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Update on Amtrak Finances from Two U.S. Watchdogs

Two mildly optimistic reports on Amtrak's finances came out in July. They were by the Office of Inspector General (OIG) of the U.S. Department of Transportation and the General Accounting Office (GAO), an arm of Congress (previous reports: Jan. '99; July '98 *News*, respectively).

The OIG states: "Compared to our prior assessment, Amtrak's outlook has improved, but significant risks to self-sufficiency remain." The GAO report, "Amtrak's Progress in Improving Its Financial Condition Has Been Mixed," says, "Amtrak has made some progress in reducing its reliance on federal operating support." The OIG noted encouraging growth in passenger revenues—up 3.8% or $37 million, from $964 million in fiscal 1997 to $1.001 billion in 1998.

Federal law requires Amtrak to reach "operational self-sufficiency" by the end of fiscal 2002. Amtrak's 1999 Strategic Business Plan envisions reaching that goal a year early.

What is Operational Self-sufficiency?

Amtrak's definition, which both reports accept, excludes depreciation, certain other non-cash expenses related to employee benefits, capital for progressive equipment overhauls (about $80 million a year) and the part of Amtrak's Railroad Retirement payments attributed to non-Amtrak retirees (about $180 million a year). By this definition, Amtrak's bottom line must improve by $178 million from 1999 to 2002.

Operating Losses Peaking as Planned

Amtrak last October released projections that showed losses peaking this year—at $318 million "operationally," $930 million total—and gradually improving as Northeast Corridor (NEC) high-speed revenues kick in, along with business plan actions that improve the entire system's economics. These actions inflate operating costs in the short term. Examples (quoting the OIG):

- service standards training,
- marketing and branding program development,
- severance payments and up-front costs of the food service contracting-out program (Mar. *News*, p. 3),
- start-up costs for the express program.

The OIG notes three key cost categories that grew in 1998:

- **Interest payments** (largely on debt incurred buying rolling stock when capital grants were inadequate) rose from $20 million in 1993 and $74 million in 1997 to $85 million in 1998 [$145 million projected for 2002]. "If Amtrak's interest costs had remained at the $25 million per year level, the level before the refleeting and high-speed rail programs, Amtrak's projected cash losses over the 1999 through 2002 period

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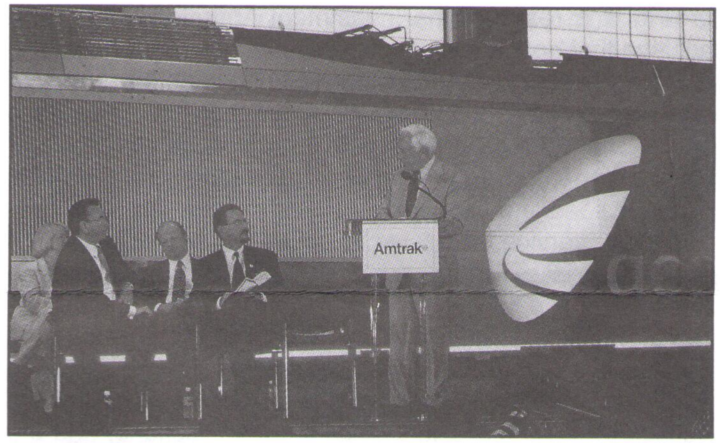

—Scott Leonard

Amtrak proudly unveiled a high-speed train set at Ivy City (just north of Washington Union Station), inside one of the new Acela maintenance facilities. The building was completed under budget and ahead of schedule. Above (from left), standing in front of the new train at the June 29 ceremony are speakers Jolene Molitoris, Federal Railroad Administrator; Amtrak Chairman (and Wisconsin Governor) Tommy G. Thompson; Rep. Bob Franks (R-NJ) of the House Transportation and Infrastructure Committee; Amtrak President George Warrington; Sen. Frank R. Lautenberg (D-NJ). Thompson's pro-Amtrak enthusiasm was as intense as when he accepted NARP's Golden Spike Award in April (May *News*). Secretary of Transportation Rodney Slater also spoke.

Lautenberg—who was praised by other speakers for making Northeast high-speed rail possible—said, "Yesterday I boarded a plane at Newark at 2:45 and reached Washington at 6:30. I missed four Senate votes. Of course, the sun was shining, but somewhere there was a little patch of safety that we had to pay attention to. I'm not complaining about how airlines respond to bad weather. It's just that the aviation system is so stressed. I'm looking forward to trains like this."

Aviation Woes Strengthen Case for Rail

Air travel has become much less reliable, with lots more passengers spending unplanned nights in "wrong-city" airport hotels.

"The Federal Aviation Administration accepted partial blame Friday [July 16] for the breakdown in airline service this year that has caused a steep rise in flight cancellations and delays...Aviation experts have painted a worst-case scenario in which extended delays may soon be the norm...restricting affordable tickets for non-business travelers to weekend or late-night flights...Jim Goodwin, United's new chairman and CEO, told [the Chicagoland Chamber of Commerce July 15] that the airline had been forced this year to cancel more than 16,000 flights nationwide because of bad weather and air-traffic control problems" (*Chicago Tribune,* July 18).

From Goodwin's prepared text at <www.ual.com>: "At the

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Financial Updates on Amtrak (from page 1)

would be reduced by $384 million."

• **Labor.** GAO says all $106 million "of the retroactive payments for recently negotiated labor agreements" are in Amtrak's 1998 audited financial statement, but that $35 million each actually accrued in 1996 and 1997.

• **Depreciation.** The OIG says "growth in depreciation will not pose a problem for Amtrak's goal of reaching self-sufficiency because it is a non-cash charge. On the contrary, this growth is a result of the investment Amtrak has made to achieve that goal."

Going forward, both GAO and OIG question some of Amtrak's assumptions. The OIG notes that Amtrak projects savings in 1999-2002 totaling $105 million each in two categories: the "ongoing Market-Based Network Analysis (MBNA)...designed to refine Amtrak's route structure, frequency of service, and fares structure to maximize the revenue potential of its network;" and "a national rebranding effort [and] the establishment of uniform service standards." None of these savings are included in the OIG's projections because the MBNA "is still ongoing and no actions have been proposed" and OIG sees "a lack of a clearly defined linkage between the [rebranding/service standard actions] and the associated revenue and expense projections." The OIG expects Amtrak's 2000 plan to answer a lot of these questions.

Capital Shortage

The OIG's report repeats with more emphasis its concern that Amtrak will run short of capital to meet "minimum needs, [what is] required to meet legal obligations and to continue the safe, reliable operation of the national system over the short term...[This] does not represent what we consider are the minimum investments necessary for Amtrak to sustain itself financially and operationally beyond 2002."

Thus, the OIG criticizes spending beyond minimum needs: the Amtrak/New York State 50/50 funding deal under which the state contributes over $90 million to help modernize the New York-Buffalo-Niagara Falls Corridor (lead story, Oct. '98 *News*); the modest $25 million Amtrak committed to the Midwest Regional Rail Initiative (lead story, Feb. '99 *News*) and "the Capstone program, which funds the retrofitting of NEC passenger car interiors to be consistent with re-branding efforts and the interiors of the new high-speed train sets."

The OIG's complaint has a problem, which is implicit in the just-quoted OIG explanation of what minimal funding "does not represent." The problem is that Amtrak is more likely to die if it starts acting like death is inevitable.

Imagine if Amtrak had not done the New York deal or the Midwest package (largely contributions to jointly-funded projects like decent St. Louis and Kansas City stations and better Chicago-Champaign running times). This would have left many key players in the transportation funding game with little reason to help get the funding the OIG wants to see.

Imagine Amtrak explaining its refusal by saying its capital funding for 2001 and 2002 is not assured! Imagine reaching self-sufficiency *without* making these investments!

Admittedly, Amtrak's needs *do* exceed the funding now available or authorized. The OIG sees a total shortfall for the years 2001-2002 of $244 million—even against a Spartan budget that ends heavy overhauls to rolling stock and has no system expansion. A report on investment needs on the NEC's south end (New York-Washington) due in "July, 1999" may intensify this discussion.

One proxy for future capital needs of just the *existing* system is depreciation—which was $294 million in 1998 and is projected to peak at $489 million in 2001.

Still Less Funding Ahead?

This all makes one question the logic of the planned further reduction in Amtrak appropriations. The so-called "glidepath to self-sufficiency" envisions $521 million each in 2001 and 2002. That's $88 million or 14% below the 1999 level and $50 million or 9% below the 2000 request.

The late John Riley, a strong Amtrak supporter who was President Reagan's Federal Railroad Administrator, called Washington "a city of baselines." In other words, if Amtrak funding indeed drops to $521 million in 2001 and 2002, getting more dollars in 2003 would be difficult, to put it mildly.

One NARP member who received our e-mail alert about these reports probably spoke for passenger-train advocates everywhere when he lamented that the cost of Amtrak is peanuts compared with the cost of oil imports. He concluded, "Highways and airways get the money, yet Congress expects Amtrak to run at a profit. Who's kidding whom?" ■

For OIG Report CE-1999-116, call 202/366-9970 or write DOT—OIG; 400 7th St., SW; Room 9200, JA-2; Washington, DC 20590. Single copies of GAO/RCED-99-181 free from U.S. GAO, P.O. Box 37050, Washington, DC 20013, 202/512-6000. The NARP web site at <http://www.narprail.org/res.htm#reports> has links to 43-page OIG executive summary and the full GAO report.

WEYRICH, LIND: "QUALITY TRANSIT WORKS"

NARP members Paul M. Weyrich (a prominent conservative) and William S. Lind have released their second monograph on why conservatives should support transit: "Does Transit Work? A Conservative Reappraisal."

From Gov. Tommy G. Thompson's (R-WI) foreword: "As a conservative, I am sometimes troubled by the studies released by some conservative think tanks that attack public transit." He credits the study with explaining why "academic conservatives seem to believe that all transit is bad, when as a real world conservative, I know it isn't."

Weyrich and Lind argue that transit market-share should be understood not as a mere 2-3% of all trips but as a much larger percentage of "transit-competitive trips." Also, they report that annual [transit] trips per household in the 28.8% of U.S. households "where satisfactory transit service was available doubled... from a low of 150 in 1976 to 300 in 1993."

Three "transit-success" stories are analyzed: Chicago's Metra commuter rail network and the San Diego and St. Louis light rail systems.

The Free Congress Research and Education Foundation published the report; "private sector Business Members of the American Public Transit Association" underwrote it. The report is $10. Call 800-638-0660 (credit card) or send check to Free Congress Foundation, 717-2nd St., N.E., Washington, DC 20002.

Aviation Woes

(from page 1)

first sign of bad weather we simply stop flying, winter or summer...Take our experience at O'Hare and let's leave our city's challenging weather out of it. Between January and June of this year, we have had to cancel 4,677 flights because of ATC [air traffic control] and weather issues. That's 6.1% more canceled flights over the prior year. ATC and weather issues this year have also risen by nearly 5.5%."

In a July 27 talk to the Aero Club in Washington, DC, Continental Airlines' Chairman and CEO Gordon Bethune said "FAA delays per 1,000 operations for the first five months of 1999 are up 267% at Detroit, 131% at Dallas/Fort Worth, 105% at Cleveland, 142% at Cincinnati and 98% at Chicago O'Hare."

NARP Executive Director Ross Capon reports:

"I sat on a US Airways Metrojet plane at Midway Airport from 2:45 pm to 6:24 pm May 17. Then the flight was cancelled. Metrojet said I might get a United seat. I went to O'Hare and got the seat, but that flight was cancelled at 9:55 pm. It was impossible to reach the East Coast that day. Also, it seemed that every 'airport' hotel was full.

"The May 18 Chicago Sun Times *coverage was rather low-key: 'Flights at Midway and O'Hare airports were delayed one to two hours Monday. United and American cancelled 12% of flights, and other airlines had scattered cancellations, said [an] Aviation Department spokeswoman.'*

"If I had skipped O'Hare in favor of Union Station, taking Amtrak's Capitol Ltd. *to Cleveland and then an early flight, I would have reached an Amtrak Reform Council meeting near Washington an hour before—rather than at—the time I was scheduled to speak. And I would have gotten more sleep!"*

Facing this mess, will policy makers simply throw more money at government-owned aviation facilities or will they also make a connection with the improved rail passenger service the public so clearly wants?

If Monte Belger, the "no. 2" FAA official quoted in the *Tribune* story, mentioned improved rail service, it was not reported. Similarly, the July 22 *Wall Street Journal* quotes a Federal Highway Administration official on the need for bridge and tunnel improvements, with no word about rail. NARP has urged Secretary Slater to have DOT officials in general—not just Federal Railroad Administration people—reflect the administration's pro-passenger-rail policies in their comments.

NARP and countless citizens must continue to scream for more, faster trains if trains are to become a big part of the solution—even though it already should be obvious that "rail neglect" helps explain why the U.S. transportation system's overall performance continues to worsen.

The July 16 *USA Today* had a Capon letter making that point. The letter—long by *USA Today* standards; highlighted with photo of Amtrak train—noted some rail accomplishments, including explosive ridership growth in the Pacific Northwest corridor (226,000 in 1993; 550,000 in 1998). ■

—Scott Leonard

Guests line up at Washington June 29 to view cab of the new Acela high-speed train. Such services should be a vital element in a national (not just Northeast) transportation policy that doesn't place such a strain on the aviation system—strain that is all too apparent in 1999.

HIGH-TECH TICKET READERS FOR CONDUCTORS

Amtrak and Motorola announced June 22 a $24 million contract for a state-of-the-art Automated Fare Collection System. This includes a hand-held device to let Amtrak conductors read ticket bar codes; process on-board credit-card, check, cash, and smart-card purchases; make instantaneous updates to the train manifest; and more. A separate printer on the conductor's belt will issue a customer receipt.

Initially, information from the hand-held device will exchange data with a computer on the train. When the train is at a station, the on-board computer will communicate with a station computer which then "talks with" Amtrak's big Arrow reservations system. After full implementation, there will be direct communications between Arrow and moving trains.

The complete system is expected to increase Amtrak revenues by over $7 million in revenue annually. It will start on Acela Express service this fall, and on the rest of the Amtrak system a year later.

MORE ON SERVICE STANDARDS

Amtrak has plans for a service guarantee program like (but broader than) one on the *Coast Starlight* since 1996. On the timing of such a program, Amtrak said in a June 17 release, "By the end of the year, Amtrak will distinguish [itself] from other transportation service providers by guaranteeing that every customer will receive excellent service and be treated like a guest. If Amtrak does not meet this guarantee, customers will be entitled to a refund voucher for future travel."

Product quality standards now are being tested on the *California Zephyr, Crescent, San Diegans,* and NortheastDirect. These services already have trained staff and "consistent amenities, including enhanced food service options and improved on-board conveniences" (Amtrak release).

Amtrak soon will start a competency-based hiring program "designed to select people with not only the right job experience, but also the right traits for critical customer service positions," with "enhanced" job evaluation methods. In other words—one hopes—fewer "drill sergeants" among on-board personnel.

TRAVELERS' ADVISORY

Car Rentals—The Amtrak/Hertz program that began in May (June *News*) was expanded to Milwaukee, Sacramento, Fresno, and Wilmington (DE) on July 1.

Amtrak VISA Card—Amtrak and Capital One Bank in May unveiled a credit card that earns customers "Smartrak Rewards": for "as little as 2,500 points, cardholders will automatically receive a Smartrak Rewards certificate redeemable on their next Amtrak ticket." Every dollar spent on Amtrak purchases earns 2 points, on other purchases 1 point. The certificates are redeemable through travel agents or ticket counters. Multiple certificates can be used on any Amtrak purchase. Applications for the Amtrak VISA are available by calling 1-877-ONE-TRAK, at <www.amtrak.com>, and at staffed Amtrak stations.

Correction—Norfolk Southern owns the ex-Conrail route between Chicago and Cleveland that Amtrak uses. (Last month, we said it belongs to CSX.)

THE AMTRAK REFORM COUNCIL meets August 31, 9:00-11:30 am in Seattle (business meeting); October 13-14 in Chicago (13th: testimony by freight railroads, nine states; 14th: business meeting); November 8 in Dallas. Meetings are open. Details three weeks in advance at <www.amtrakreformcouncil.gov> or 202/366-0591. [A House Transportation & Infrastructure field hearing is in Seattle the afternoon of August 31.]

CROSSING SAFETY STAMP BILL

Senate Majority Leader Lott (R-MS) and Senators Hutchison (R-TX), Breaux (D-LA), and Wyden (D-OR) introduced S.712, the "Look, Listen and Live Stamp Act," March 24. The bill aims to raise public awareness about grade crossing safety by authorizing the Postal Service to issue a postage stamp to be sold above face value. The extra money collected would go to Operation Lifesaver, the non-profit, educational organization that specializes in grade-crossing and trespasser safety issues. The Governmental Affairs Committee approved S.712 May 20.

A May 6 letter in support of the bill went to the Senate signed by NARP, American Passenger Rail Coalition, Railway Progress Institute, American Association of Private Railroad Car Owners, Brotherhood of Locomotive Engineers, High Speed Ground Transportation Association, National Association of Counties, and United Transportation Union.

SALES COMMISSIONS INCREASE

Amtrak increased to 8% the commissions it pays travel agents for booking on most Amtrak routes ticketed beginning July 26. The new level applies to all long-distance trains, the Midwest corridors, the Oklahoma and North Carolina trains, Chicago-Toronto, New York-Toronto, New York-Montreal, both Vermont routes and the overnight Boston-Washington-Newport News *Twilight Shoreliner.*

Commissions stay at 5% on other Northeast and Empire Corridor trains, and California and Pacific Northwest corridors, but—at least for now—8% applies to trips involving both "5% and 8% trains."

Amtrak had reduced commissions from 10% to 5% on November 1, 1998, leading some agencies to stop handling Amtrak for all or for new customers and to impose fees on Amtrak transactions.

The new increase to 8% is a response to the negative impact of the 5% rate on the overall performance of many trains. Amtrak says it reflects as well the greater work involved in booking longer trips.

Amtrak also is offering a 4% bonus on Explore America fares booked/ticketed July 26-October 31.

Another 4% bonus on Explore America *and all "8% train"* sales goes to agents who sign up for this bonus and whose Aug. 1-Oct. 31 *total* Amtrak sales are up more than 8% from the same period in 1998.

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