, or otherwise relying on the annual appropriations process, in which intercity passenger rail projects compete with other national priorities for limited federal funding from general revenues.

- *GROW AMERICA proposal*: The administration's proposed GROW AMERICA plan would, if enacted, direct \$28.6 billion over six years for passenger rail programs with a focus on improving the connections between key regional city pairs and high traffic corridors throughout the country.⁴ According to the Department of Transportation, the proposal would be funded through a one-time 14 percent transition tax on up to \$2 trillion of untaxed foreign earnings that U.S. companies have accumulated overseas, along with revenues from federal fuel tax receipts and other taxes, currently dedicated for highway and transit purposes and deposited to the highway trust fund. However, enacting this approach would require a significant change in how federal surface transportation projects are funded by directing some federal fuel and other tax revenues to intercity passenger rail projects. In addition, the one-time transition tax on untaxed foreign earnings may not be available after the envisioned 6-year period of its authorization.
- *Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grant Program*: The Department of Transportation manages the TIGER discretionary grant program which provides federal grants to states, local governments, transit agencies and others for a wide range of surface transportation projects. Although Amtrak itself has not received a TIGER grant, eligible project sponsors have been awarded TIGER funds to make improvements to train stations or rail assets used by Amtrak. For example, in 2013,

³Pub. L. No. 114-94, § 11302.

⁴Generating Renewal, Opportunity, and Work with Accelerated Mobility, Efficiency, and Rebuilding of Infrastructure and Communities throughout America Act.

Michigan DOT was awarded \$9.4 million to make improvements to state-owned track between Kalamazoo and Dearborn used by Amtrak's Wolverine service, which is a Michigan-supported Amtrak route. However, the amount of TIGER funds available has decreased from \$1.5 billion in 2009 to \$500 million in 2015, and DOT must invest its funds across a variety of transportation modes including for highway, transit, maritime, and rail projects. We previously reported that individual TIGER grant awards have also decreased since the program was implemented.⁵ For example, the average TIGER award was \$8.8 million in fiscal year 2013, a small fraction of the replacement costs for many major structures on the Northeast Corridor.

In addition to the various funding proposals, there are several debt financing options available to Amtrak:

- *Railroad Rehabilitation and Improvement Financing (RRIF)*: Under the RRIF program, the FRA Administrator is authorized to provide direct loans and loan guarantees up to \$35 billion to finance development of railroad infrastructure. Amtrak is the recipient of one of the largest RRIF loans awarded to date—a \$563 million loan to finance the purchase of 70 new electric locomotives to be used on the Northeast Corridor.⁶ Amtrak also intends to use a RRIF loan to finance the estimated \$2 billion to \$3 billion purchase of up to 28 new high-speed trainsets to replace and expand the current fleet of 20 Acela trainsets. However, Amtrak has not used the RRIF program to finance fixed infrastructure improvements. According to Amtrak, the company will be required to pay from \$35 million to \$40 million per year to service the full cost of its current \$563 million RRIF loan over a 25-year period. These annual payments represent about 10 percent of Amtrak's projected operating revenues on the Northeast Corridor in fiscal year 2016 (\$367 million). Amtrak officials told us that it would have adequate Northeast Corridor operating revenues to support RRIF collateral requirements for the Acela replacement train sets. However, given Amtrak's current RRIF obligations and a potential

⁵GAO, *Surface Transportation: Department of Transportation Should Measure the Overall Performance and Outcomes of the TIGER Discretionary Grant Program*, [GAO-14-766](#) (Washington, D.C.: Sept. 23, 2014).

⁶According to Amtrak, the first of these units went into revenue service in February 2014, and Amtrak expects to receive all units from the manufacturer (Siemens) by March 2016.

future larger RRIF loan to replace the Acela trainsets, it remains to be seen whether Amtrak would have sufficient Northeast Corridor revenues to support future RRIF loans to fund major infrastructure projects on the Northeast Corridor.

- *Transportation Infrastructure Finance and Innovation Act (TIFIA):* DOT's TIFIA program provides credit assistance in the form of direct loans, loan guarantees, and lines of credit for a wide range of surface transportation projects. TIFIA assistance is often used as part of a public-private partnership model in which the federal credit assistance is used to supplement private investment in infrastructure including bridges and tunnels, intercity passenger rail and bus facilities and vehicles, publicly owned freight rail facilities, and private facilities providing public benefit. However, unlike RRIF which may provide loans for the full cost of a project, to date DOT has limited TIFIA credit assistance to 33 percent of the total eligible project costs. According to program rules, the project also must be supported in whole or in part from user charges or other non-federal dedicated funding sources, a requirement that would likely require Amtrak to pledge limited Northeast Corridor revenues for TIFIA repayment.
- *Commercial debt market:* According to Amtrak and FRA officials, the commercial debt markets—including the public issuance of infrastructure bonds—would likely offer less attractive terms than federally subsidized credit assistance, such as RRIF. In addition, PRIIA requires the advance approval of the Secretary of Transportation before Amtrak takes on additional debt.⁷ According to a recent National Academies report, most public surface transportation infrastructure and services in the United States do not, on their own, generate sufficient revenue to cover their full costs and are dependent on public funding contributions.⁸ Rail projects with such a funding gap cannot be financed privately, according to the report, because the public benefits they offer are generally measured in economic rather than financial terms and accrue to society at large, rather than to private investors.

⁷Pub. Law 110-432, div. B, § 205(g).

⁸National Cooperative Rail Research Program, *Alternative Funding and Financing Mechanisms for Passenger and Freight Rail Projects* (Washington, D.C.: May 2015).

Appendix IV: List of Organizations and Individuals Interviewed

Federal and National Government Agencies

Department of Transportation
Federal Railroad Administration
Transport Canada

State Agencies and State Passenger Rail Authorities

California
Capitol Corridor Joint Powers Authority
Connecticut
Illinois
Indiana
Massachusetts
Michigan
Missouri
North Carolina
Northern New England Passenger Rail Authority
New York
Oklahoma
Oregon
Pennsylvania
Texas
Washington
Wisconsin
Vermont
Virginia

Passenger Railroads

Amtrak
Amtrak Office of Inspector General
Iowa Pacific Holdings
Long Island Rail Road
Metra
Metro North
New Jersey Transit
Southeast Pennsylvania Transit Authority
VIA Rail Canada

Freight Railroads

BNSF
CSX
Norfolk Southern
Union Pacific

Associations

American Bus Association
Transportation Trades Department, American Federation of Labor-
Council of Industrial Organizations
National Association of Railroad Passengers

Union Organizations

Brotherhood of Maintenance of Way Employees Division, International
Brotherhood of Teamsters
Brotherhood of Railroad Signalmen
International Association of Sheet Metal, Air, Rail and Transportation
Workers
Transportation Workers Union of America

Commissions and Corporations

Midwest Interstate Passenger Rail Commission
Northeast Corridor Infrastructure and Operations Advisory Commission
Union Station Redevelopment Corporation

Bond Rating Agencies

Moody's
Standard and Poors

Academic Institutions

Adie Tomer, Brookings Institution
Professor Anthony Perl, Simon Fraser University
Professor Joseph Schwieterman, DePaul University

Appendix V: Comments from Amtrak

NATIONAL RAILROAD PASSENGER CORPORATION
60 Massachusetts Avenue, NE, Washington, DC 20002
Tel 202.906.3960 fax 202.906.2850

Joseph H. Boardman
President and Chief Executive Officer



December 8, 2015

Ms. Susan A. Fleming
Director, Physical Infrastructure Issues
Government Accountability Office
441 G Street, NW
Washington, DC 20548

RE: GAO-16-67 Amtrak: Better Reporting, Planning, and Improved
Financial Information Could Enhance Decision Making

Dear Ms. Fleming:

As requested by the GAO, Amtrak has reviewed a draft of Report No. GAO-16-67 Amtrak: Better Reporting, Planning, and Improved Financial Information Could Enhance Decision Making. Our responses to each recommendation appear below.

Recommendation 1:

Prioritize the adoption of Amtrak's strategic management system in Amtrak's remaining lines of business and functional departments.

Management Response/Action Plan:

Management concurs in this recommendation. While the report focused largely on the Long Distance business line, it is important to note that the same process has been developed and implemented in the Northeast Corridor (NEC) Operations business line, the Engineering department, and the Mechanical department. The Infrastructure and Investment Development (IID) business line has also recently finished development of its strategic management system and will be implementing the process in the coming months. As resources allow, management intends to continue introducing this system to the remaining departments and business lines in the company.

Recommendation 2:

Externally report how Amtrak's initiatives meet the goals established under the Amtrak strategic management system.

Management Response/Action Plan:

Amtrak management has adopted a strategic management system. This system has been rolled out in several key departments, and plans are in place to extend the rollout over time. Senior management meets monthly to discuss progress being made in the company's various strategic initiatives, and our strategy map is regularly updated with new information. This effort is followed closely by the executive team, and the whole company receives periodic updates about the importance of and progress towards these goals. The strategic plan itself is publicly available on the Amtrak web site. To enable our internal

Ms. Susan A. Fleming
December 8, 2015
Page 2



strategy conversations to be as productive as possible, we believe there is genuine value to the company to consider the content of these deliberations confidential. Amtrak is already required to conform to a range of Federal regulations and oversight mechanisms that are designed to ensure the taxpayers' investment in Amtrak is safeguarded. Finally, given that much of our business takes place in an environment that is increasingly competitive, the need for a reasonable degree of privileged business process development is important.

Recommendation 3:

Make the format of its Monthly Performance Report and its Five-Year Financial Plan consistent to show all of its revenues and expenses by major function for each line of business.

Management Response/Action Plan:

While we appreciate the value of consistency in reporting, these two reports serve dramatically different purposes. Amtrak is a national system with matrix operations that are run regionally (terminals, maintenance facilities, engineering projects, etc.). Our business lines are aggregations of operational activities that comprise the product lines (services or routes) that represent distinct market segments, such as Long Distance, Corridor (state supported), and NEC/Acela.

The Five-Year Financial Plan provides a management and budget-level view of lines of business that includes costs and revenues associated with operations that are not, strictly speaking, train operations, which cut across business lines. The business line data that is reported in this plan is an aggregate, and is used for the purpose of planning, prioritizing, and managing these "products" at the organizational level. This perspective is also used in planning on funding needs compared to the authorization levels.

The data that is reported on the business lines in the Monthly Performance Report and the Route Performance Report is almost the complete opposite: it is a collection of the financial and operational performance data for each individual train, which we also report by business line. This design provides the degree of discrimination necessary for detailed analysis of individual route and service performance; the data that is provided is the aggregate for the defined rail operations of the three rail business lines. We intend to maintain these different reports because they serve distinct purposes and their utility would be lost if we attempted to "standardize" them.

Recommendation 4:

Ensure that Amtrak's depreciation expenses are appropriately allocated to its lines of business once the underlying capital asset data is determined reliable.

Management Response/Action Plan:

While depreciation is necessary for GAAP reporting purposes, it is of limited use for management accounting in Amtrak's lines of business. First, many of Amtrak's key assets, such as bridges and tunnels on the NEC, are fully depreciated at this point in time, and reporting depreciation would understate the likely replacement expense. Second, the APT system contains a synthetic capital charge, intended to serve as a proxy for depreciation, which is currently allocated across routes. Finally, the implementation

Ms. Susan A. Fleming
December 8, 2015
Page 3



of PRIIA Sections 209 and 212, involving state and commuter agencies sharing in future Amtrak capital investments, may lead to further adjustments in how capital costs are allocated to routes and funding partners.

Recommendation 5:

To help Congress in assessing Amtrak's need for Federal assistance for state-supported routes, and help Amtrak to develop strategies to reduce the costs of its services, we recommend that Amtrak delineate the specific costs and activities for state-supported routes that are covered by the Federal government and communicate this information to Congress, such as through Amtrak's annual budget request.

Management Response/Action Plan:

Under the Amtrak-state cost-sharing formula of Section 209 of PRIIA, states are responsible for costs that are closely associated with their route and referred to as "Route Costs." States make additional payments to Amtrak for other activities that support their services but that are inherently more difficult to allocate to specific services, known as "Support Fees" or "Additives." By design, these Support Fees were intended to cover some part of a wide variety of activities, but were not specifically defined in order to allow management flexibility going forward. Eighteen of nineteen Amtrak state partners agreed to the definition of these Support Fees when it was developed.

On December 3, 2015, Congress passed H.R. 22, the Fixing America's Surface Transportation (FAST) Act, which is a five-year surface transportation reauthorization of Federal highway, transit, highway safety, motor carrier safety, hazardous materials, and passenger rail programs. One of the more significant changes mandated under the FAST Act will be the new accounting and funding structure that separates Amtrak's accounts into two segments: the Northeast Corridor and the National Network. These changes require all of Amtrak's financial, business, and asset activities to be implemented beginning in 2017 for the business line plans and 2019 for the new asset plans. These provisions will re-invest the Northeast Corridor net operating revenues into the Corridor's substantial capital investment needs, while allowing Amtrak to operate its National Network. The implications of these changes are not yet fully understood, either by Amtrak or our state partners, but Amtrak management will closely review this as we make the necessary changes to comply with the law.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph H. Boardman".

Joseph H. Boardman
President and Chief Executive Officer

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

Susan Fleming, 202-512-2834 or Flemings@gao.gov

Staff Acknowledgments

In addition to the contact named above, the following individuals made important contributions to this report: Susan Zimmerman, Assistant Director; Shirley Abel, Matt Barranca, Lorraine Ettaro, Greg Hanna, Terence Lam, Tara Jayant, John Mingus, Malika Rice, Shannon Roe, Amy Rosewarne, Crystal Wesco, and Andrew Von Ah.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (<http://www.gao.gov>). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to <http://www.gao.gov> and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#).
Subscribe to our [RSS Feeds](#) or [E-mail Updates](#).
Listen to our [Podcasts](#) and read [The Watchblog](#).
Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: <http://www.gao.gov/fraudnet/fraudnet.htm>

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548



Please Print on Recycled Paper.