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Report to Congressional Requesters

AMTRAK

Limited Income Fro[illegible] the Revenue Enhancement Pro[illegible]

RELEAS[illegible]

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United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-237845

February 1, 1990

The Honorable John Breaux
The Honorable Robert Dole
The Honorable Jake Garn
The Honorable John Glenn
The Honorable James A. McClure
United States Senate

This report responds to your concerns about the National Railroad Passenger Corporation's (Amtrak) Revenue Enhancement Program, which was designed to generate income by competing with the private sector in areas other than passenger service in order to reduce federal subsidies. Amtrak's Revenue Enhancement Program currently consists of three elements—Corporate Development, Real Estate Development, and Safe Harbor Leases. Since its creation in 1971, Amtrak's total operating expenses and capital needs have exceeded its total operating revenues and Amtrak has received a federal subsidy to cover these costs. Specifically, as agreed with your offices, we (1) obtained information on Amtrak's revenue enhancement activities and the impact of these activities on reducing the federal subsidy and (2) determined whether Amtrak competed fairly when bidding on a 1988 rail welding contract.

Results in Brief

Amtrak had stated in the past that it would rely on the Revenue Enhancement Program to help reduce federal subsidies and to provide significant additional funding necessary for capital needs in the 1990s. However, the net income of $140.9 million generated during the 5-year period 1984-88 did not substantially contribute to reducing Amtrak's federal subsidy of $3 billion during that period although it did provide 38.5 percent of Amtrak's capital funding. Further, with Amtrak projecting total net income of $165.2 million during the 5-year period 1989-93, the Revenue Enhancement Program will not contribute much to helping Amtrak meet its capital needs of about $1.2 billion during the 5-year period or projected operating losses of about $2.5 billion. Amtrak's President in 1989 said that a federal subsidy will be needed in the future to meet the additional capital needs of replacing passenger cars and locomotives. In addition, Amtrak has not provided the Congress with detailed financial information concerning current and planned revenue enhancement projects and their contribution to total projected revenues.

It is unclear whether Amtrak competed fairly with the private sector when it bid for a 1988 rail welding contract with New Jersey Transit

(NJT). Its $5.15 million winning bid was based on outdated cost data. The profit margin included in the bid of one-half percent was lower than Amtrak's customary profit margins. Further, Amtrak did not properly assign all costs associated with executing the contract. As a result of not fully assigning all costs, we estimate that Amtrak lost approximately $88,870 rather than the $87,780 profit it reported.

Background

Because of growing congressional concern about the size of and continuing need for federal financial support, the Congress enacted legislation in 1981 creating Amtrak's Revenue Enhancement Program. In the act, the Congress encouraged Amtrak to (1) more fully utilize its employees, facilities, and real estate by entering into agreements with the private sector and (2) undertake initiatives that are consistent with sound business judgment that will maximize revenues and minimize federal subsidies. The Senate Appropriations Committee 2 years later stated that Amtrak's revenue enhancement projects must in fact and in appearance compete on an equal basis with its competitors.

In carrying out its congressional mandate, Amtrak established a Corporate Development Department that is responsible for developing and implementing Amtrak's revenue enhancement strategy through such projects as: rail welding for urban commuter train systems, assembly of commuter passenger rail cars, and leasing rights-of-way for fiber optics communication lines.[1] Amtrak also established Safe Harbor leases—selling the rights to the tax benefits associated with certain qualified assets pursuant to the Economic Recovery Act of 1981. In addition, Amtrak expanded its Real Estate Division, which is responsible for developing ventures on Amtrak's landholdings and surrounding track rights-of-way. These revenue enhancement projects in the future may include office buildings, parking facilities, and residential developments.

Revenue Enhancement Has Limited Potential for Reducing Federal Subsidy

In 1983, we reported that the scope of Amtrak's Revenue Enhancement Program, in terms of number of projects being actively developed and projected revenues, was limited in comparison to its future potential to contribute to capital costs. At that time, Amtrak was initiating four revenue enhancement projects—leasing its Washington, D.C., to New York City right-of-way for fiber optics communication; assembling passenger cars for the Washington, D.C., Metro system; developing electrical and

[1] Amtrak has several additional nonpassenger-related income areas that are separate from Corporate Development, such as carrying regular and express mail on its passenger trains.

steam energy powerplants; and overhauling mass transit passenger cars. Our current review shows that, for various reasons, Amtrak's current revenue enhancement activities will not significantly reduce future subsidies.[2]

Amtrak officials had said earlier that beginning in 1985, income from the Revenue Enhancement Program would cover its capital needs and a federal subsidy would no longer be needed. In its 1987 annual report, for example, Amtrak stated that it would rely on its Revenue Enhancement Program to provide the additional funding necessary to purchase new passenger cars and locomotives by the mid-1990s. Amtrak's President, however, in March 1989 testimony before the Senate Subcommittee on Transportation and Related Agencies said that ". . . in time, we expect these (revenue enhancement) activities to generate sufficient funds to cover a significant portion of those (capital) requirements. However, our short-term needs exceed $150 million exclusive of rolling stock and we still must look to the federal government for the difference." (Emphasis added). Although the program's net income has grown from $12.3 million in 1984 to $29.6 million in 1988, the contribution of Amtrak's revenue enhancement activities to reduce Amtrak's $3 billion federal subsidy during the 5-year period has been small.

Although Amtrak has increased revenue from its revenue enhancement projects since our earlier report, we do not believe that Amtrak's current revenue enhancement activities will greatly reduce the need for federal subsidies in the future because

- the majority of Amtrak's revenue enhancement profits have been generated by the Safe Harbor leases; however, the revenue from these leases is on a declining scale and Amtrak officials said that all leases will expire by 2004;
- the other major contributor to Amtrak's revenue enhancement profits has been the fiber optics communication leases, and Amtrak officials said that they are actively marketing excess communication capacity, but market conditions are limiting this activity;
- maintenance facilities that could be used for mass transit passenger car assembly and/or overhaul are at or near capacity, and Amtrak officials said that they are studying the costs and benefits of expanding facilities to accommodate additional passenger car assembly and overhaul activities; and

[2] Amtrak's Income Diversification Program: Potential for Increased Earnings and Reduced Federal Financial Support (GAO/RCED-84-41, Oct. 14, 1983).

- competition for rail welding contracts outside the Northeast is limited because of the high cost of transporting rail to and from Amtrak's New Haven, Connecticut, rail welding facility.

In 1983, we also reported that Amtrak's real estate ventures had the potential to generate additional income. Amtrak's real estate strategy paper for fiscal year 1983 projected real estate development revenues of $1 million in fiscal year 1985, $2 million in fiscal year 1986, $4 million in fiscal year 1987, and $8 million in fiscal year 1988. These revenues were expected from 18 major real estate ventures Amtrak had under consideration at that time. However, Amtrak had no real estate development revenues for fiscal years 1985-87. In fiscal year 1988, Amtrak earned $1.2 million in real estate development and received $7.1 million from the sale of land. Amtrak does, however, have additional non-revenue enhancement real estate activities such as leasing commercial space in its train stations, the revenue from which goes into Amtrak's general operating fund. In fiscal year 1988, Amtrak earned $22.4 million from these leasing activities.

Amtrak is currently considering numerous real estate ventures. Amtrak has identified seven major real estate ventures with projected annual revenues of $17.1 million for fiscal years 1992-96. The potential of some of these real estate ventures, however, is not clear because projects remain to be negotiated and financial terms are unknown because of uncertainties associated with real estate development. In fact, some of the real estate projects currently under consideration were also under consideration at the time of our 1983 review.

Although Amtrak officials have said in the past that the Revenue Enhancement Program would substantially reduce the federal subsidy, we believe it will play a minor role in reducing the subsidy through fiscal year 1993. This is because total revenue enhancement profits are estimated to be about $162.5 million for fiscal years 1989-93 compared with projected operating losses of $2.5 billion and capital needs of about $1.2 billion. The Congress has recognized that Amtrak has significant capital needs that it cannot meet without a federal subsidy. The House in September 1989 and the Senate in November 1989 passed bills authorizing subsidies to Amtrak of up to $656 million in fiscal year 1990, $684 million in fiscal year 1991, and $712 million in fiscal year 1992.

Information Needed on Scope of Revenue Enhancement Projects

In 1983, we were asked to provide specific details of revenue enhancement projects under consideration by Amtrak because Amtrak had not provided that information to the Congress. In our 1983 report[3] we stated that Amtrak had not outlined the details of the program showing its potential or the major projects it had under consideration either in its annual report or in its appropriations hearings. We stated that it would be desirable for Amtrak to provide information in its annual report to the Congress about specific revenue enhancement projects it is considering so that the relevant congressional committees are fully informed of Amtrak's current and future plans in this area. Because Amtrak stated that its Revenue Enhancement Program would generate sufficient income to reduce the federal subsidy, we concluded that this type of reporting would enable the Congress to more effectively exercise its oversight role in determining the amount of federal subsidy needed by Amtrak. We further stated that the Congress should consider requiring Amtrak to initiate a systematic annual process of reporting on its revenue enhancement activities on a project-specific basis.

Amtrak officials said that the Congress has not requested information on its revenue enhancement activities other than through its annual report, annual grant request, or appropriations hearings. We found that these data were general and did not include information on the scope or details of Amtrak's current and planned revenue enhancement projects. We continue to believe, as we did in 1983, that the Congress, in order to make informed decisions about the federal subsidy, needs information on current and planned projects and their respective contribution to total projected revenues. Appendix I contains a description of Amtrak's past and future revenue enhancement activities and their impact on the federal subsidy.

It Is Unclear Whether Amtrak Competed Fairly on Track Welding Contract

Amtrak, in 1988, entered into a competitive track welding contract with New Jersey Transit (NJT) worth $5.15 million.[4] Although the Senate Appropriations Committee in reporting on Amtrak's fiscal year 1983 appropriations stated that Amtrak should compete fairly and on an equal basis with the private sector and its corporate policy is that all projects make a profit, it is unclear whether Amtrak competed fairly on the NJT contract.

[3]Ibid, p.3.

[4]The track welding project was one of four projects in which Amtrak successfully competed against private companies. Of the four competitive contracts only one, the NJT contract, was for track welding.

The Senate Appropriations Committee in a report on Amtrak's fiscal year 1983 appropriations stated that Amtrak must, in fact and in appearance, compete fairly with the private sector when bidding on revenue enhancement projects by ensuring that (1) costs are fully accounted for and completely segregated and (2) funds used for financing a revenue enhancement project come completely from sources other than federal appropriations. While this Senate Appropriations Committee guidance is not binding, both Amtrak officials and corporate development policy state that Amtrak must compete fairly and on an equal basis with the private sector. For example, Amtrak's Vice President for Corporate Development recently said that Amtrak believes it is bound by the Senate Appropriations Committee language. In addition, Amtrak's corporate development policy states that all revenue enhancement projects must adhere to the following additional principles:

- Amtrak must be fully reimbursed for any costs imposed as a result of a revenue enhancement project.
- All revenue enhancement projects should make a profit.

Amtrak's President stated in correspondence to several members of the Congress that these corporate development principles were designed to ensure that revenue enhancement projects do not cause unfair competitive injury to other business entities.

It is unclear whether Amtrak competed fairly with the private sector for the 1988 NJT contract because in developing its bid Amtrak used outdated manufacturing data, causing its bid to be underestimated. The profit margin included in the bid of one-half percent was lower than profit margins customarily included in Amtrak bids. Further, after winning the contract, Amtrak did not properly segregate and assign all contract costs. Because Amtrak's bid was lower than it should have been, Amtrak was unable to earn a profit on the NJT contract when all costs were considered.

In developing the NJT bid, Amtrak used 1986 cost data, which were based on welding individual 39-foot rail sections into quarter mile continuous welded rail. In 1987, however, Amtrak converted its track welding facility from welding individual 39-foot sections of rail into quarter mile sections to welding individual 78-foot sections into quarter mile sections which caused its cost per weld to increase. Amtrak's policy is to accumulate actual costs monthly, so as to provide a basis for estimating prices of future activities. Amtrak's General Accounting Department maintains actual cost data for rail welding and is responsible for developing the manufacturing costs used in establishing bid prices. Amtrak's manufacturing costs as of September 30, 1987, 2 months prior to submitting its NJT bid, were 27 percent higher for welding 78-foot rail than the 1986 figures Amtrak actually used.

Amtrak officials said that they considered the cost difference between the two different rail lengths but had doubts about the validity of the cost data for the longer rail because the data reflected what they believed to be abnormally high per-weld figures. However, Amtrak entered into several noncompetitive contracts with other railroads for welding the longer rail before submitting its NJT bid and charged 20 percent more than for welding shorter rail. Amtrak officials said that charging 20 percent more for the noncompetitive contracts was a business pricing decision based primarily on their perception of the market. However, we believe that because more up-to-date, accurate cost information was available, Amtrak should have used that information in developing the bid.

Amtrak's profit margin of one-half percent of the total bid was lower than Amtrak's customary profit margins. While the establishment of a profit margin is a marketing decision, Amtrak officials said that profit margins are generally set between 5 and 15 percent of the total bid. The profit margin included in Amtrak's successful bid for NJT's 1989 rail welding contract was less than 3 percent, although Amtrak did increase its manufacturing costs by 41 percent to better reflect the cost of welding longer rail.

In accounting for the actual costs of executing the 1988 NJT contract, Amtrak did not assign to the contract all the costs for transporting the rail, totaling $58,270, and the cost for defective welds, totaling $73,870, which were known prior to completion of the contract. In addition, Amtrak did not assign material handling and depreciation costs.[5] Amtrak reported a profit of about $87,780 which was reported as funds available for fiscal year 1989 capital programs. However, by comparing the costs Amtrak did not include in its reported profit, we estimate that Amtrak lost about $88,870 on this contract. Although we believe Amtrak experienced a loss on this contract, some contribution was made

[5]We calculated material handling and depreciation costs for this contract on the basis of Amtrak's bid and their normal monthly established rates for each. However, these costs are not shown because Amtrak considers the costs proprietary marketing information.

to Amtrak's fixed overhead costs for operating the track welding facility as a result of the NJT contract, thereby reducing the federal subsidy.

An Amtrak official said that Amtrak would not knowingly enter into a contract solely to reduce fixed costs associated with established facilities. The official added, however, that underestimating costs and establishing narrow profit margins to recognize the marketplace could result in a project only breaking even or incurring a slight loss. Appendix II contains a detailed discussion of how Amtrak developed its bid and subsequently assigned contract costs.

Conclusions

While Amtrak's Revenue Enhancement Program has grown in the past 5 years, its contribution to Amtrak's capital requirements or reducing federal subsidies over the past 5 years and in the near future is not significant. In addition, Amtrak has not provided the Congress detailed financial information on its revenue enhancement activities, which, as we previously reported, would be useful to the Congress in its oversight of the Revenue Enhancement Program and in its funding decisionmaking.

In our view, Amtrak's efforts to secure the NJT contract by using outdated costs when better data were available and by establishing a narrow profit margin raises a question as to whether Amtrak met either the congressional directive to compete fairly or its own policy of making a profit on each contract. Furthermore, after winning the contract, Amtrak did not ensure that all project costs were properly identified and applied to the NJT contract. The NJT contract, although having an inconsequential effect on Amtrak's overall financial viability, is inconsistent with congressional guidance, which directed Amtrak to—in fact and appearance—compete fairly and on an equal basis with other businesses and to properly segregate and fully account for all project costs.

Recommendations

We recommend that the President of Amtrak

- periodically provide the Congress with financial information on actual and projected results of revenue enhancement activities and
- implement management controls to ensure that Amtrak competes fairly and on an equal basis with the private sector by using the most up-to-date and accurate cost data in developing bids and subsequently fully assign costs after contracts are awarded.

Views of Amtrak Officials

We discussed the draft report's contents with Amtrak headquarters officials and have incorporated their comments where appropriate. However, as requested by your offices, we did not obtain official agency comments. Amtrak officials said that the intent of the Revenue Enhancement Program is to generate funds to help reduce the federal subsidy for capital and views the revenues generated as significant when compared to the federal appropriations available during the period of our review. We would agree that revenue from the Revenue Enhancement Program accounted for 38.5 percent of new capital funding available to Amtrak during 1984-88. However, based on Amtrak's estimates, this percentage will decrease to about 13.7 percent for the 1989-93 time frame if its projected capital needs are funded.

Amtrak officials disagreed that they should periodically report to the Congress on revenue enhancement projects. They said that they keep the oversight committees fully apprised of their revenue enhancement activities. Amtrak responds to congressional committee requests for information on its revenue enhancement activities as well as to individual member's requests about a particular project or projects. This information does not, however, provide the Congress a detailed picture of all ongoing and planned revenue enhancement activities and how much these activities will contribute to total projected revenues. We continue to believe, as stated in our 1983 report, that Amtrak should periodically provide the Congress detailed information on planned revenue enhancement activities so that the relevant congressional committees can exercise their oversight responsibilities.

Amtrak officials also said that they competed fairly on the NJT contract and that the use of fiscal year 1986 data to prepare its bid was proper. We continue to believe that Amtrak should have used more up-to-date manufacturing data in its bid preparation because it had considerable experience welding the longer rail and, in fact, used higher costs in contracts awarded prior to submitting the NJT bid.

In preparing this report, we reviewed documents and interviewed Amtrak officials located at Amtrak headquarters in Washington, D.C., and its Philadelphia office. We performed the field work for this review from January 1989 to July 1989 in accordance with generally accepted government auditing standards. Appendix III contains details of our objectives, scope, and methodology.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time we will send copies to the President, Amtrak; the Secretary, Department of Transportation; and other interested parties. Copies will also be provided to others upon request.

This work was performed under the direction of Kenneth M. Mead, Director, Transportation Issues, who can be reached at (202) 275-1000. Other major contributors are listed in appendix IV.

J. Dexter Peach
Assistant Comptroller General

Contents

Abbreviations

GAO	General Accounting Office
NJT	New Jersey Transit

Revenue Enhancement Activities and Federal Subsidy

Amtrak has pursued several revenue enhancement areas that are currently developed. In addition, while its real estate ventures continue to hold great promise of future profits several are still under negotiation.

Table I.1 shows Amtrak's total revenues and profits from revenue enhancement projects for the period fiscal years 1984-1988. Table I.2 shows Amtrak's major real estate projects and estimated revenues for the period fiscal years 1992-1996. Table I.3 provides information on Amtrak's total revenue, expenses, and subsidy for fiscal years 1984-1989.

Table I.1: Revenue Enhancement Program Revenues and Profits Fiscal Years 1984-1988

	Fiscal Year 1984		Fiscal Year 1985	
Activities	**Revenues**	**Profit**	**Revenues**	**Profit**
Rail Welding/ Purchasing	$327,223	$60,894	$809,567	$194,066
Car Assembly/ Overhaul	3,528,282	1,031,043	3,275,289	1,045,537
Right-of-Way Leases	1,868,139	1,868,139	8,166,662	8,166,662
Equipment Rental	906,637	906,637	194,258	194,258
Safe Harbor Leases	7,900,000	7,900,000	21,100,000	21,100,000
Cogeneration				
Other	4,517,654	1,112,072	3,661,099	210,369[a]
Real Estate Development	0	0	0	0
Total	**19,047,935**	**12,878,785**	**37,206,875**	**30,910,892**
Less: Corporate Development Expense		556,383		608,257
Total		**$12,322,402**		**$30,302,635**

Fiscal Year 1986		Fiscal Year 1987		Fiscal Year 1988		1984 Through 1988	
Revenues	Profit	Revenues	Profit	Revenues	Profit	Revenues	Profit
$1,390,240	$194,699	$1,400,014	$424,305	6,392,118	$254,570	$10,319,162	$1,128,534
2,689,313	854,699	1,935,379	720,743	1,215,284	246,384	12,643,547	3,898,406
10,338,728	10,247,702	13,137,735	13,024,212	7,117,102	7,022,028	40,628,366	40,328,743
250,735	250,735	240,957	240,957	399,023	399,023	1,991,610	1,991,610
17,600,000	17,600,000	27,200,000	27,200,000	13,800,000	13,800,000	87,600,000	87,600,000
1,068,095	(360,454)	779,608	(764,937)	928,159	258,652	2,775,862	(866,739)
1,425,692	623,249	514,693	195,106	253,005	147,983	10,372,143	2,288,779
0	0	0	0	8,300,000	8,300,000	8,300,000	8,300,000
34,762,803	**29,410,630**	**45,208,386**	**41,040,386**	**38,404,691**	**30,428,640**	**174,630,690**	**144,669,333**
	716,901		1,025,029[b]		795,449		3,702,019
	$28,693,729		**$40,015,357**		**$29,633,191**		**$140,967,314**

[a]Utility expense adjustment of $82,629.00.

[b]Includes accounts receivable write-off of $134,508

Source: Amtrak financial summaries

Table I.2: Amtrak's Major Real Estate Development Projects Estimated Revenues Fiscal Year 1992 Through 1996

Projects	Type of development	Average revenues 1992-96
Chicago Union Station	Redevelopment of station, construction of two office towers, leases for air rights, and development of air rights parcels.	$7,000,000
Philadelphia 30th Street	Rehabilitation of station and proposed mixed-use commercial development of associated air rights.	3,500,000
Washington, D.C., Union Station	Development of two sites for office space.	2,700,000
Sunnyside Yards, N.Y.	Various predevelopment activities, including residential units, and office and commercial space.	2,300,000
N.Y. Penn Station	Redevelopment of station for new retail space and development of office space on air rights.	800,000
Baltimore Station	Joint development of multilevel parking facility and plaza.	500,000
Springfield, Massachusetts	Lease or sale of air rights for mixed-use commercial and residential development.	300,000
Total		**$17,100,000**

Table I.3: Amtrak's Total Revenue and Federal Subsidies (1984-89)

Dollars in millions

	1984	1985	1986	1987	1988	1989 est.
Revenues	$758.8	$825.8	$861.4	$973.5	$1,106.7	$1,121.0
Expenses[a]	1,522.1	1,600.1	1,563.6	1,672.0	1,757.1	1,675.0
Federal Subsidies						
Operating Grant[a]	618.1	627.7	588.7	580.5	534.6	554.0
Capital Grant	98.3	52.3	2.0	26.5	46.2	28.0

[a]Expenses and operating grants include labor protection costs which Amtrak reports as a separate requirement.

Source: Amtrak's 1988 Annual Report; Amtrak's Internal 1989 Five Year Business Plan.

Whether Amtrak Competed Fairly on Track Welding Contract Is Unclear

In developing the New Jersey Transit (NJT) bid for welding 78-foot rail, Amtrak used 1986 cost data, which were based on welding 39-foot rail into quarter mile continuous welded rail. Prior to submitting its bid for the NJT track welding project, however, Amtrak entered into several contracts for welding 78-foot rail where it charged a 20-percent higher rate. Amtrak said that it used the 1986 actual cost data for welding 39-foot rail, adjusted for inflation to 1988 dollars, for the NJT contract because the 1987 actual data for welding 78-foot rail reflected an abnormally high cost per weld due to various factors, such as the downtime involved in converting the plant to weld 78-foot rail, initial engineering problems, and more frequent machine breakdowns.

According to Amtrak's 1987 Annual Report, after converting the rail welding plant from handling 39-foot sections to 78-foot sections, the plant was running on two shifts for the better part of the year (1987). Virtually all the work was for commuter railroads. Amtrak's cost and production data for welding rail, as of September 30, 1987, 2 months prior to submitting its bid, were 27 percent higher than its cost of welding 39 foot rails in 1986. Accordingly, Amtrak could have developed reliable cost data, taking into account any additional costs, considering the significant amount of production and Amtrak's ability to account for costs on a monthly basis. Amtrak did, in fact, increase its manufacturing cost estimate by 41 percent from its earlier bid to reflect 1988 cost and production data in successfully bidding on NJT's 1989 track welding contract.

In addition to not using up-to-date manufacturing cost data, Amtrak omitted depreciation costs and established a profit rate of one-half percent on the total cost of the contract. Amtrak's policy requires that all business ventures make a financial contribution to the Corporation sufficient to justify the time, risks, and corporate resources involved. This policy recognizes the contribution of revenue enhancement projects to reducing Amtrak's fixed costs even though an individual project might only be marginally profitable. However, Amtrak officials said that it is intended that individual projects make a profit as well as a contribution toward reducing fixed costs. Amtrak officials further said that Amtrak would never knowingly enter into a revenue enhancement project that was not projected to be profitable.

Subsequent to winning the 1988 NJT contract, Amtrak did not assign all costs associated with executing the contract. Amtrak's accounting system did not allocate approximately $58,270 in transportation costs associated with the 1988 NJT rail welding contract. According to Amtrak records, the majority of the train crews responsible for transporting the rail did not charge their labor hours directly to the NJT contract but, according to Amtrak officials, charged their time to general Amtrak work orders. Also, Amtrak did not accumulate and document costs associated with operating the locomotives as well as the rental charges for the rail cars.

Amtrak, in its September 30, 1989, financial summary, omitted depreciation costs associated with Amtrak's rail welding plant and material handling costs.[1] Amtrak policy requires that these costs be allocated monthly through the use of established rates.

Amtrak reduced by 50 percent the general and administrative costs charged to revenue enhancement projects. Amtrak in applying this reduced rate to the NJT contract eliminated the cost of materials (rail) from its calculation, contrary to normal practice. This omission is not reflected in our calculations. Amtrak should have developed and documented a reasonable basis for including its cost of materials in calculating its general and administrative expense.

Last, Amtrak did not include costs associated with defective welds. On February 13, 1989, Amtrak agreed to reimburse NJT $73,870 for its costs in repairing known defective welds associated with the 1988 contract, and it issued a letter of credit ensuring payment for the costs of repairing any additional defects. Although Amtrak reported a profit on the NJT contract which was recorded as funds available for capital expenditures, we estimate that Amtrak actually lost about $88,870—including the cost of defective welds. However, in performing the NJT contract, Amtrak did experience a contribution to the fixed costs of its rail welding facility which it would not have experienced absent the NJT contract.

[1] We calculated material handling and depreciation costs for this contract on the basis of Amtrak's bid and their normal monthly established rates for each. However, these costs are not shown because Amtrak considers them proprietary marketing information.

Objectives, Scope, and Methodology

Senators Breaux, Dole, Garn, Glenn, and McClure requested that we (1) obtain information on Amtrak's revenue enhancement activities and the impact of these activities on the federal subsidy and (2) determine whether Amtrak competed fairly when bidding against a private firm for a 1988 rail welding contract.

To determine the scope of its revenue enhancement activities and earnings, we examined Amtrak's annual reports and other financial data. We compared projected revenue enhancement earnings to estimated capital requirements for fiscal years 1990 through 1993 and evaluated the impact on federal subsidies. We examined Amtrak's business agreements with private firms, including rail welding for urban commuter train systems.

As requested, we reviewed Amtrak's fiscal year 1988 New Jersey Transit track welding project to determine if Amtrak competed fairly with companies in the private sector when bidding on proposals for services. We were asked to review this contract because of congressional concern that Amtrak may not have competed fairly with the private sector. In reviewing this contract, we examined how Amtrak prepared its bid and how it subsequently accounted for contract costs. The project had been recently completed and not yet audited by an independent auditing firm.

We interviewed Amtrak's Assistant Vice Presidents for Corporate Development, Real Estate Development, Government Affairs, and the Mechanical Division. We also met with other senior Amtrak officials regarding the Revenue Enhancement Program and its potential. We discussed Amtrak's accounting system and policies with Amtrak accounting officials and with officials of its independent auditing firm, Arthur Andersen & Company.

Our audit work was done primarily at Amtrak headquarters in Washington, D.C., and its Philadelphia corporate office, from January through June 1989. We visited Amtrak's Rail Welding Plant in New Haven, Connecticut, to observe the rail welding process and its facilities; and Heavy Maintenance Facility in Beech Grove, Indiana, to observe the overhaul process and assembly of passenger cars.

Our review was performed in accordance with generally accepted government auditing standards.

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