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Resources, Community, and
Economic Development Division

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June 5, 1998

The Honorable Frank R. Wolf
Chairman, Subcommittee on
Transportation and Related Agencies
Committee on Appropriations
House of Representatives

Subject: Intercity Passenger Rail: Prospects for Amtrak's Financial Viability

Dear Mr. Chairman:

Since it began operations in 1971, the National Railroad Passenger Corporation (Amtrak) has never been profitable and has received about $21 billion in federal subsidies for operating and capital expenses. Amtrak currently provides intercity passenger rail service along 40 routes that cover about 22,800 miles in 44 states and Washington, D.C. Because of your continuing concerns about the financial stability of Amtrak, you asked us, along with others, to provide our comments on Amtrak's long-term financial viability. Specifically, as agreed with your office, we examined (1) Amtrak's current financial status and (2) the outlook for its long-term financial viability. Our comments are primarily based on our recent work examining Amtrak's financial condition.[1]

In summary, during the last 3 fiscal years, Amtrak reduced its annual net loss by only $72 million–from $834 million in fiscal year 1994 to $762 million in

[1]Intercity Passenger Rail: Financial Performance of Amtrak's Routes (GAO/RCED-98-151, May 14, 1998), Intercity Passenger Rail: Outlook for Improving Amtrak's Financial Health (GAO/T-RCED-98-134, Mar. 24, 1998), Intercity Passenger Rail: Issues Associated With a Possible Amtrak Liquidation (GAO/RCED-98-60, Mar. 2, 1998), and DOT's Budget: Management and Performance Issues Facing the Department in Fiscal Year 1999 (GAO/T-RCED/AIMD-98-76, Feb. 12, 1998). In addition, we obtained information on Amtrak's ridership by state and for Washington, D.C.



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fiscal year 1997.[2] Amtrak projects that its net loss will grow to $845 million this fiscal year, resulting in a cash-flow deficit of up to $200 million and contributing to substantial deficits in the next 2 years. In response, Amtrak's Board of Directors approved a revised strategic business plan in March 1998 that would use about $800 million of anticipated federal capital appropriations over the next 5 years for maintenance expenses, which traditionally have been treated as operating expenses. According to Amtrak, the flexibility to use appropriated capital funds to pay for maintenance would provide it with stability over the next several years, thereby averting a possible bankruptcy. However, using these federal funds for maintenance expenses will correspondingly reduce the funding available for Amtrak's proposed capital improvements that are needed to enhance its long-term viability. Amtrak recently initiated a market-based analysis of its route system that is important for its long-term viability because Amtrak's current route system will continue to incur substantial annual net losses. Amtrak remains heavily dependent on federal funding to pay its operating and capital expenses and will remain so for the foreseeable future.

## BACKGROUND

In December 1994, at the direction of the administration, Amtrak established the goal of eliminating its need for federal operating subsidies--except for federal contributions to retirement payments for railroad employees--by fiscal year 2002 and established a "glidepath" of decreasing federal operating subsidies for each intervening year.[3] The Congress, in the Amtrak Reform and Accountability Act of 1997, stated that federal financial assistance to cover operating losses incurred by Amtrak should be eliminated by 2002. In addition, the act requires the newly established Amtrak Reform Council to develop an action plan for a "restructured and rationalized national intercity passenger rail system" if it determines, at any time after December 1999, that Amtrak is not achieving its financial goals or that it would require operating subsidies after December 2002. Under such circumstances, Amtrak would be required to develop and submit to the Congress an action plan to liquidate the railroad.

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[2]Net loss is Amtrak's total expenses--including depreciation of its equipment and infrastructure--minus total revenues. Amtrak refers to this difference as its operating loss.

[3]Amtrak revised its glidepath by requesting an additional $84 million in federal operating support for fiscal year 1999 because, in previous years, it had not received the federal operating funding that the original glidepath had assumed.

The Taxpayer Relief Act of 1997 makes a total of $2.2 billion available to Amtrak in fiscal years 1998 and 1999 to acquire capital improvements and to pay, among other things, certain equipment maintenance expenses.[4] Amtrak has stated that it will use funds from the Taxpayer Relief Act for those high rate-of-return capital investments that over time would strengthen its long-term financial viability, improve productivity and efficiency, and reduce its reliance on federal operating subsidies.

## AMTRAK'S CURRENT FINANCIAL STATUS

Despite efforts to increase revenues and reduce costs, Amtrak is in a very precarious financial condition. Amtrak has reduced its annual net loss from $834 million in fiscal year 1994 to $762 million in fiscal year 1997. In March 1998, Amtrak's Board of Directors approved a revised strategic business plan for fiscal years 1998 through 2003 that projects that its net loss will grow to $845 million in fiscal year 1998–$83 million more than in fiscal year 1997. Amtrak's projected net loss is larger in fiscal year 1998 because (1) its agreement with the Brotherhood of Maintenance of Way Employees in November 1997 would add about $35 million in expenses in fiscal year 1998 if its terms were extended to all of Amtrak's unions and (2) its estimated net revenue from its express service for transporting high-value, time-sensitive merchandise was recently reduced from $59 million to $11 million in fiscal year 1998. In addition, fiscal year 1997 revenues included $69 million from the one-time sale of telecommunications rights-of-way and real estate in the Northeast Corridor.

Amtrak has a serious cash-flow problem because its revenues and federal operating subsidies do not cover its expenses. While Amtrak borrowed $75 million to meet its operating expenses in fiscal year 1997 and initially planned to borrow $100 million in fiscal year 1998, its March 1998 revised plan projects a cash-flow deficit of up to $200 million in this fiscal year, which could exceed its $170 million line of credit. To cover its cash-flow deficit, Amtrak plans to use $100 million from its short-term lines of credit and temporarily use up to $100 million in funds from the Taxpayer Relief Act in fiscal year 1998 for certain equipment maintenance expenses.

[4]Amtrak is required to pay 1 percent of the $2.3 billion made available under the act to each state that it does not serve.

## AMTRAK'S LONG-TERM FINANCIAL VIABILITY

Amtrak's ability to remain financially viable is influenced by three factors--the federal subsidies it receives, its ability to increase revenues and control costs, and the business decisions it makes regarding its route system. Current prospects for Amtrak's long-term viability are uncertain unless the corporation reduces its net losses by increasing revenues and controlling costs. As currently structured, Amtrak will continue to require federal capital and operating support in fiscal year 2002 and well into the future.

### Reliance on Federal Subsidies

Amtrak is unlikely ever to be free of the need for federal capital subsidies because of the capital-intensive nature of railroads. Amtrak's March 1998 strategic business plan shows that Amtrak will also depend heavily upon federal subsidies for operating expenses through fiscal year 2003, and, therefore, will not achieve its goal of eliminating the need for federal support for operating expenses by fiscal year 2002.

An immediate issue affecting Amtrak's long-term viability is the amount and use of federal support for fiscal year 1999. The administration proposes a capital appropriation of $621.5 million but no operating appropriation. The budget justification also proposes that, similar to Federal Transit Administration grantees, Amtrak be allowed to use appropriated capital funds to pay expenses for preventive maintenance that Amtrak has traditionally treated as operating expenses.[5] Amtrak's March 1998 strategic business plan proposes to spend $1.8 billion (65 percent) of the administration's proposed $2.8 billion in capital appropriations for maintenance expenses between fiscal years 1999 and 2003 to reduce its net losses and cash-flow deficits. As a result, Amtrak would spend $800 million (15 percent) less for capital improvements over the next 5 years than it had previously planned under its glidepath approach.

According to Amtrak, the flexibility to use appropriated capital funds to pay for maintenance would provide it with stability over the next several years, thereby averting a possible bankruptcy. However, spending capital funds on maintenance would decrease the amount of money available for capital improvements and equipment overhauls that will be necessary to increase

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[5]Preventive maintenance is designed to keep Amtrak's locomotives, passenger cars, and other equipment; facilities; and infrastructure in good operating condition.

revenues and reduce costs. Such investments are essential to Amtrak's long-term viability.

Amtrak's Ability to Increase Revenues and Reduce Costs

Amtrak's ability to increase its revenues and reduce costs also will influence its long-term viability. However, while the corporation has made some progress in increasing its revenues and controlling costs over the past 3 fiscal years, it did not achieve its budget goals in fiscal years 1996 and 1997. Furthermore, since 1990, Amtrak's revenues, considered in constant dollars, have been relatively flat.

Amtrak's plans for increasing revenues have depended largely on expanding its express service for transporting high-value, time-sensitive merchandise and introducing high-speed rail service in the Northeast Corridor. However, Amtrak's revised strategic business plan reduced its projections of profits from its express merchandise service from about $75 million annually to $21 million in fiscal year 1999 and $27 million annually through fiscal year 2003. On May 28, 1998, the Surface Transportation Board granted Amtrak's application to transport express merchandise over the Union Pacific Railroad Company's and the Southern Pacific Transportation Company's track, provided that Amtrak offers "a premium transportation service at premium rates--expedited, regularly scheduled train service provided at prices which are generally higher than freight service--that is provided as an adjunct to Amtrak's passenger service." Amtrak expects that express merchandise service will improve the financial performance of certain of its long-distance routes.[6]

Amtrak projects that fully implementing high-speed rail service on the Northeast Corridor by the end of fiscal year 2000 will significantly increase net revenues for the routes between Washington, D.C., and Boston and will foster the growth of other routes along the Northeast Corridor. Amtrak projects that high-speed rail service will provide profits of $93 million in fiscal year 2000 and $219 million in fiscal year 2003. If achieved, these additional net revenues would eliminate almost all of the Northeast Corridor Strategic Business Unit's net loss. However, even with these net revenues, Amtrak expects that its systemwide net

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[6]Amtrak anticipates that the three routes that lost the most money per passenger in fiscal year 1997 could generate substantial new revenues if its express merchandise service was expanded. These routes are the Sunset Limited (between Los Angeles and Orlando), the Texas Eagle (between Chicago and San Antonio or Los Angeles), and the Southwest Chief (between Chicago and Los Angeles).

loss will decline by only $158 million–from $845 million in fiscal year 1998 to $687 million in fiscal year 2003.

Two bright spots for Amtrak are its commuter operations and increased contributions by states for intercity passenger rail services that have particularly benefited their residents. Amtrak's profits from operating commuter trains grew from $18 million in fiscal year 1995 to $38 million in fiscal year 1997. Similarly, operating support from the states for Amtrak's intercity passenger service more than doubled between fiscal years 1994 and 1997. In fiscal year 1997, 12 states provided a total of about $70 million to subsidize service on 17 Amtrak routes.

Amtrak's long-term financial viability will be affected by its ability to control costs as well as increase revenues. However, Amtrak's record in controlling costs indicates that achieving future goals for cost reductions may be difficult. Amtrak did not meet its cost-reduction goals for fiscal years 1996 and 1997. Furthermore, while revenues from Amtrak's core intercity passenger services grew by about 4 percent in fiscal year 1997 (including a 7-percent increase in passenger revenues),[7] expenses for these services grew by about 7 percent. Amtrak projects that interest expenses for servicing its debt–primarily incurred to modernize its fleet of locomotives and passenger cars–will rise from $76 million in fiscal year 1997 to $97 million in fiscal year 1999.

Amtrak also will face challenges in controlling future costs because labor costs will increase significantly. Amtrak estimates that extending the terms of its November 1997 agreement with the Brotherhood of Maintenance of Way Employees to all of its unions will increase costs between $60 million and $70 million a year between fiscal years 1999 and 2003.[8] In addition, Amtrak and Federal Railroad Administration officials told us that reforms contained in the Amtrak Reform and Accountability Act of 1997 will provide little, if any, immediate effect on Amtrak's financial performance and that their long-term benefits are unclear.[9] Specifically, the act (1) repealed a statutory ban on contracting out work that would result in employee layoffs, except for food and beverage service, and (2) eliminated, effective May 31, 1998, statutory and contractual arrangements to protect labor that provided up to 6 years' compensation and benefits for employees who lose their jobs because of

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[7]These include revenues from passenger ticket sales, food and beverage sales, mail and express merchandise service, as well as contributions from the states.

[8]Productivity savings negotiated with the unions are accounted for in this estimate.

[9]For a fuller discussion of these issues, see GAO/RCED-98-151.

specific covered actions, such as the discontinuance of service on a route or the closure of a maintenance facility. In the long term, repealing the ban on contracting out work may provide Amtrak with important flexibility in labor negotiations and cost control. Amtrak and its unions are addressing labor protection arrangements in collective bargaining negotiations. While Amtrak currently does not have plans to close any of its 40 routes, eliminating these arrangements could become important if, for example, the market analysis that Amtrak recently initiated results in a decision to substantially reorganize its route system.

Business Decisions Regarding Amtrak's Route Network

The business decisions Amtrak makes regarding the structure of its route system will play a crucial role in determining its long-term viability. Amtrak spends almost $2 for every dollar of revenue it earns in providing intercity passenger rail service.[10] Only the Metroliner's high-speed service between Washington, D.C., and New York City is profitable; all of Amtrak's other 39 routes operate at a loss. Fourteen of Amtrak's 40 routes lost more than $100 per passenger in fiscal year 1997. Amtrak will continue to incur large net losses if it continues to operate its current route system.

Figure 1 shows that, during fiscal year 1997, fewer than 100 passengers, on average, boarded Amtrak intercity trains and connecting buses per day in 13 states.[11] (See the enc. for the estimated daily average ridership by state in fiscal year 1997.) Amtrak officials noted that ridership in a state is not directly linked to Amtrak's profitability because other factors, including ticket prices and a train's expenses, need to be considered. Nevertheless, we believe that the relatively large number of states with relatively low ridership, along with other financial performance data, is indicative of Amtrak's financial performance problems.

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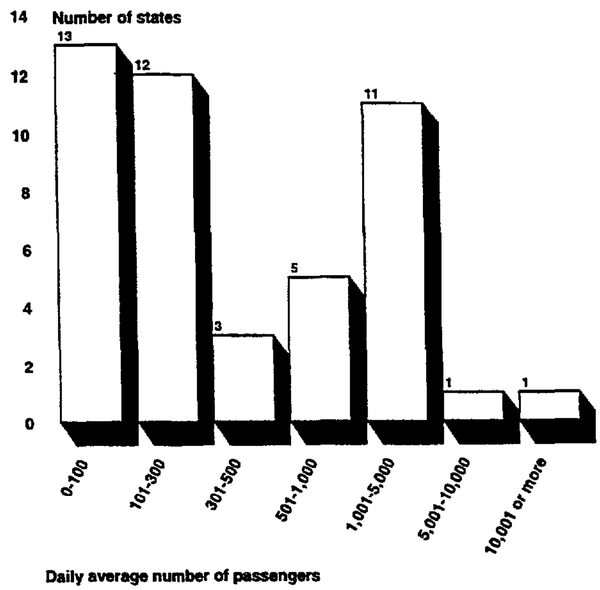
[10]For its business operations as a whole, Amtrak spends $1.46 for every dollar it earns.

[11]Our calculations of the daily average number of passengers by state are estimates and exclude riders for whom the states in which they boarded are unknown. This unknown ridership (which primarily includes passengers who have multiride tickets that do not identify a particular origin or destination) totaled about 2.5 million in fiscal year 1997, or 6,724 passengers per day.

Figure 1: Daily Average Number of Riders Boarding Amtrak Intercity Trains and Connecting Buses by State, Fiscal Year 1997




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

Within a year, Amtrak plans to complete a market-based analysis of the role and growth potential of its national passenger rail system. This study will identify opportunities to increase Amtrak's revenues and market share by analyzing customer demand, revenues, expenses, and net contributions associated with each route in Amtrak's route system to identify service amenities, pricing changes, and route changes that may improve the corporation's ridership and revenues in the short and the long terms. Amtrak's study will also consider various service alternatives and their potential effects on revenues and expenses. In your March 11, 1998, hearing on Amtrak's fiscal year 1999 appropriation, the acting President of Amtrak testified that he was not comfortable that today's national system is "the most effective, economical, market-driven system." He added that Amtrak's challenge over the next year is to try to "define and articulate a national system that works . . . within reasonable economic parameters." This market-based analysis is the third extensive study of Amtrak's route system undertaken in the past 4 years; the first two studies, completed in 1994 and 1996, focused on cutting costs.

While Amtrak management considers this market-based analysis, which will identify alternatives to the current route system, to be critical for securing its long-term viability, past experience indicates that major changes to the existing route system will be difficult to make and that the financial effects of changes will be difficult to predict. Amtrak has encountered opposition when it has proposed to cut routes because of the desire by various groups to see passenger train service continued in potentially affected communities. For example, in response to concerns raised by affected parties, Amtrak scaled back initial plans to reduce routes and services in fiscal years 1995 and 1997. During fiscal year 1995, Amtrak reduced and eliminated service on several routes, resulting in a 13-percent reduction in the total miles that Amtrak trains traveled between fiscal years 1994 and 1996 and $54 million in cost savings in fiscal year 1995. However, anticipated cost savings were not realized in fiscal year 1996. In fiscal year 1997, Amtrak closed two routes to increase the frequency of service on three other routes; to date, these adjustments have not led to financial improvements in Amtrak's bottom line.

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We discussed the contents of this report with Amtrak officials, including the Vice President for Finance and Chief Financial Officer, who provided comments to improve the report's technical accuracy, which we incorporated as appropriate.

We are sending copies of this report to the acting President of Amtrak; the Secretary of Transportation; and the Director, Office of Management and Budget. We will also make copies available to others upon request.

If you or your staff have any questions about this report, please contact me at (202) 512-3650. Major contributors to this report were Richard Cheston, Judy Guilliams-Tapia, and James Ratzenberger.

Sincerely yours,

Phyllis F. Scheinberg

Phyllis F. Scheinberg
Associate Director,
Transportation Issues

Enclosure

## AMTRAK RIDERSHIP BY STATE, FISCAL YEAR 1997

| State | Annual number of passengers boarding | Estimated daily average number of passengers boarding | Annual number of passengers alighting | Estimated daily average number of passengers alighting |
|---|---|---|---|---|
| Alabama | 30,843 | 85 | 30,720 | 84 |
| Arizona | 42,587 | 117 | 43,507 | 119 |
| Arkansas[a] | 8,446 | 70 | 8,176 | 68 |
| California | 4,054,944 | 11,109 | 4,024,714 | 11,027 |
| Colorado | 115,150 | 315 | 113,343 | 311 |
| Connecticut | 427,073 | 1,170 | 443,339 | 1,215 |
| Delaware | 272,370 | 746 | 274,597 | 752 |
| District of Columbia | 1,494,748 | 4,095 | 1,494,276 | 4,094 |
| Florida | 431,933 | 1,183 | 442,993 | 1,214 |
| Georgia | 68,678 | 188 | 68,600 | 188 |
| Idaho | 4,887 | 13 | 5,105 | 14 |
| Illinois | 1,337,426 | 3,664 | 1,334,269 | 3,656 |
| Indiana | 48,136 | 132 | 50,878 | 139 |
| Iowa | 24,121 | 66 | 28,252 | 77 |
| Kansas | 16,121 | 44 | 17,781 | 49 |
| Kentucky | 4,214 | 12 | 3,688 | 10 |
| Louisiana | 102,975 | 282 | 103,401 | 283 |
| Maryland | 686,424 | 1,881 | 685,603 | 1,878 |
| Massachusetts | 591,258 | 1,620 | 570,265 | 1,562 |
| Michigan | 377,669 | 1,035 | 378,131 | 1,036 |
| Minnesota | 68,124 | 187 | 66,669 | 183 |
| Mississippi | 49,052 | 134 | 50,120 | 137 |
| Missouri | 205,932 | 564 | 204,491 | 560 |
| Montana[b] | 50,378 | 138 | 51,458 | 141 |

| State | Annual number of passengers boarding | Estimated daily average number of passengers boarding | Annual number of passengers alighting | Estimated daily average number of passengers alighting |
|---|---|---|---|---|
| Nebraska | 17,688 | 48 | 18,273 | 50 |
| Nevada | 49,083 | 134 | 77,382 | 212 |
| New Hampshire | 780 | 2 | 831 | 2 |
| New Jersey | 544,155 | 1,491 | 545,934 | 1,496 |
| New Mexico | 42,118 | 115 | 41,592 | 114 |
| New York | 3,600,203 | 9,864 | 3,584,546 | 9,821 |
| North Carolina | 236,220 | 647 | 235,460 | 645 |
| North Dakota[b] | 28,718 | 79 | 29,259 | 80 |
| Ohio | 92,540 | 254 | 91,518 | 251 |
| Oregon | 267,430 | 733 | 261,470 | 716 |
| Pennsylvania | 1,778,265 | 4,872 | 1,778,437 | 4,872 |
| Rhode Island | 177,679 | 487 | 185,880 | 509 |
| South Carolina | 80,292 | 220 | 80,041 | 219 |
| Tennessee[c] | 20,018 | 55 | 19,930 | 55 |
| Texas[a] | 77,981 | 644 | 76,705 | 634 |
| Utah | 19,778 | 54 | 20,529 | 56 |
| Vermont | 49,224 | 135 | 50,330 | 138 |
| Virginia | 446,924 | 1,224 | 440,320 | 1,206 |
| Washington | 372,068 | 1,019 | 378,107 | 1,036 |
| West Virginia | 22,814 | 63 | 24,339 | 67 |
| Wisconsin | 182,305 | 499 | 182,427 | 500 |
| Wyoming[d] | 3,701 | 39 | 3,482 | 37 |
| Unknown[e] | 2,454,435 | 6,724 | 2,453,624 | 6,722 |

Note: Amounts include passengers on Amtrak trains and connecting buses. Each state, except Arkansas, Montana, North Dakota, Tennessee, Texas, and Wyoming, had daily train service provided by one route or more operating within the state. Amtrak intercity passenger trains did not serve Alaska, Hawaii, Maine, Oklahoma, or South Dakota in fiscal year 1997.

[a]The average daily ridership computation reflects that Arkansas and Texas each had train service only three times a week during fiscal year 1997.

[b]Montana and North Dakota had train service four times a week from October 1, 1996, to May 10, 1997, when Amtrak restored daily service through Montana and North Dakota on the Empire Builder route.

[c]Tennessee had train service six times a week from October 1, 1996, to May 11, 1997, when Amtrak restored daily service through Tennessee on the City of New Orleans route.

[d]The average daily ridership computation reflects that Amtrak discontinued train service in Wyoming on May 10, 1997, when it closed the Pioneer route.

[e]Amtrak could not readily identify the states in which these passengers boarded or alighted from its trains.

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

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