TESTIMONY

OF

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BEFORE THE
SUBCOMMITTEE ON RAILROADS, PIPELINES, AND HAZARDOUS MATERIALS HEARING ON "AMTRAK'S FISCAL YEAR 2014 BUDGET: THE STARTING POINT FOR REAUTHORIZATION"

THURSDAY, APRIL 11, 2013
10:00 A.M.
2167 RAYBURN HOUSE OFFICE BUILDING

Good morning, Mr. Chairman, and thank you for the opportunity to testify today. While our annual grant requests are not typically a topic that we have been asked to discuss before this Committee, the context for this discussion – and by that I mean the reauthorization – is exactly right. Our discussions with the Committee in the wake of Super Storm Sandy have highlighted some of the unique challenges that Amtrak faces, and I think it's useful to discuss the financial and capital management of our organization. I want to do this both because I think we are working to manage these challenges effectively, and because there are larger issues looming behind the immediate and obvious ones that will need to be addressed in this reauthorization.

One of the issues we have heard a lot about this year is cash management. Because we're a business, rather than an agency, our budgets are much more fluid. We generate revenues, and our need for operating funding fluctuates depending on our revenue performance. Over the last couple of years, that performance has been very good, but it hasn't changed Amtrak's basic situation: we are a capital-intensive business that does not generate sufficient revenues to cover our operating costs, let alone fund capital investment. We're in a heavily seasonal business, one that is frequently affected by weather and other events, and so our real fiscal challenge is not so much budgeting as it is cash management.

While up until now I have dealt with this entirely in the abstract, I would note that in concrete terms, we are talking about relatively small sums, and short periods. You will see that here on the first slide. Over the last three fiscal years (FY 10-12 and FY13 through March 31), we have used capital grant money to fund operating expenditures on four occasions, none of longer than nine days' duration, none of more than 2% of the total value of our annual operating expenses; all our capital funds were eventually used for activities in our approved capital plan. We don't have access to short term credit, so we do occasionally use our capital money in this way – but as you can see, the alternative would entail expenses that we otherwise avoid. We've actually been recognized by Treasury and Risk magazine with their Alexander Hamilton Award for the efficiency of our cash management (including the pooling of funds), since it minimizes the need for duplicative work, provides us with much-needed flexibility and saves unnecessary expense.

The next slide will explain why this is necessary. The seasonality of our revenues is exacerbated by the periodic nature of our operating support payments and the challenges that come with an unpredictable budget cycle. I would add that those challenges aren't just associated with the Federal budget cycle, although that's challenging enough – each of the fifteen states that partners with us to offer service has its own budget cycle, and those cycles can affect when states pay the bills they incur from the operation of state-supported services. There's an aspect of due caution involved in budgeting for a company that has as little liquidity as Amtrak enjoys. We typically have about $200 million in cash reserves, and there are points where those reserves drop below the $100 million level, which is a major concern – you can infer from this chart, for example, what might have happened had a Super Storm Sandy-scale event (which cost us about $50 million) come at a point in 2012 when our cash reserves were low. We've had to deal with the challenges that come from a continuing resolution every year since 1998. I would note parenthetically that the Section 209 process, which is expected to generate increased revenues in the coming year, is still far from complete – we only have one agreement in place, and we have a long way to go yet.

This next slide will give you an idea of some of the challenges we face in building an operating budget for the coming fiscal year. When we build a budget like this, we have to plan for both the ordinary and the extraordinary. Obviously, you can't plan for a Sandy-scale event every year, but even in normal years there are extraordinary events – which are an ordinary occurrence in the railroad industry. There are also more mundane factors that we have to take into account – things like fuel costs, which have fluctuated unpredictably over the last few years, as you know.

These are all basic facts of life in the transportation business. Some, like Sandy, are so significant that we have to request financial assistance, but the vast majority of these incidents are simply something we have to live with, making the appropriate changes to our spending to accommodate them. We typically budget with the expectation that there will be a certain level of disruption, in part because we would rather ask for the money up front than come back to Congress in the midst of a major event with a sudden request for more funding. As you can see from this chart, we are running a degree of calculated risk in FY 2014. Our budget includes a projected total of $85 million from the states generated by the Section 209 process that I mentioned earlier. We have made progress in our conversations with the states, but the process of concluding and funding the new contracts is still for the most part ahead of us, and if it doesn't work out, there could be some hard choices.

While we do need the flexibility to use capital money to cover operating expense on a temporary basis, there's another side to this coin. When the financial situation is favorable, Amtrak does use operating money to meet capital and other expenses. Amtrak has in recent years sometimes found that its ongoing pattern of ridership growth has generated revenues that exceed our budgeted amount, leaving us with operating funds that are not needed to keep the day-to-day operations going. When we find such a situation, we try to use it strategically – to fund capital investments that will help us operate the system more efficiently. One of the basic realities of our system is the enormity of our capital need. We are routinely running sixty year old cars, and we will need to spend $52 billion in the coming decades just to get the existing infrastructure in the Northeast into a state of good repair, and to meet the growth challenge. We've also used operating funds to ensure that we avoid some of the challenges such as retiree funding – Amtrak's retirement fund, for example, is currently fully funded.

The next slide will explain another one of the investments we have made. This slide shows Amtrak's overall debt level. As you can see, it grew steeply between 1999 and 2002. During this period, the company was starved for cash, and to keep operations funded, it resorted to debt financing. New York Penn Station was mortgaged; thirty year old cars were sold and leased back to the company, all to generate the money Amtrak needed to keep things moving. We made a very definite decision to address that situation, and over the last few years, paying down debt has been a major priority. It has helped us reduce the debt service payments, and it has improved our credit rating so we can finance new equipment for growth – which will in turn help us generate more revenues, which should allow us to gradually extend and continue the improvements we have made over the last few years.

There are a lot of checks and balances in place to ensure there are no abuses, and if you'll look at the next slide, you'll see some of the agencies, firms, and bodies that oversee Amtrak's financial transactions. We report our cash balances to the FRA on a daily basis, and we also submit monthly reports to them so they're very aware of both our immediate balance and the longer-term outlook. We are also audited on an annual basis, just as any publicly-traded company would be, by an outside auditing firm which does a thorough analysis of our financial records. The annual audits show a pattern of improvement – we've had no material deficiencies and no material weaknesses since 2009. We have an independent Inspector General's Office that has wide powers to review and examine every aspect of our operations, and it is available, if needed, to address the Committee's questions. The Department of Transportation's IG is similarly empowered, and we are also periodically examined by the General Accountability Office, which has the authority to review our operations and processes. And as you know, four Congressional committees oversee our operations. It would be hard to think of an entity, public or private, that is as thoroughly subject to scrutiny or oversight as Amtrak.

We continue to have significant capital needs that are being addressed piecemeal, as we can afford to address them, or when we have no other choice. When Amtrak's growing revenues and operating grant exceed our operating needs, we make additional capital investments. This is consistent with Congress' traditional authorizations and addresses the greatest long term need of the intercity passenger system. We currently have a backlog of more than $5.8 billion in state of good repair work on the Northeast

Corridor. The NEC is so heavily used that at rush hour, trains enter and leave the century-old New York tunnels at 150 second intervals. Our ridership and revenues are still growing, but much of that growth is the product of investments made more than a decade ago, and if we do not continue to invest, we will lose the advantages we currently offer travelers, and we will cease to be a valuable and relevant transportation alternative in a region that's already the most congested in America.

In closing, I would ask the committee to consider this question of whether the nation is willing to invest in its infrastructure carefully, because the needs are significant, but the benefits are tremendous – you only need to look at how we've grown over the last ten years to see that. I would also ask you to think carefully about the question Amtrak has perennially faced: what does the government want us to be?

Right now, I can tell you what we are: we are a safety-based organization that's working hard to improve our customer focus so that we can improve our bottom line. Over the last decade, we've grown our ridership, cut our debt and reliance on Federal operating support, and we've brought new service to states and regions that have fewer and fewer choices. We're doing the right thing, and I'm proud of the job we've done. But it cannot go on indefinitely: we face very real capital challenges that will have to be addressed in the near future. Together, we can address those challenges, and the success we're seeing today is a clear statement of the way benefits flow from capital investment.

The reverse can also be true: if we do not invest, we would expect to see not lower operating costs, but higher ones, as a failure to fund leads to a downward spiral. This has happened before, and Amtrak has always recovered, as the belated recognition of the need has eventually led to a funding decision that reversed the trend. But our fleet and the Northeast Corridor are today much older, and in many senses more fragile, than they have ever been, and both the need and the opportunity are correspondingly greater. One way or another, we will make a decision about what kind of a railroad we want, and what kind of a business we are going to run – but my hope is that we do not make this decision by default, because if we do, and nothing changes, the outcome will not be a happy one – not for Amtrak, the region, or the country.

Amtrak: America's Railroad

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Use of capital to cover operating needs, FY10-12

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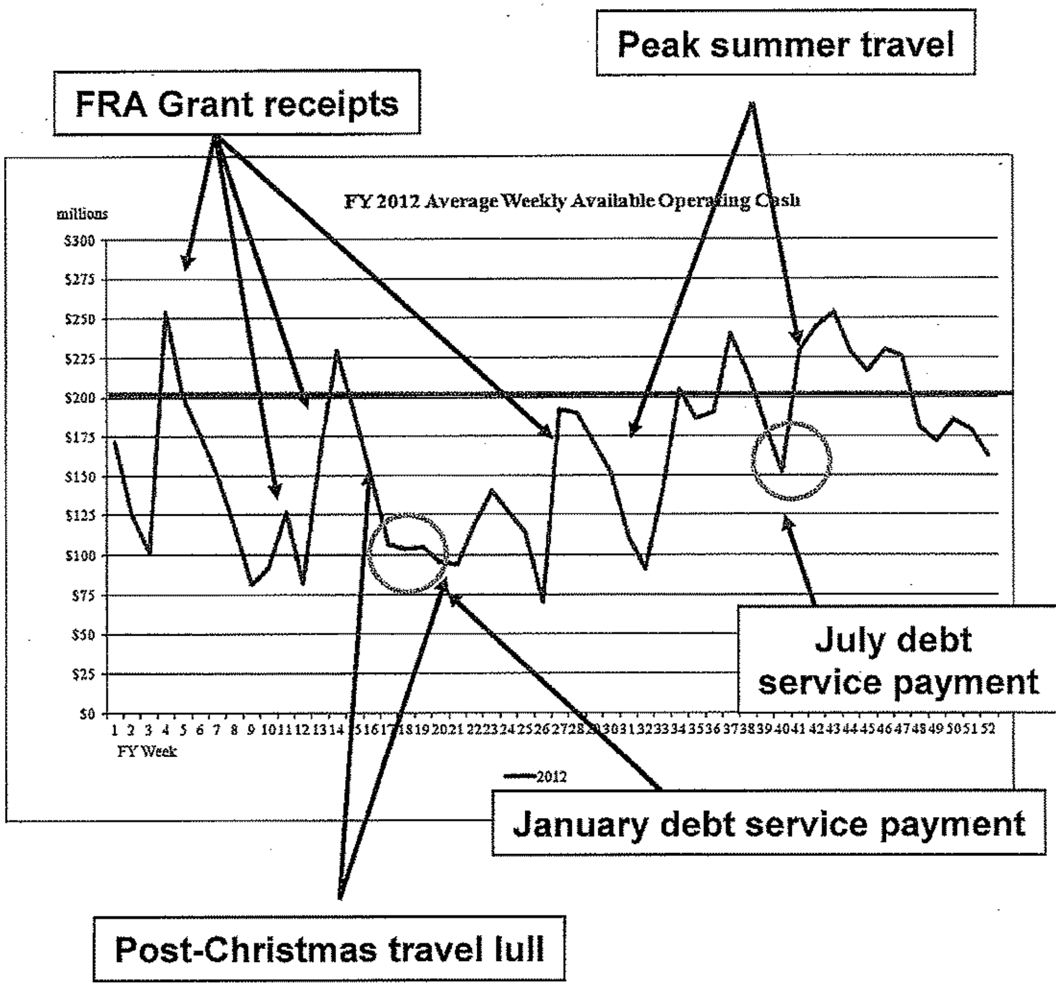
Periods when Amtrak used capital monies to fund operating needs, FY 2010-2012			
Dates	Maximum Transferred (in $M)	Percentage of Operating Expense	Days Outstanding
29-30 March, 2011	$12	.4%	2
29 December, 2011	$9	.3%	1
27-29 March, 2012	$35	1%	3
17-31 January, 2013	$62	2%	9

It would cost Amtrak half a million dollars a year to maintain a line of commercial credit

The cash management challenge



An average cash balance of $200 million is a very low level of liquidity for a $4 billion company

FY 2014 operating request

AMTRAK®

FY 2014 projected operating need

Category	Millions of dollars
Passenger Revenue	2,253.0
State-supported train revenue	286.6
Other (Commuter, reimbursable work, commercial development, freight access, etc.)	528.9
Total Revenues	3,068.5
Salaries, wages and benefits	2,067.1
Other expenses	1,374.5
Total Expenses	3,441.6
Operating need	373.1

Assumes $85 million in 209 funding

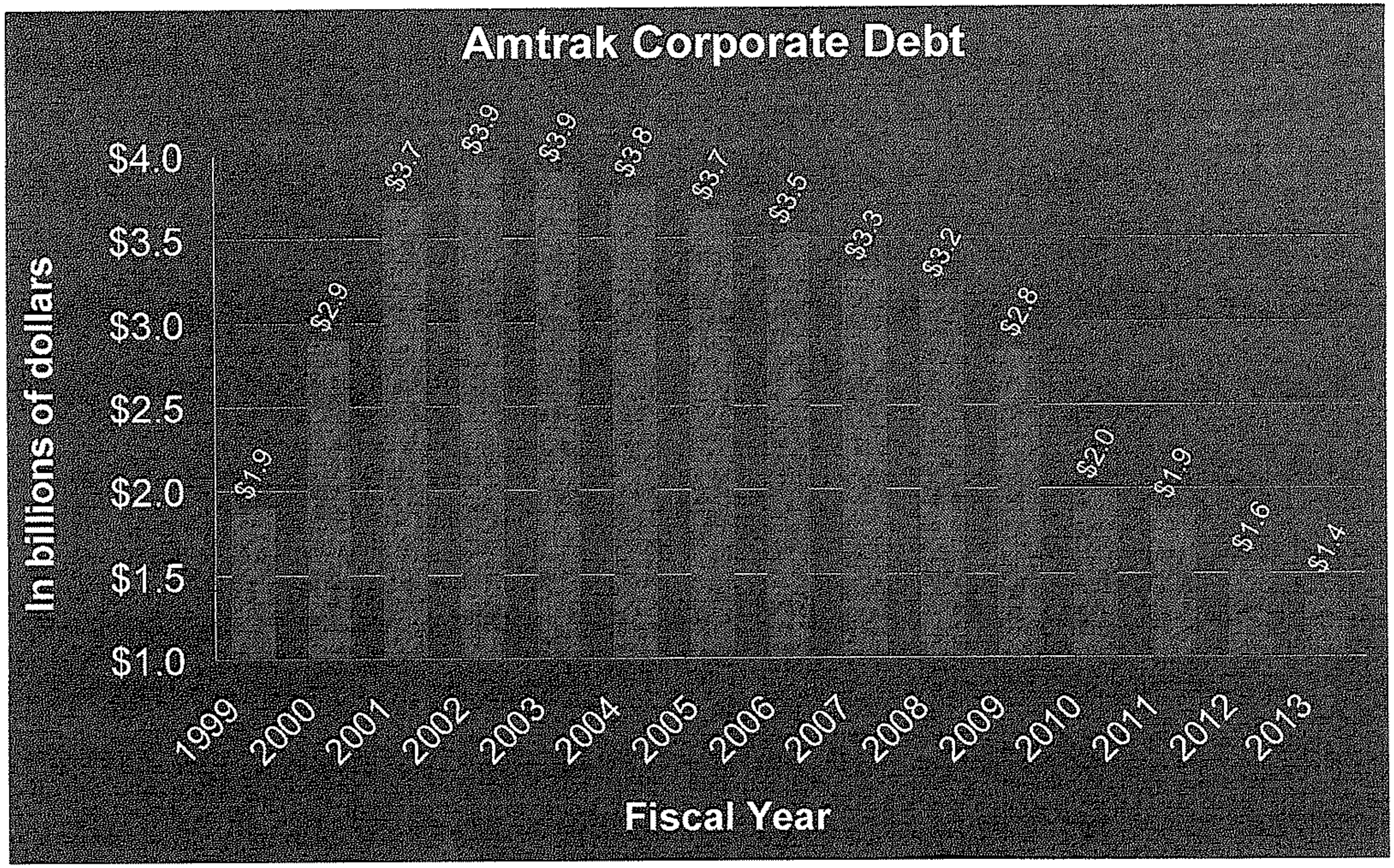
Benefits, wages, and salary costs grow about 4.5%, but this increases costs by $89.4M

Total costs rise about $102.1M – about 3% cost growth

Overall cost growth is just above national inflation rate (3% vs. 2%)

Debt is down

AMTRAK®



Total indebtedness is less than half of the 2002 level

Oversight agencies, firms and bodies

AMTRAK®

- Federal Railroad Administration
  - Daily cash balance report
  - Monthly cash reconciliation report
  - Monthly cash planning reports
- Auditing firms
  - Ernst & Young (2012)
  - BDO (2011)
  - KPMG (2009, 2010)
- Amtrak Inspector General
- DOT Inspector General
- General Accountability Office
- Congressional oversight
  - House T&I
  - House Appropriations
  - Senate Commerce
  - Senate Appropriations