Dear Governor Dukakis:

The Amtrak Reform and Accountability Act of 1997 (the “ARAA”) charges the Amtrak Reform Council (the “Council”) with making recommendations to Amtrak for improvements that will assist the Corporation to achieve operational self-sufficiency by December 2, 2002. The Council first transmitted formal recommendations to the Amtrak Board in a letter dated November 5, 1999. Following up on that letter, the Council’s Executive Committee met with Amtrak’s Board of Directors in March 2000 and again in late 2000 to hold discussions with the objective of furthering improvements in Amtrak’s profitability. The Council believes this letter, which both provides additional recommendations and re-emphasizes previously made recommendations, is particularly timely given the recent spate of public information citing Amtrak’s major financial difficulties.

NEW RECOMMENDATIONS

In its second annual report to Congress, dated March 20, 2001, the Council proposed a set of recommendations that, if adopted, would organize Amtrak under a new business model. The proposed business model would organize Amtrak’s business operations into two separate entities. The first would operate Amtrak’s national system of intercity rail passenger train services, including those in the Northeast Corridor. The second would be responsible for the management and financing of Amtrak’s Northeast Corridor and other rail infrastructure. (The governmental functions that Amtrak performs, which were also identified in the Council’s Second Annual Report, would be consolidated in a properly empowered government program agency, such as the Federal Railroad Administration.)

While we understand that the Board of Directors may have questions about these recommendations, we nonetheless believe that it is in Amtrak’s interest for the Board to give thorough and thoughtful consideration to moving in the direction of implementing practical, near-term changes that reflect the principles on which the Council’s proposed structure is based. Please consider the following recommendations.
1. With respect to the Council’s recommendation that Amtrak’s core rail transportation and infrastructure businesses be separated from one another, the Council recommends that the Amtrak Board direct Amtrak’s management to effect, at the earliest date practicable, a change in management organization that will implement the separation of infrastructure responsibility from train operating responsibility.\(^1\) This is not intended to mean, of course, that there should not be close and continuous coordination between the two functions, including coordination with the train operating companies throughout the NEC that provide commuter and freight services. It would mean, however, that the Amtrak Board would, at a minimum, allocate resources, and assign responsibility for effective use of those resources, separately for train operations and infrastructure. In light of the chronic under-maintenance and under-investment in the NEC during a period of TRA funds availability and the introduction of Acela Express, which requires higher, not lower, expenditures, this is particularly important.

2. In furtherance of the prior recommendation, and to achieve other related objectives as well, the Council recommends that the Amtrak Board should also consider re-framing Amtrak’s funding requests to the Congress to reflect its infrastructure needs separately from the needs of its passenger train operations. This measure would make absolutely clear to the Congress the true funding needs of both our national system of intercity rail passenger services and the distinct separate funding requirements for maintenance and improvement of Amtrak’s infrastructure. This would also provide a sound basis for the Board to implement the principle, also recommended by the Council, that Amtrak not accept any unfunded mandates. This measure, which is completely within the Board’s authority under current law, would go a long way toward resolving the dilemma that George Warrington cited in his speech before the National Press Club on May 24, 2001. In that speech, George identified the incompatibility of both making a profit and providing a public service function.

Adoption of these recommended changes will assist Amtrak in achieving its statutory requirement to become operationally self-sufficient in several important ways. It will create the organizational and managerial basis for transparency in accounting for revenues, costs, and profitability of services provided by line of business and by route, with the enormous burden of Corridor ownership removed from the financial statements of the train operating company. This change will also impose on the Amtrak Board a requirement to address directly the issue of raising and allocating appropriated capital funds between its train operations and its infrastructure management responsibilities. As for the issue of operating losses, if the train operations cannot obtain sufficient grants to achieve at least break-even performance on all transportation services provided, then it

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\(^1\) The recommended separation is NOT comparable to the British Rail privatization and separation of rail infrastructure. The June 7, 2001 presentation by Louis S. Thompson (Railways Advisor to The World Bank) at the Rutgers University Roundtable Discussion addressed British Rail Privatization and concluded that “ARC proposals [are] totally unlike U.K.” Thompson’s Rutgers presentation also identified several countries with alternative ownership options and operational structures which separate train operations from ownership of infrastructure. Copies of selected slides from Mr. Thompson’s presentation are attached as Exhibit 1.
The ARC is an independent federal commission established under the Amtrak Reform and Accountability Act of 1997 (P. L. 105-134) will have a clear basis for eliminating enough unprofitable services to live within the funding provided.

3. The Council understands that it is not within the power of the Amtrak Board to act on the Council’s recommendation that the Congress should provide “a stable and adequate source of federal funding for the capital needs of the Northeast Corridor and other passenger related infrastructure.” Were the Board to separate management and funding for train operations from infrastructure, however, it would help to make the case for separate and adequate sources of funding for these two vital and distinct requirements.

4. The Council’s report also recommended additional vital near-term actions that would assist Amtrak in improving its operational and financial performance. The Council offers to the Amtrak Board, for its consideration, the following specific recommendations:

   (1) substantially reducing corporate overhead;
   (2) acquiring a modern reservations and ticketing system that keeps track of total seat inventories (reserved, occupied, and vacancy) on a real-time basis;
   (3) undertaking a broad range of marketing initiatives designed to increase load factors and passenger revenues; and
   (4) acquiring modern accounting and management information systems.

5. Finally, in addition to the issues identified in the Council’s Second Annual Report, we have one further new recommendation to offer. The Council recommends that Amtrak assess the need to improve its “Amtrak.com” web site to make it easier to use for potential travelers and, even more importantly, for people wanting to purchase tickets on-line for future Amtrak travel. The Council has received numerous complaints about the difficulty travelers have in using the Amtrak web site. Several potential Amtrak travelers have expressed confusion and frustration at trying to find Acela Express trains and to book tickets on all trains, given the website's design. The Council staff has experienced its own difficulties in using the Amtrak system, particularly in contrast to the web sites of most major airlines, which apparently now use the Expedia or Travelocity engines. Beyond this anecdotal evidence, two recent reviews in the June 15, 2001 publication “Internet World” (copy attached as Exhibit 2) identified many deficiencies in the Amtrak web site that should immediately be addressed.

We believe that these recommendations, together with the effective implementation of our prior recommendations (see Exhibit 3 and attached copy of the Council’s November 5, 1999 letter of recommendation) can truly assist Amtrak in making more rapid progress toward operational self-sufficiency.

The Council is likewise concerned about Amtrak’s ability to manage its operations and its finances and its apparent belief that it is “on its glide-path” as long as it achieves its Budget Result and does not run out of cash. To date, Amtrak has only been able to achieve the Budget Results in its Strategic Business Plans and not run out of cash in one of two ways: either by not doing the work in its Plan (e.g., by deferring planned maintenance and delaying planned capital expenditures), or by making up cash...
operating shortfalls by financing and selling and leasing back assets. It seems unlikely that this is what the Congress had in mind when it enacted the mandate for Amtrak to achieve operational self-sufficiency. The Council’s concerns about Amtrak’s recent performance trends, and Amtrak’s failure to achieve the goals of its own strategic business plan, are summarized in Exhibit 4.

A NEED FOR CONTINUING CONSULTATION

We would welcome communications from the board as to what plans Amtrak has ready for implementation, or at an advanced stage of development, to correct these increasing profit deviations from Amtrak’s Plans.

I have directed the Council staff to contact George’s office in order to arrange a meeting at an early date.

Sincerely yours,

Gilbert C. Carmichael
Chairman

Enclosures:

Exhibit 1: Selected slides from Louis S. Thompson’s June 7, 2001 Presentation At Rutgers University Roundtable Discussion
Exhibit 2: Article about Amtrak’s Website from "Internet World"
Exhibit 3: Prior Recommendations For Improvement (including a copy of the Council’s November 5, 1999 Letter of Recommendations)
Exhibit 4: Concerns About Recent Performance Trends (including a summary of Amtrak’s FY 2001 Six Month Financial Statements)

cc: Members, Amtrak Board of Directors
    Ms. Sylvia de Leon
    Hon. Linwood Holton
    Hon. Norman Y. Mineta
    Ms. Amy Rosen
    Hon. John Robert Smith
    Mr. George D. Warrington

Leadership and Committee Members of the United States Congress
Exhibit 1
Selected Slides From Louis S. Thompson’s June 7, 2001 Presentation At Rutgers University Roundtable Discussion

What About British Rail Privatization?

- ARC proposals totally unlike U.K.
  - No privatization
  - Users control the Board
  - No (added) fragmentation
  - Access charges much simpler, especially if ownership costs covered separately

Ownership and Structure

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Exhibit 2

ARTICLE ABOUT AMTRAK'S WEBSITE FROM "INTERNET WORLD"

DECONSTRUCTING Amtrak.com

WITH ITS JUMBLE DESIGN, "TOO MANY CLICKS" USABILITY, AND A SLIP-SHOD RESERVATIONS SYSTEM, AMTRAK.COM IS RIDING OFF THE RAILS

LOUIS ROSENFIELD
DIRECTOR, ARGUS CENTER FOR INFORMATION ARCHITECTURE
MORE INFORMATION ABOUT ARGUS CAN BE FOUND AT HTTP://ARGUS.ORACIA.COM

I'VE TRACKED AMTRAK.COM OVER THE PAST FEW YEARS, WONDERING WHETHER THEY'D EVER FORGO THEIR HOMEGROWN RESERVATION SYSTEM FOR A MORE SOPHISTICATED MODEL. MOST MAJOR AIRLINES NOW USE EXPELIA'S ENGINE: I IMAGINE THERE ARE ALTERNATIVES—PARTNERING WITH A TRAVEL PLAYER LIKE TRAVELocity, FOR EXAMPLE. BUT FOR REASONS UNKNOWN TO ME, AMTRAK HAS KEPT ITS RESERVATION SYSTEM'S DEVELOPMENT IN-HOUSE.

LET'S HOPE AMTRAK ISN'T ALSO DEVELOPING HOMEGROWN SCHEDULING SOFTWARE, BECAUSE IF IT'S ANYTHING LIKE THIS RESERVATION SYSTEM, THE TRAINS WILL NEVER RUN ON TIME.

> STRIKE ONE. I TRIED WHAT SEEMED TO BE A REASONABLY SIMPLE TASK: RESEARCHING THE SCHEDULE FOR A ONE-WAY TICKET FROM BOSTON TO CHICAGO. I ENTERED "BOSTON" IN THE "DEPARTURE STATION" FIELD, AND "CHICAGO" IN THE "ARRIVAL STATION" FIELD. MANY, MANY MINUTES ON MY AIX CONNECTION LATER, AN ERROR MESSAGE APPEARED: "SELECT A VALID STATION FROM THE STATION LIST(s) BELOW. THANK YOU." IT WASN'T CLEARLY DENOTED WHERE THE PROBLEM WAS, BUT SINCE BOSTON'S STATION CODE WAS AUTOFOILED AND CHICAGO'S WASN'T, I GUESSED THAT I NEEDED TO PICK THE CORRECT CHICAGO STATION.

> STRIKE TWO. MANY SYSTEMS WOULD PROVIDE A LIST OF THE DIFFERENT CHICAGO STATIONS, BUT IN THIS CASE, I HAD TO PULL IT UP IN A NEW BROWSER WINDOW TO FIND—ONLY ONE OPTION FOR CHICAGO (UNLIKE BOSTON, WHICH HAD THREE STATIONS TO CHOOSE FROM). THIS MADE NO SENSE AT ALL, AND WAS A REAL PITY: ONCE I FILLED IN THE PROPER STATION CODE FOR CHICAGO, THE RESULTS LOADED QUITE QUICKLY. THIS ODD LOOKUP BEHAVIOR SEEMS TO BE THE CULPRIT FOR A TARDY EXPERIENCE.

> AND YOU'RE OUT. EACH RESULT OFFERED INFORMATION ABOUT THE TICKET CLASS AND OTHER FEATURES THAT MAY OR MAY NOT BE USEFUL; SOME, SUCH AS "LOWER LEVEL SEATING," ARE MEANINGLESS TO GREENHORSES LIKE ME. UNFORTUNATELY, NO EXPLANATION IS PROVIDED. WORSE, THERE IS NO INFORMATION PROVIDED REGARDING FARES; YOU WILL NEED TO CLICK THROUGH TO GET THAT. I'D LIKE AMTRAK TO SURVIVE, BUT THIS SITE DOESN'T MAKE IT ESPECIALLY EASY TO GIVE THEM MY MONEY.

MARK HURST
FOUNDER AND PRESIDENT
CREATIVE GOOD
CREATIVE GOOD IS A CONSULTANCY THAT IMPROVES THE CUSTOMER EXPERIENCE FOR E-BUSINESSES.

AMTRAK.COM HAS THE REST OF INTERESTS, BUT IT FALLS FAR SHORTH OF A GOOD CUSTOMER EXPERIENCE. THE PROBLEMS START ON THE HOME PAGE.

> WRONG PRIORITIES. THE CENTER OF THE HOME PAGE IS DOMINATED BY A PROMOTIONAL GRAPHIC—THE BIGGEST ELEMENT ON THE PAGE—WHICH ACTUALLY LEADS VISITORS OFF THE MAIN SITE AND INTO A "GUEST REWARDS" WEB SITE. WHY LURE VISITORS OFF THE SITE BEFORE THEY EVEN GET STARTED?

THE HOME PAGE SHOULD FOCUS ON GETTING USERS INTO THE MAIN SECTIONS OF THE SITE. PROMOTIONS SHOULD BE LESS PROMINENT AND APPEAR AS TEXT LINKS, NOT AS A LARGE GRAPHIC.

> BAD GROUPINGS. THE LINKS IN THE HOME PAGE'S MAIN SECTION ARE ALL JUMBLE UP. "SPECIAL OFFERS" IS NEXT TO "ROUTES & SERVICES" INSTEAD OF "RAIL SALE." AND "ROUTES & SERVICES" SHOULD BE NEXT TO "STATION LOCATOR," BUT NOT." THERE'S NO EASY WAY TO QUICKLY SCAN THESE LINKS.

> BOOKING PATH. THE ALL-IMPORTANT TICKET-BOOKING PATH BEGINS POORLY. ON THE "SCHEDULES & FARES" PAGE, USERS HAVE TO SCROLL DOWN TO SEE A BUTTON TO EVEN GET INTO THE BOOKING PATH. THE "REGISTERED USERS" AND "NEW USERS" BUTTONS ARE REALLY UNNECESSARY HERE. IF CUSTOMERS LEAVE THE SITE AT THIS POINT IN THEIR EXPERIENCE, THEY CERTAINLY WON'T BUY—AND THEY MIGHT NOT EVER RETURN.

> WORDING. THROUGHOUT THE SITE, AMTRAK USES STRANGELY CONVOLUTED WORDING. CONSIDER THIS GEM: "IF YOUR TRAVEL PLANS ARE MORE COMPLEX THAN JUST A SIMPLE RETURN TRIP, YOU CAN USE OUR COMPLEX SCREEN." SURE, SIGN ME UP FOR THE COMPLEX SCREEN!

> NO FUN AND GAMES. FINALLY, I TRIED OUT THE "FUN AND GAMES" SECTION. THE FIRST LINK TOOK ME TO THE AMTRAK STORE (NEITHER FUN NOR GAMES); ANOTHER LINK TOOK ME TO A 404 NOT FOUND ERROR. OOPS. BUT THE "TRAKMATCH" LINK TOOK ME, I'M HAPPY TO SAY, TO A SHOCKWAVE GAME THAT WAS INDEED FUN. AT LAST, A GOOD EXPERIENCE.

68 INTERNET WORLD // JUNE 15, 2001
The Council believes that it is appropriate to re-emphasize the importance of our November 5, 1999 recommendations, as they are vital to achieving the improvements that Amtrak still needs to make. In particular, after eventually agreeing to implement all of the November 1999 recommendations, Amtrak has actually implemented only one of them – creating a separate strategic business unit for mail and express. The other four, each of which offers potential for substantial improvements, still await effective implementation. We call your attention again to these recommendations and the status of each.

1. The Council recommended that Amtrak develop plans of corrective action that could be implemented if fundamental assumptions and goals in its Strategic Business Plan are not realized. If such plans have been developed, they do not appear to have been implemented effectively. Nothing has been identified, or apparently adopted, for example, to take the place of the lost anticipated profit contribution from reduced Acela Express revenues due to the delayed delivery of the new trainsets and the later than anticipated placement of Acela Express equipment in revenue service.

2. The Council recommended that Amtrak establish and implement annual cost savings goals, including an across-the-board cut in overhead costs. This recommendation has not been acted upon. In fact, just the opposite has occurred: the updated FY2001 Strategic Business Plan included a $45 million increase in planned salaries and benefits for non-agreement employees over the original plan for the same year, while the updated FY2001 Plan only anticipated $17 million in additional revenues. This element of the FY2001 Plan should have been strongly questioned by the Board before it was adopted. If Amtrak’s Plans do not require increasing revenues faster than overhead costs, how can the Corporation expect to become financial self-sustaining?

3. The Council recommended that Amtrak’s Strategic Business Plan should be based upon minimum business plan objectives (MBPOs) that provide objective measures of productivity and service quality for principal elements of Amtrak’s operational, mechanical, engineering, financial, and customer service activities. Although Amtrak’s Strategic Business Plan contains a number of measures of performance (revenues, expenses, train miles, seat miles, passenger revenues, Budget Result, and amounts of federal funding), there is no translation of the Strategic Business Plan into discrete management actions and specific budget objectives which, if all managers achieved their Strategic Business Plan Objectives, would result in Amtrak achieving its overall Strategic Business Plan critical performance measures. The apparent recent focus of Amtrak management is on achieving the Budget Result and remaining in operation with the amount of federal funds in the Budget. An example of one such issue of particular importance would be the need to establish specific objectives for reversing in FY

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2 Such measures could include, for example, ratios of revenues to costs, revenues per hour of labor or equivalent full time employee, load factor, the qualitative condition and mechanical reliability of equipment, the productivity of Beech Grove, Bear and Wilmington Shops (measured in cost per car type or locomotive type serviced relative to estimates of such costs and per car type or locomotive type contained in the Plan), a transparent qualitative measure of customer satisfaction in addition to on-time performance statistics, and other measures Amtrak has identified as important to the majority of its customers (such as courteous on-board service staff, smooth rides, clean restrooms, fresh and interesting food and beverage menus, on-time performance, etc.).
2001 the decline in ridership experienced by approximately 80 percent of Amtrak’s Intercity Strategic Business Unit trains for the first eight months of FY2001. If the right system had been in place, the Plan’s MBPO objectives would have identified the troublesome trends in a timely fashion and at a level of line management responsibility appropriate to take corrective actions. The causes of ridership decline could have been identified, and the deficiencies that caused travelers to reduce or eliminate their travel on Amtrak’s long-haul trains could have been corrected.

4. Finally, the Council identified the need to develop and maintain financial statements for the NEC infrastructure separate from the Northeast Corridor Strategic Business Unit financial statements of train operations. In August of 2000, Amtrak’s letter providing comments on the Council staff’s paper on the NEC infrastructure indicated that Amtrak was moving forward to produce such financial statements, expecting to have them available by the end of calendar year 2000. Despite repeated requests, NEC infrastructure financial statements have not been provided to the Council. This should mean that such statements are also not available to Amtrak’s management for understanding either the financial performance of the NEC infrastructure or the impact that having Amtrak’s corridor trains pay only incremental costs for infrastructure would have on the financial performance of Amtrak’s nationwide system of train operations.

The Council would like to commend Amtrak for its implementation of the Council’s November 1999 recommendation that the operations of Amtrak’s mail and express services be reflected in financial statements separate from Amtrak’s other business operations. The new M&E plan reflects a much more realistic approach to integrating that service with Amtrak’s core business of passenger rail operations. The new plan pursues the most profitable M&E business segments without seeking additional traffic primarily for the purpose of increasing revenues. Taking this approach, the new M&E plan projects about 75 percent of the previously planned profit contribution, but it requires only about 20 percent of the previously planned capital investment (a reduction in planned capital investment requirements of approximately $200 million).
November 12, 1999

The Honorable Tommy G. Thompson
Chairman, National Railroad Passenger Corporation
60 Massachusetts Avenue, N.E.
Washington, DC 20002

Re: Recommendations For Improvement

Dear Governor Thompson:

The Amtrak Reform Council (Council) has a statutory charge to evaluate Amtrak’s operations and to make recommendations for improvement to the corporation, to assist Amtrak in its efforts to meet the goals of the Amtrak Reform and Accountability Act. With the delay in the introduction of Acela Express, Amtrak’s need for improvement in near- to mid-term net revenues has been accelerated.

In keeping with this mandate, the Council has considered and approved a number of recommendations. I am pleased to forward to you the following recommendations for Amtrak’s consideration and possible action.

1. Mail & Express (“M/E”)

Earlier this year, the Council initiated discussions among the Council, Amtrak, and – in separate meetings – United Parcel Service (UPS) and the U.S. Postal Service (USPS). These meetings, together with a presentation to the Council by Mr. Ed Ellis, Amtrak’s Vice President for Mail and Express, made it clear that a systematic effort to increase Amtrak’s market share of mail and express traffic may offer potential improvements in Amtrak’s net revenues and profitability. The Council further understands that additional meetings between Amtrak and UPS have confirmed the potential for substantial rapid growth of express revenues.

Before recommending that Amtrak significantly increase its Mail and Express business, however, the Council is requesting Amtrak to provide information on the historical and anticipated profitability of Mail and Express business. In the future, the Council would like such information in the form of separate income (profit and loss) statements on a monthly, quarterly and annual basis for Mail and Express. The Council understands that separate, historical income statements for Mail and Express were not prepared and are not available for past periods. Accordingly, to assist the Council in making its recommendations as quickly as possible, the Council would like to see all recent analyses prepared by Amtrak determining the profit contribution of
At this point, the recommendations the Council tentatively is considering are subject to confirmation by the income statements and other financial information the Council is requesting, including confirmation that the Mail and Express business is sufficiently profitable to warrant the investment and other resources needed. The recommendations currently under consideration by the Council (and which may be supplemented at a later date) are that Amtrak should take prompt and effective action to do the following IF, AND ONLY IF, AMTRAK MAKES A DETERMINATION THAT MAIL AND EXPRESS ARE SUFFICIENTLY PROFITABLE:

- Increase Mail and/or Express revenues by augmenting its inter-modal staff, either through contracting or hiring, with high-quality personnel.

- Add appropriate Mail and/or Express equipment to its fleet through the most cost-effective and flexible mechanisms possible, which might include (a) conversion of existing Amtrak equipment no longer suitable for carrying passengers, (b) using equipment owned by other companies which may be available on a traditional railroad per diem basis, (c) leasing equipment on a short term basis, and/or (d) having the firms desiring mail and express services lease, finance, or participate in the financing of, the needed equipment.

- Set up the Mail and Express business as a separate strategic business unit for planning and financial reporting purposes, with transparent accounting of its revenues and expenses, including clear distinctions and accountability of Mail and Express’s (i) direct costs, (ii) costs of the route or region allocated to the Mail and Express business, and (iii) system-wide overhead costs allocated to the Mail and Express business.

With regard to this third recommendation, the Council is not recommending necessarily that the Mail and Express Group be removed organizationally from the Intercity Business Unit, nor that it be established as a corporate subsidiary within that unit. Amtrak’s Board and management should decide the corporate structure and reporting relationship of Mail and Express to other Amtrak strategic business units. The Council’s interest is that Mail and Express businesses have **transparent accountability** by being financially segregated from Amtrak’s core passenger business units.

Consistent with the Council’s request for additional financial information concerning Mail and Express, Amtrak should immediately take at least the minimal steps necessary to permit the development of a clear and accurate income statement, balance sheet, and capital plan for the Mail and Express Group. These documents should be integrated into Amtrak’s five-year strategic business plan, and into the normal business planning process.

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**Footnote:**

3 Such income statements and special analyses may be prepared on whatever alternative income statement preparation methodologies Amtrak has already completed including, but not limited to, (i) an avoidable cost basis; (ii) a variable cost basis, and (iii) a fully allocated cost basis. The Council wants to receive separate income statements for Mail and for Express and special analyses that would help the Council understand the relative profitability of various lines of Mail and Express business.
2. Northeast Corridor (NEC) Fixed Plant

As the Council has learned about issues related to the operation of Amtrak’s new Acela Express service, it has become clear that the condition of the fixed plant of the Northeast Corridor (NEC) from Washington, DC, to Boston, MA, is one of the most critical factors that may limit the ability of the new equipment to operate at design speeds. Speed is a factor critical to optimizing the ridership and financial benefits to Amtrak from the Acela investment as well as maintaining existing train traffic on the NEC. There is a need for the expenditure of substantial sums for the replacement and upgrading of aging systems (such as electrification south of New York and improvements to signaling and communications) and the renewal of major infrastructure (such as the eastern approaches to Penn Station in New York). This is in addition to the ongoing requirements for normalized maintenance of track, structures electrification, communications and signaling. The Council believes that this situation requires that special attention be given to the planning and execution of capital programs to maintain and improve the NEC fixed plant.

While we are sure that these facts are well known to the Corporation and its Northeast Corridor Business Unit (NECBU), we believe that in order to make the size and scope of these issues clearer to, and more tractable for, Amtrak’s Board and the Congress, that the operations of the Northeast Corridor fixed plant (NECFP) should be set up as a profit center within the Northeast Corridor Business Unit. At this point, the Council is not recommending that the NECFP be organizationally removed from the NECBU, but Amtrak should take the minimal steps necessary to permit the development of a clear and accurate income statement, balance sheet, and capital plan for the NECFP. These documents should be integrated into Amtrak’s five-year strategic business plan, and into the normal business planning process.

3. Inclusion of Plans of Corrective Actions (PCAs) in Strategic Business Plan

The Acela Express delay has demonstrated clearly that, as in any business, there is a substantial potential for unforeseen or uncontrollable events having major consequences upon the timing of Amtrak’s forecasts for improvements in net revenues associated with operations. In mid-summer 1999, the Office of the Inspector General of the Department of Transportation and the General Accounting Office released assessments of Amtrak’s current and projected financial performance based on thorough analyses of Amtrak’s October 12, 1998 Strategic Business Plan. Both of those analyses made it clear that there are significant levels of risk (of non-achievement) associated with Amtrak’s forecasts of revenue improvements and cost containment for a number of business plan actions.

Amtrak should, as part of its normal strategic and annual business planning processes, identify risks of not achieving its business plan objectives along with opportunities to exceed its business plan objectives. Once the risks and opportunities have been identified, Amtrak should develop, as part of its normal business planning processes, plans of corrective action, which are approved by its management and Board of Directors as part of the overall business plan, and which Amtrak’s management will be ready to implement without further Board of Director approval if risks of not achieving its business plan objectives are realized.
4. Annual Cost Savings Goals

Based on the Council’s regional outreach meetings, as well as direct communications with state departments of transportation, Amtrak risks losing a significant amount of commuter and subsidized Intercity passenger business unless Amtrak is able to get its unit cost structure more competitive with private sector companies. The market place in Boston (Amtrak’s loss of the MBTA maintenance contract) and the Midwest (where fixed price contracts are being discussed with Amtrak) are indicative of overall resistance to increasing Amtrak charges to the states and local commuter authorities for passenger rail services provided by Amtrak. Amtrak management has to act more like a private, for-profit corporation and less like a government-owned agency providing rail service on a cost-plus basis, if Amtrak is to participate in the anticipated increase in passenger rail service along developing high speed corridors.

For the past several years, most corporations in the United States, in response to market place demands for lower unit costs, have set and achieved annual corporate objectives of improving productivity by some minimal amounts not tied to specific capital expenditures, typically in the range of 3% to 5% annually. While goals of 3% to 5% annually may not seem significant, over several years, they can lead to significant productivity gains.

Often, these overall, corporate annual productivity goals are set for the corporation, but the specific actions to achieve the productivity goals are identified and taken on a decentralized, location-by-location basis. As part of Amtrak’s program to achieve the financial performance goals established under the Amtrak Reform and Accountability Act, the Council believes that Amtrak similarly needs to set overall productivity goals from unspecified investments and business actions, and to then provide incentives to local managers and/or strategic business units to develop and successfully implement specific cost savings projects which they have identified.

The Council therefore recommends that Amtrak’s Board and management reassess the potential for savings from reductions in Amtrak’s corporate overhead, SBU staff overhead, and staffing of stations and operating business units, and, as part of this assessment, establish a clear process for benchmarking the size of Amtrak’s corporate overhead compared to the corporation’s overall business volume. Appropriate adjustments should then be made.

5. Develop Minimum Business Plan Objectives

Amtrak’s Strategic Business Plan should identify readily measurable, key business plan objectives, including service objectives, operating objectives and financial objectives, for each year of its five-year Strategic Business Plans, that are critical for Amtrak to achieve its financial goal of operating “without Federal operating grant funds appropriated for its benefit” by Fiscal Year 2003.
Minimum Business Plan Objectives, which are identified by Amtrak as part of its Strategic Business Plan, should include, but not be limited to, measures of productivity (such as labor cost per passenger mile or seat mile, or labor cost per dollar of passenger revenue, etc.); service quality (customer satisfaction indices, on time performance percentages, etc.); operating cost ratios (ratios of operating costs to passenger revenues, ratios of operating costs to total revenues, etc.); operations (total number of injuries, injuries per million train miles, etc.); and overall financial performance (Budget Results in absolute dollar terms, cash flow from operations, etc.). The Minimum Business Plan Objectives should, to the extent possible, be based on unit measures such as costs per revenue dollar; passenger revenues per Amtrak employee or per employee hour worked; employees per million seat miles or train mile; or employee compensation paid (or charged to operating expenses) per revenue dollar received.

Ideally, the Council would like Amtrak to propose appropriate Minimum Business Plan Objectives such as benchmarks of productivity, to incorporate those Minimum Business Plan Objectives or benchmarks into its Five Year Strategic Business Plan, and to report actual financial and operating performance objectives to determine whether or not the Business Plan Objectives were met.

I hope that you, the other members of the Board, and Amtrak’s management will accept these recommendations in the constructive sense in which they are offered. As a follow up to this letter, I would like to meet with you and appropriate members of our organizations to discuss these ideas and the best ways to incorporate our recommendations into Amtrak’s Strategic Planning Process and other business initiatives.

Should there be any questions about the recommendations or their application, please do not hesitate to contact Tom Till, the Council’s Executive Director, who may be reached at 202-366-0598. To arrange a meeting, which I suggest be held in late November or early December, please call Deirdre O’Sullivan at (202) 366-0631.

With warm regards I am,

Very truly yours,

Gilbert E. Carmichael
Chairman

cc: Amtrak’s Board of Directors
    All Members and Staff, Amtrak Reform Council
    Concerned Congressional Offices
Exhibit 4
CONCERNS ABOUT RECENT PERFORMANCE TRENDS

In addition to our concern that Amtrak indicates its agreement to adopt and implement the Council’s recommendations for improvement, but then does not do so effectively, we are concerned that Amtrak does not appear to be managing itself consistent with its own Strategic Business Plans and public statements. To date, there is little, if any, evidence of actual cost savings being achieved to improve profitability, on other than a crisis-management basis. In its FY2001 Plan, Amtrak indicated that it identified all but $125 million of the prior Plan’s $759 million of undefined actions. The FY2001 Plan, however, fails to identify specific cost saving measures in any detail. Moreover, identifying savings in a written Strategic Business Plan will not achieve them. Management actions are needed to achieve them. In fact, rather than improving, actual financial performance through the first half of FY2001 was $38 million worse than Amtrak’s actual performance during the first half of FY2000.5 Amtrak, nevertheless, claims it is “on Plan.” Such claims imply that Amtrak will achieve a profitability improvement of $250 million during the second half of FY2001 relative to actual performance during the first half of FY2001.6

Amtrak’s practice of heavily back-loading the financial performance improvements in its Strategic Business Plans may enable Amtrak to claim that it is “on Plan” and “on its glide-path” during the first half of its fiscal years, but Amtrak’s true performance and its failure to achieve Strategic Business Plan objectives by wide margins become evident during the fiscal years’ third and fourth quarters. Amtrak’s performance was $109 million below Plan in FY2000, and it is likely to be more than $250 million below Plan in FY2001.

Amtrak’s MBNA analysis of existing routes and potential route changes, developed at a cost of millions of dollars, initially was supposed to significantly improve Amtrak’s overall profitability through the resulting Network Growth Strategy. However, the MBNA analysis and resulting Network Growth Strategy, at least from data provided to the Council to date, identify only marginal improvements in profitability relative to the scale of Amtrak’s operations; and many of those improvements are projected for future years and will require substantial capital investments. Even the modest anticipated improvements in profitability projected to be realized by this time do not appear to have been realized. This is perhaps because the MBNA analysis and the Network Growth Strategy initiatives appear to have been based on unrealistic, or at least optimistic, planning assumptions. It was evidently assumed that the initiatives could be implemented either without any significant redeployment of existing assets, or by having entities other than Amtrak approve and fund, in large part, major capital investments.

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5 See Annex A, attached.
6 The second table of Annex A shows that, based on actual financial performance through March 31, 2001, Amtrak needs an improvement in profitability of $250 million during the second half of FY 2001 to achieve its Strategic Business Plan financial performance.
**Amtrak’s FY2001 Business Plan for the 1st Half and 2nd Half of the Year**

<table>
<thead>
<tr>
<th></th>
<th>Full year FY2001 Plan</th>
<th>6 months Plan</th>
<th>2nd Half Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>$ 2,330</td>
<td>$ 1,033</td>
<td>$ 1,297</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>$ 3,121</td>
<td>$ 1,550</td>
<td>$ 1,571</td>
</tr>
<tr>
<td><strong>Interest income and expense, net excluding TRA interest income</strong></td>
<td>$ 103</td>
<td>$ 32</td>
<td>$ 64</td>
</tr>
</tbody>
</table>


Net improvement implicit in Amtrak’s plan between the first and second half of FY2001: $250.

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**Amtrak Performance for Purposes of Operating Self-Sufficiency**

<table>
<thead>
<tr>
<th></th>
<th>FY2001 Actual ($ millions)</th>
<th>FY2001 Plan ($ millions)</th>
<th>FY2000 Actual ($ millions)</th>
<th>Full Year FY2000 ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger/Mail and Express/Other Transportation</td>
<td>$ 685</td>
<td>$ 708</td>
<td>$ 624</td>
<td>$ 1,364</td>
</tr>
<tr>
<td>Non-Trans., 403b State Support, Commuter, Other</td>
<td>$ 346</td>
<td>$ 326</td>
<td>$ 304</td>
<td>$ 634</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$ 1,031</td>
<td>$ 1,033</td>
<td>$ 928</td>
<td>$ 1,998</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and Benefits</td>
<td>$ 811</td>
<td>$ 819</td>
<td>$ 766</td>
<td>$ 1,563</td>
</tr>
<tr>
<td>Train Operations</td>
<td>$ 230</td>
<td>$ 232</td>
<td>$ 230</td>
<td>$ 459</td>
</tr>
<tr>
<td>Maintenance of Way</td>
<td>$ 27</td>
<td>$ 37</td>
<td>$ 35</td>
<td>$ 79</td>
</tr>
<tr>
<td>Other</td>
<td>$ 478</td>
<td>$ 462</td>
<td>$ 371</td>
<td>$ 774</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$ 1,546</td>
<td>$ 1,550</td>
<td>$ 1,402</td>
<td>$ 2,875</td>
</tr>
<tr>
<td>Operating Income (Loss)</td>
<td>-515</td>
<td>-517</td>
<td>-474</td>
<td>-877</td>
</tr>
<tr>
<td>Interest income and expense, net excluding TRA interest income</td>
<td>$(34)</td>
<td>$(39)</td>
<td>$(32)</td>
<td>$(66)</td>
</tr>
<tr>
<td>Loss before adjustments</td>
<td>$(549)</td>
<td>$(556)</td>
<td>$(506)</td>
<td>$(943)</td>
</tr>
<tr>
<td>Adjustments to Income for Test of Self-Sufficiency</td>
<td>$228</td>
<td>$229</td>
<td>$185</td>
<td>$381</td>
</tr>
<tr>
<td>Capital contribution to operating</td>
<td>$19</td>
<td>$25</td>
<td>$55</td>
<td>$90</td>
</tr>
<tr>
<td>Operating contribution to capital</td>
<td>$(3)</td>
<td>$(3)</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Est. Excess Mandatory Railroad Retirement</td>
<td>$91</td>
<td>$91</td>
<td>$90</td>
<td>$180</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>$335</td>
<td>$342</td>
<td>$330</td>
<td>$651</td>
</tr>
<tr>
<td>Operating Loss for Purposes of Self-Sufficiency</td>
<td>$(214)</td>
<td>$(214)</td>
<td>$(176)</td>
<td>$(292)</td>
</tr>
</tbody>
</table>

* Source: Amtrak financial reports. On May 21st, Amtrak officials reviewed and confirmed the accuracy of the calculations for self-sufficiency.