U.S. House of Representatives
Committee on Transportation and Infrastructure
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June 11, 2007

SUMMARY OF SUBJECT MATTER

TO: Members of the Subcommittee on Railroads, Pipelines, and Hazardous Materials

FROM: Subcommittee on Railroads, Pipelines, and Hazardous Materials Staff

SUBJECT: Hearing on Amtrak's Fiscal Year 2008 Strategic Plan

PURPOSE OF HEARING

The Subcommittee on Railroads, Pipelines, and Hazardous Materials is scheduled to meet on Tuesday, June 12, 2007, at 2:00 p.m., in Room 2167 Rayburn House Office Building, to receive testimony on Amtrak's FY2008 Strategic Plan.

BACKGROUND

The National Railroad Passenger Corporation ("Amtrak") is expected to soon release its Fiscal Year 2008 Strategic Plan ("Plan"). The Plan is a collaborative product of Amtrak's management and Board of Directors that establishes certain business goals to improve profitability, expand and enhance services, improve its physical assets, and increase employee and passenger safety. The FY 2008 Plan is the most recent edition of a series of strategic initiatives Amtrak has published beginning in 2003. The revisions reflect a movement by Amtrak from a focus on stabilization of a fragile business enterprise with substantial and critical deferred maintenance needs, to a more stable environment that focuses on better utilization of physical and organizational assets to improve financial performance.

Amtrak will publish its FY 2008 Plan at a time of record demand. Amtrak's March 2007 Monthly Report indicates that this demand will continue into FY 2008. Year to date ("YTD") ridership of 2.17 million trips is a 7 percent increase over FY 2006 and 2 percent better than its budget projection. Ticket revenues of $126.6 million are nearly 14 percent above FY 2006 revenues and six percent better than its budget projections. Along the Northeast Corridor (NEC), Acela's ridership is up 20 percent over the same period from last year and total revenue is up almost 25 percent. When Amtrak takes into account all NEC service, ridership has increased 4.6 percent and revenue has increased 13.9 percent compared to last year.

Amtrak's overall YTD customer satisfaction of 77 percent is up from 74 percent from the same time last year, which Amtrak attributes to improved on-time performance ("OTP") on Acela and some long distance trains. At 70 percent, customer satisfaction with OTP is averaging 5 percent higher than at the same point last year.

With FY 2007 half over, Amtrak estimates it will deliver its best ridership and ticket revenues ever. On the strength of Acela's service improvements and advertising investments, Amtrak projects it will reach 25.3 million trips in FY 2007 with ticket revenues of about $1.5 billion, outperforming FY06 by 10 percent and exceeding budget projections almost $37 million.

However, Amtrak is also confronted with significant challenges. OTP outside the NEC continues to decline, presenting serious obstacles. Of the 13 long-distance lines in Amtrak's fleet, the best OTP long distance train is the City of New Orleans at 86 percent. Behind that is the Empire Builder at 73 percent. Over the past four years, long-distance OTP performance has declined 20 percent. The OTP of Amtrak's 16 state corridor trains is worse this year compared to last, continuing a four year trend of decline.* The major reason for this poor OTP performance is that 95 percent of Amtrak's operations is over capacity-constrained lines owned by the freight railroads. The average system velocity on our nation's freight railroads currently ranges from approximately 22 to 26 miles per hour. Federal law generally requires these "host" railroads to grant priority access to Amtrak trains, but capacity constraints and track conditions limit the speeds Amtrak's trains can achieve and Amtrak has had limited success in addressing these problems. Amtrak has also had its own issues of mechanical reliability, especially during the winter months. Amtrak is concerned that if OTP continues to decline, passengers will pursue other travel options.

Reaching a labor agreement is another challenge. Some of Amtrak's labor force has been negotiating a new contract since 1999, when their last contract expired. Labor and management have failed to reach an agreement over pay, healthcare, and work rule changes. Amtrak will face further challenges in attracting and retaining skilled workers unless it can reach an agreement with its workforce.

Amtrak is also beginning a multi-year cycle of replacing its aging fleet of railcars. Nearly 70 percent of its rolling stock has been refurbished since 2003 to a "state of good repair". However, most of these cars are more than 25 years old. Amtrak plans to identify future passenger trends and stock its fleet accordingly.

Amtrak anticipates that its FY 2008 capital program budget will be approximately $760 million, which is $223 million higher than its prior year capital program. Of this amount, $161 million will be for deferred projects and required security upgrades on its property and track and $74 million will be for fleet upkeep.

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* "On time" is based on the following tolerances: arrival within 10 minutes of announced arrival time for a 51-250 mile service is "on time;" 15 minutes for 251-350 mile route; 20 minutes of arrival time for a 351-450 mile route; 25 minutes for a 451-550 mile route; and 30 minutes for anything more than 551 miles.

Amtrak must also devote a significant portion of its annual budget to debt service. While FY 2008's debt service is expected to be less than FY 2007's amount, the service does take away from other initiatives Amtrak could otherwise undertake to improve service. In FY 2007, Amtrak devoted $293.5 million to debt service; Amtrak expects that number to be $285.1 million for FY 2008.

However, Amtrak is confident that the public will continue to embrace it as an attractive transportation alternative, particularly in regions of the country with established and emerging corridors, especially if it has sufficient capital to meet growing ridership demand.

Amtrak predicates its strategic planning on the belief that growing ridership will require states to take a more active role in designing their specific rail solutions while bearing a greater share of the cost. Amtrak believes it can be a facilitator of these efforts and it wants to develop state partnerships to leverage its experience and expertise in rail planning, fleet operation and maintenance, infrastructure capacity improvements, reservations and ticket sales, train operations, on-board services, and marketing. Recently, Amtrak organized the Strategic Partnerships and Business Development office in order to manage state and commuter relationships, Amtrak's real estate portfolio, and host railroad relationships. It is Amtrak's hope to align these functions to assist states in expediting their corridor service growth.

The FY 2008 Plan will set seven financial goals, and identifies nine initiatives to achieve them. The seven business goals are (1) decrease federal support each year until FY2012; (2) increase ticket revenue by 6 percent over FY 2007; (3) grow NEC ticket revenue by 5 percent over FY 2007; (4) reduce core salaries, straight time wages, and overtime by 2 percent; (5) reduce core expenses by $30 million; (6) add a 17th Acela set; and (7) conclude a labor settlement by FY 2008. The nine business initiatives will also help Amtrak address its current challenges while helping it meet future challenges:

Increase ridership 50 percent by 2020 through "Smart Growth". Amtrak plans to achieve annual ridership increases without increasing its net operating loss. It has identified a number of actions to accomplish this goal. It plans to encourage states to increase investment in their corridor services. Amtrak's expects this state investment will save the railroad at least $170 million, allowing Amtrak to add frequencies to existing routes, increase reinvestment in service deployment, and improve allocation of scarce equipment resources. Second, it plans to negotiate on behalf of states with host railroads for improved OTP and corridor expansion operating agreements. Third, it is planning to implement several pilot corridor service models for future services, including exploring possible private sponsorship. Amtrak has identified specific improvements across its network to increase ridership by adding frequencies, adding more cars to existing frequencies, or establishing new routes. However, most corridor routes have long lead times. If Amtrak acts now to expand or increase services along its network, Amtrak warns that it may take up to four years before the outcome of these steps are realized.

Increase total revenue by 4 percent in FY 2008 and 30 percent by FY 2012 through increased ridership and improved revenue management. To meet this goal, Amtrak plans to address OTP, long-distance service, and customer satisfaction. Amtrak regards its NEC OTP as a significant reason for its recent success, but the OTP records established on the NEC are difficult to duplicate elsewhere because Amtrak does not own and maintain the lines outside the NEC. The remainder of Amtrak's network has failed to match the NEC's OTP. For the past four years, a vast majority of Amtrak's state and long distance corridors' OTP has degraded significantly, hampering Amtrak's efforts to increase revenue and ridership. Amtrak's FY 2008 Plan outlines an OTP action plan to achieve 90 percent OTP for its Acela lines, 85 percent for its NEC regional services, 80 percent for state corridor services, and 70 percent for long distance routes. To improve NEC's OTP, Amtrak will better monitor performance at its NEC Service Operations, Northeast and Mid-Atlantic Divisions and implement specific strategies based on route, station, and facility.

To improve OTP outside the NEC, Amtrak plans to implement a number of aggressive actions. First, it will work with the Department of Transportation Inspector General ("DOT IG") and the Amtrak IG to develop grounds for possible future legal action to recover delay-related damages from host railroads with long-term issues. Second, it will identify the state corridors most in need of infrastructure investment and attempt to include these needs in its FY 2009 capital cycle budget. Third, Amtrak will assist state and local governments to combat freight congestion and work with them to make it a part of their legislative agendas. Amtrak expects these actions will increase revenue by $20 million, reduce delays that may result in $20 million in savings, and signal to the freight railroads the seriousness that delays cost Amtrak.

Amtrak plans to improve its Long Distance Service in FY 2008 by increasing its cost recovery by 10 percent, reducing revenue loss by 5 percent, and increasing revenue per mile by 5 percent. To meet these goals, Amtrak plans to make modifications to certain Long Distance routes, such as adding diner/lounge cars for the City of New Orleans and Texas Eagle lines, and exploring service frequency and seasonal variations by route in accordance with market demand forecasts. These changes are expected to add $20 million in revenue.

In FY 2008, Amtrak is targeting a 90 percent customer satisfaction for its Acela service (a 3 percent improvement over FY 2007); 80 percent satisfaction on its regional services (a 5 percent improvement); 80 percent on its state corridor services (a 2 percent improvement); and a 75 percent satisfaction on it long distance routes (a 4 percent improvement). For the first time, Amtrak plans to use its Customer Satisfaction Index as a key metric for measuring this progress. Amtrak will get additional customer input through its Trip Ratings survey. This will allow Amtrak to receive and analyze daily, train-level passenger feedback that will allow managers to identify customer trends and help them make day-to-day decisions regarding service delivery.

Contain cost growth to 2 percent per year through productivity and efficiency improvements. Amtrak's 2005 Strategic Initiatives Plan identified two areas to improve productivity: core operations and technology initiatives. Amtrak will extend these programs in the FY 2008 Plan. By October 1, 2008, Amtrak plans to improve the total of core salaries, straight time wages, and overtime by 2 percent over the May FY 2007 Forecast to realize $12 million in savings. Examples of actions taken to realize this goal include deploying additional QuikTrak machines at ticket counters, food service modifications, and preventative maintenance for its fleet. The second area, technology initiatives, includes implementing a ticketless pilot program on select state corridors to realize $20 million in savings, installing 270 new QuikTrak kiosks systemwide for $1.6 million in labor cost savings, implementing new technologies at call centers to save $2.9 million in FY 2008 labor costs, and new on-board credit card reader systems.

Improve Financial Transparency for Future Fleet Planning. Amtrak plans to implement a process to better understand its rolling stock needs over the next 10-15 years. With this process in place, it is confident that it will make smarter decisions about its future capital expenditures. The FY 2008 Plan sets three goals to understand its long-term capital needs. First, it plans to complete a comprehensive catalog of its future equipment needs by June 30, 2008. Second, by December 2008, it plans to implement a process to facilitate its future fleet procurement. Finally, Amtrak plans to explore a greater reliance on leasing equipment rather than refurbishing existing equipment or acquiring new equipment. Amtrak is undertaking these steps to inform its decisions as it replaces much of its existing rail fleet.

Amtrak also plans to increase collaboration between its planning and finance departments to evaluate its FY 2008 capital projects, continue developing better mechanisms to identify and evaluate its programs, and implement new capital spending control processes. Amtrak predicts that these actions will realize at least $10 million in savings.

Provide a safe environment for passengers and employees. By the end of FY 2008, Amtrak plans to complete a number of actions to increase security, ensure compliance with the Americans with Disabilities Act (ADA), and improve safety. By 2008, it plans to improve security at many of its stations and complete plans to ensure accessibility for all customers. Amtrak also plans to improve safety in its operations. Its safety goal for FY 2008 is to reduce its employee incident ratio to 1.9 per 200,000 man-hours; reduce its passenger injuries on-board trains to 2.0 per 100,000 train-miles; and reduce its passenger injuries in Amtrak stations to 1.5 per passengers transported.

Improve Management of Human Capital. Amtrak expects the FY 2008 Plan to establish specific goals to improve employee satisfaction. By the end of 2007, Amtrak plans to establish baseline scores for its employees and in 2008 begin quarterly reviews to improve performance and satisfaction relative to the baseline score. Amtrak believes improved employee satisfaction will translate to improved customer satisfaction and help improve revenue.

Amtrak also plans to finalize a new labor contract before the end of the year. At the September 2006 Railroad Subcommittee hearing entitled "New Hands on the Amtrak Throttle," Amtrak's President and CEO Alexander Kummant stated that Amtrak's labor is the "foundation of its operation" and that resolving the longstanding dispute between Amtrak management and labor would be one of his top priorities. Yet nine months later, Amtrak still has not finalized contract negotiations with its workforce; Amtrak's workforce has been without a labor contract since 1999. Mr. Kummant believes that it is absolutely necessary for Amtrak to reach a labor agreement with its workforce, because "it is a critical strategic issue for [Amtrak's] operation to retain the critical skills we have in this market." But because of the uncertainty over the ongoing contract negotiations, many workers are being lured away to work for local passenger rail carriers. Amtrak's ability to implement its reform initiatives and improve customer satisfaction will be greatly enhanced once it successfully negotiates a new labor contract. Committee investigations performed during the last Congress revealed that Amtrak has had difficulty hiring and retaining electricians, diesel mechanicals and other skilled crafts, especially in urban areas. In the Northeast Corridor region, power companies, transit agencies and construction companies often pay employees significantly more than Amtrak.

Improve Environmental Stewardship. Amtrak reduced its greenhouse gas emissions by four percent between 2003 and 2006. Amtrak plans to reduce these emissions a further two percent between 2007 and 2010. Additionally, Amtrak plans to begin making "carbon neutral" travel available for passengers, allowing them to purchase offsets. Amtrak believes these efforts will further enhance its business.

Develop a tightly integrated partnership with state Departments of Transportation to drive future intercity passenger rail strategy. Amtrak attributes much of its recent ridership gains to decisions by state officials to support pro-rail options. For example, much of Amtrak's growth in the past 5-7 years has been in California, Illinois, and Pennsylvania, where states have made substantial rail investments. To encourage this growth, Amtrak is adjusting its organizational structure to focus more resources so that it can be responsive to state requests, and to best adapt its service offerings to meet their transportation needs.

Initiate a new equipment procurement program to both replace the existing fleet and create capacity for expanded service, with modern, efficient, customer friendly equipment. Most of Amtrak's fleet is over 25 years old. While Amtrak actively overhauls and remanufactures its equipment, at some point it becomes economically more advantageous to purchase replacement equipment. In addition, the past few years have seen new demand on Amtrak's resources. If this growth continues, Amtrak will not have sufficient equipment to meet demand in the 2010-2012 timeframe. Given the multi-year lead times required for equipment design and fabrication, Amtrak needs to begin the procurement process now.

Amtrak expects to take two basic actions to address this in 2008:

- DMU procurement: Diesel-Multiple Units (DMU) are combined power and passenger units. Used in many services in Europe and in some parts of the US, DMU's offer some unique advantages, particularly in reducing operating costs for low-volume passenger routes.

- Instead of having to construct and deploy a complete train (engine, cab control car, and coach(es)) for a particular departure, the DMU integrates all of these functions into one unit. The State of Vermont has been evaluating the purchase of several units, and Amtrak is advocating the procurement of five (with options on more units) to deploy in 2-3 years to some of Amtrak's lighter density routes.

- Cars: The basic actions in FY 2008 revolve around developing a clear set of specifications for the next generation of equipment, beginning the process of preliminary design, and developing and communicating a clear fleet plan illustrating Amtrak's fleet needs and equipment procurement intentions over the next 10 years.

Amtrak contends that the quality of equipment it can deploy into passenger service has a significant impact on market demand. Where it has deployed new equipment (Acela, Cascades), customer demand and customer satisfaction have increased. Where Amtrak is using older equipment, it is seeing higher levels of customer dissatisfaction.

<u>EXPECTED WITNESS</u>

Mr. David Laney
Chair
Amtrak Board of Directors

Mr. Alexander Kummant
President and CEO
Amtrak