AMTRAK'S FINANCIAL CONDITION AND DECISIONS FACING THE CONGRESS

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Amtrak has been in financial difficulty for most of its 26-year existence. In recent years, its financial condition has deteriorated to the point to which Amtrak believes that it may run out of cash in 1998. To reduce the continually growing losses and a widening gap between operating deficits and federal subsidies, Amtrak developed its Strategic Business Plan. This plan, which has been revised several times, was designed to increase revenues and control cost growth and, at the same time, eliminate Amtrak's need for federal operating subsidies by 2002.

Although Amtrak has made some progress in implementing its business plan and cutting its losses, its financial condition is still precarious. Amtrak's financial measures continue to deteriorate, financial targets have been missed, and substantial capital investment is needed. As Amtrak's financial condition continues to deteriorate, the Congress is faced with difficult decisions regarding the future of intercity passenger rail service.

AMTRAK'S FINANCIAL CONDITION IS PRECARIOUS

Amtrak financial condition is precarious and the carrier has lost over $700 million in each of the last 9 years. Although actions taken by Amtrak through its business plans have helped reduce its net losses, the corporation has struggled to reach net loss targets. ("Net loss" is defined as total revenues minus total expenses. Unless otherwise noted, all financial data were obtained from Amtrak and were not independently verified.) For example, Amtrak's plans for fiscal years 1995 and 1996 included actions to reduce its net losses by $195 million—from about $834 million in fiscal 1994 (in current year dollars) to $639 million in fiscal 1996. By the end of fiscal year 1996, Amtrak's loss had declined to about $764 million; however it was substantially more than planned. In addition, as the following figure shows, the relative gap between total revenues and total expenses has not closed significantly (see FIGURE 1).

Amtrak's fiscal year 1997 operating losses may be even higher than those in fiscal 1996. As of the end of the second quarter of its fiscal year, expenses have been higher and revenues have been lower than originally projected. Amtrak estimates its year-end net loss could be about $783 million, compared to its original estimate of a $726 million loss.

Moreover, passenger revenues (adjusted for inflation)—which Amtrak has been relying on to help close the gap between revenues and expenses—have generally declined over the past several years (see FIGURE 2). Similarly, the gap between operating deficits and federal operating subsidies rose in fiscal year 1996 to $82 million—the highest it had been in the last 9 years. (Operating deficit is the same as net loss, except noncash items [such as depreciation] and a one-time charge taken in fiscal year 1994 are excluded from the total expense).

Amtrak's Financial Measures Are Deteriorating

Amtrak's continuing financial crisis can be seen in other measures as well. In February 1995, we reported that Amtrak's working capital—the difference between current assets and current liabilities—declined between fiscal years 1987 and 1994. (*Intercity Passenger Rail: Financial and Operating Conditions Threaten Amtrak's Long-Term Viability*, GAO/RCED-95-71, February 6, 1995). Although Amtrak's working capital position improved in fiscal year 1995, it declined again in fiscal year 1996 to a $195 million deficit (see FIGURE 3). This decline reflects an increase in accounts payable, short-term debt, and capital lease obligations, among other items. A continued decline in working capital jeopardizes Amtrak's ability to pay immediate expenses.

Amtrak's Debt Levels Have Increased

Amtrak's debt levels have also increased significantly (see FIGURE 4). During fiscal years 1993 through 1996, Amtrak's debt and capital lease obligations nearly doubled—from about $527 million to about $987 million (in 1996 dollars). These debt levels do not include an additional $1 billion Amtrak expects to incur within the next 2 years to finance 18 high-speed train sets and related maintenance facilities for the Northeast Corridor (at about $800 million) and the acquisition of 98 new locomotives (at about $250 million).

It is important to note that to service this increased debt, Amtrak must use a substantial portion of its federal operating subsidies that would otherwise be used to cover future operating deficits. In fact, over the last 4 years, Amtrak's interest expenses have tripled—from $20.6 million in fiscal year 1993 to $60.2 million in fiscal year 1996 (see FIGURE 5). Because Amtrak pays this interest from its federal operating assistance and principal from its federal capital grants, this increase has absorbed more of the federal operating subsidy each year.

As shown above, between fiscal years 1993 and 1996, the proportion of federal operating subsidies going to interest payments has increased from about 6 to about 21 percent. As Amtrak assumes more debt to acquire equipment, the interest payments are likely to continue to consume an increasing portion of federal operating subsidies.

Actions to Improve Amtrak's Financial Condition Have Been Difficult

Amtrak has been hard-pressed to improve its financial condition. Competitive pressures—in part, by lower fares on airlines and intercity buses—have limited Amtrak's ability to increase revenues by raising fares. On one hand, fare increases resulted in a 24-percent increase in yield (revenue per passenger mile)—from 15.4 cents per passenger mile to about 19.1 cents—during fiscal years 1994 to 1996. In comparison, between 1994 and 1995, airline yields declined slightly, intercity bus yields increased 18 percent, and the real price of unleaded regular gasoline increased a little less than 1 percent (data for 1996 were not available for this analysis). However, it appears that Amtrak's ability to increase revenues through fare increases has come at the expense of ridership, the number of passenger miles, and the passenger miles per seat-mile (load factor). Between fiscal years 1994 and 1996, all three declined. (Between fiscal years 1994 and 1996, Amtrak's annual ridership declined from 21.2 million to 19.7 million passengers, passenger miles declined from 5.9 billion to 5.1 billion, and the load factor declined from 49 to 46 percent. Ridership excludes commuter passengers.) Such trade-offs in the future could limit further increases in Amtrak's yield and ultimately revenue growth.

Amtrak has also had difficulty in taking certain actions necessary to further reduce its costs. During fiscal year 1995, Amtrak was successful in reducing and eliminating some routes and services. For example, Amtrak reduced the frequency of service on seven routes from daily to 3 or 4 times per week, and on nine other routes various segments were eliminated. Amtrak estimates that such actions saved about $54 million. However, Amtrak was less successful in making the route and service adjustments planned for fiscal year 1997. As a result, it estimates that its projected fiscal year 1997 loss will increase by $13.5 million. Finally, Amtrak has been largely unsuccessful in negotiating productivity improvements with labor unions.

AMTRAK'S VIABILITY DEPENDS ON CAPITAL INVESTMENT

Amtrak's goal of eliminating federal operating subsidies by fiscal year 2002 largely depends on substantial capital investment. The goal of such investment—the modernizing of property, plant, and equipment—is to both help Amtrak to retain its ridership revenue by improving the quality of service and to increase revenues by attracting new riders.

For fiscal year 1998, the administration has proposed capital funding that falls far short of Amtrak's stated needs. The President's budget requests $423 million for capital support from the Congress, while Amtrak says it needs about $750 million. If adequate capital funds are not available, Amtrak will likely be forced to borrow additional funds, placing further stresses on its cash flow. Capital projects would also likely have to be deferred, resulting in reduced timeliness and quality of service.

Amtrak needs substantial capital investment both to modernize and replace physical assets and to complete projects on the Northeast Corridor. For example, Amtrak estimates that an additional $1.4 billion will be needed to finish the high-speed rail project between New York and Boston. In addition, the Federal Railroad Administration (FRA) and Amtrak estimate that about $2 billion will be needed over the next 3 to 5 years to recapitalize the south end of the corridor and preserve Amtrak's ability to operate in the near-term at existing service levels. FRA and Amtrak also estimate that up to $6.7 billion may be needed over the next 20 years to recapitalize the entire corridor and make improvements targeted to respond to growth opportunities.

Amtrak has made some progress in addressing previous capital needs, but the going has been slow, and Amtrak may be facing significant future costs. For example, as of October 1996, about 53 percent of Amtrak's active fleet of 1,600 passenger cars averaged 20 years old or more and were at or approaching the end of their useful life. It is safe to assume that as this equipment continues to age, it will have more frequent failures and require more expensive repairs.

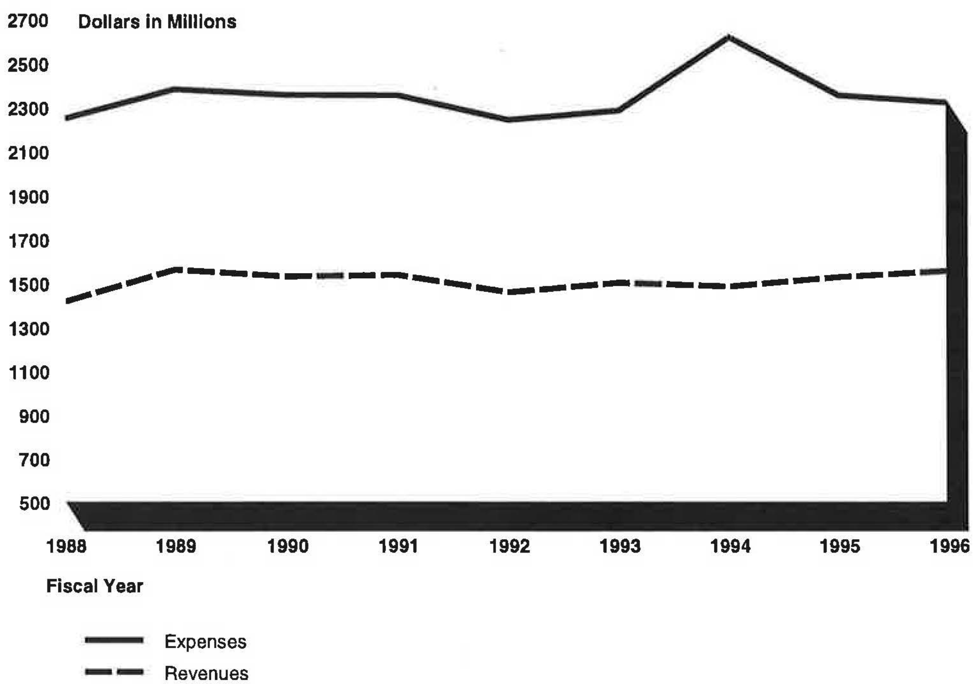

FIGURE 1

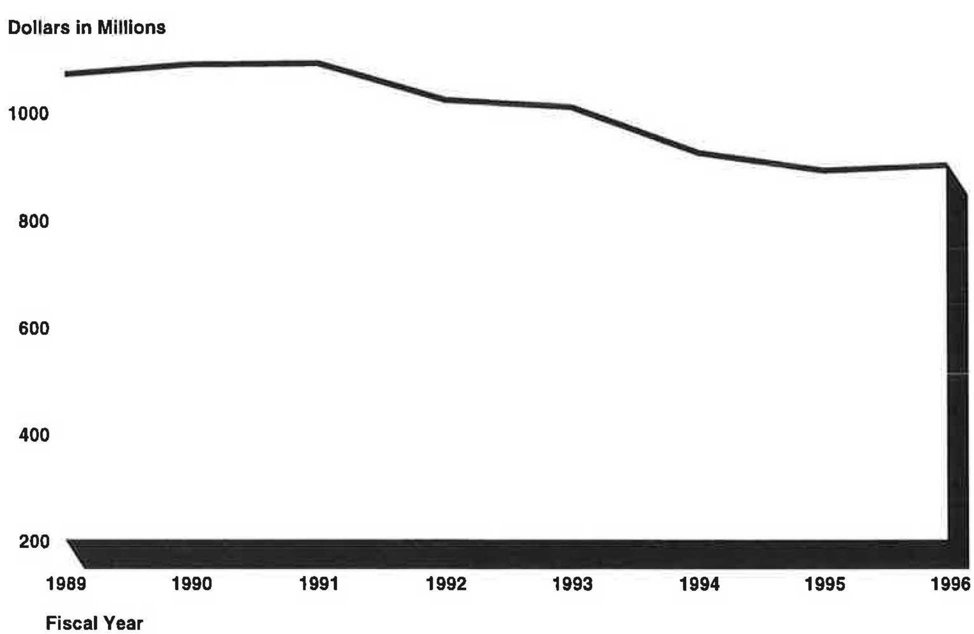

FIGURE 2

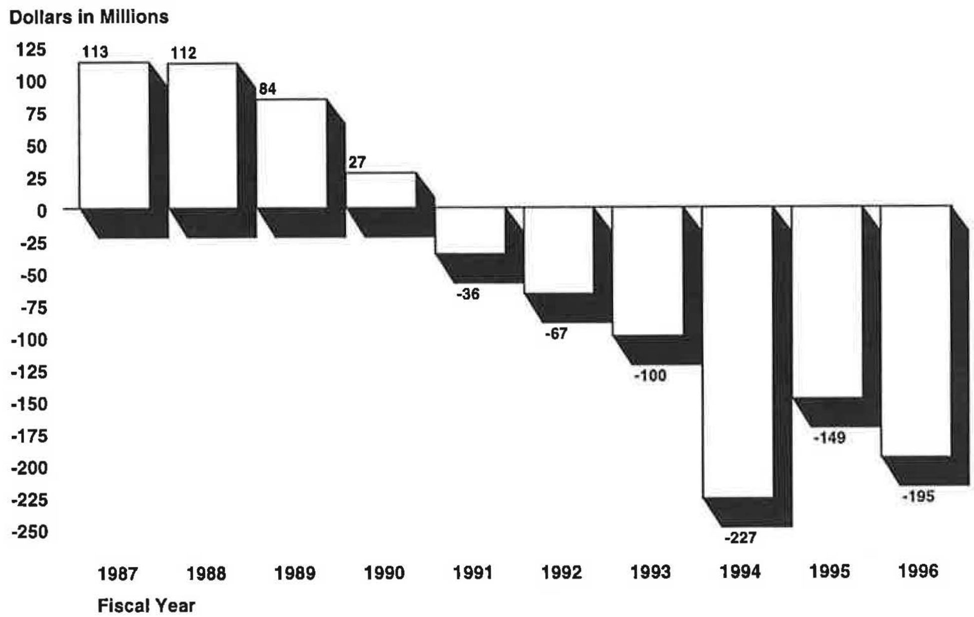

FIGURE 3

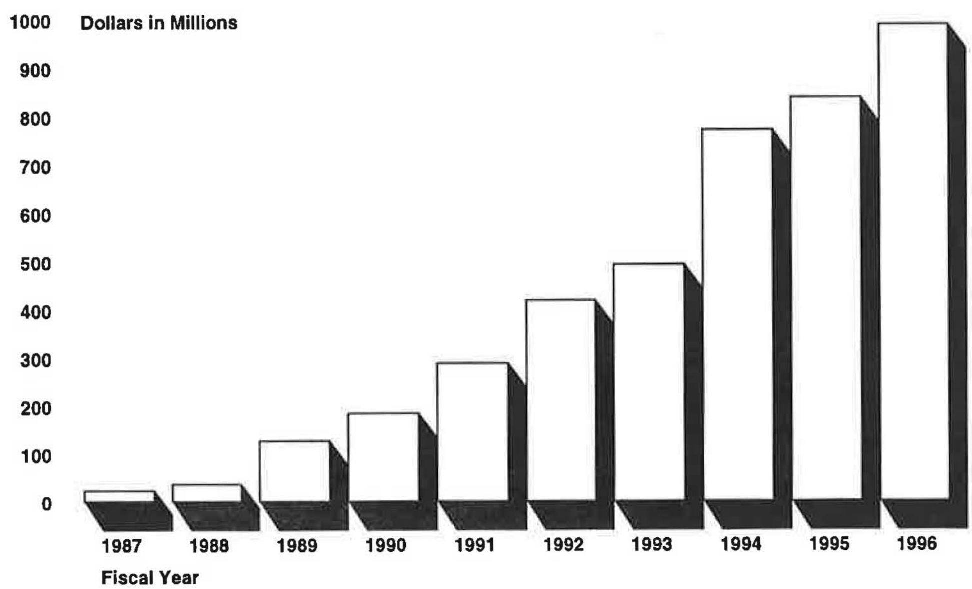

FIGURE 4

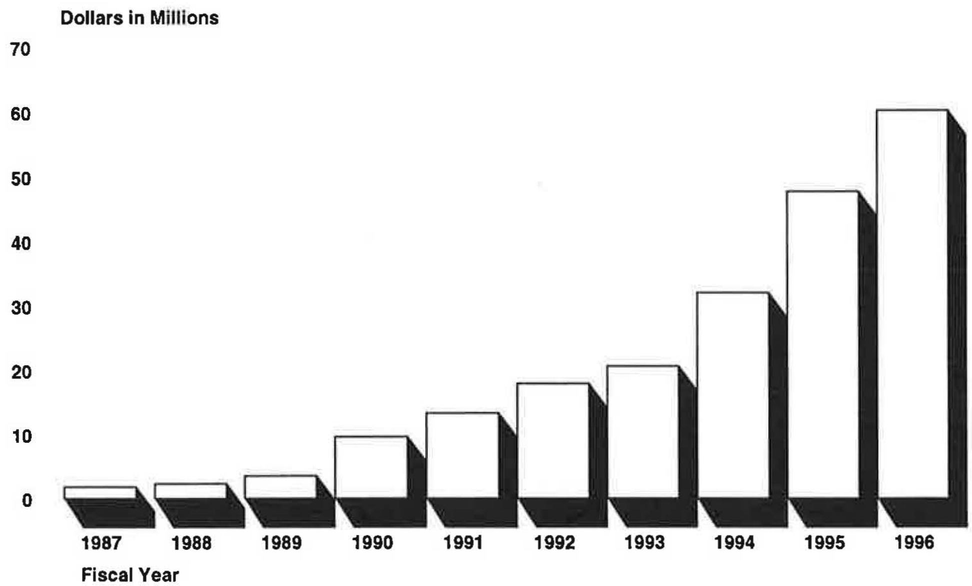
Dollars in Millions
70
60
50
40
30
20
10
0
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
Fiscal Year

FIGURE 5

THE CONGRESS FACES DIFFICULT DECISIONS

Amtrak is at a financial crossroads. Just as the financial problems that Amtrak faces did not arise overnight, they will be not solved overnight. A first step in addressing Amtrak's financial problems would be an agreement on the role of passenger rail service in our national transportation system. Once that role is agreed upon, Amtrak's mission and its financial needs could be molded. If Amtrak's mission is to operate a viable national passenger rail system, it will need adequate financial support from all three levels of government—federal, state, and local. Alternatively, if the necessary financial support is not possible, then the current system of passenger rail service will need to be reconsidered. This could be accomplished by the Congress directing Amtrak or a temporary commission, similar to the one established to close military bases, to make recommendations and offer options redefining Amtrak's basic route network so that efficient and quality service could be provided within the funding available from all sources. (A recommendation to the Congress incorporating this idea is contained in GAO's February 6, 1995, report entitled *Intercity Passenger Rail: Financial and Operating Conditions Threaten Amtrak's Long-Term Viability*, GAO/RCED-95-71).

Under any approach, Amtrak will still need to become more efficient by successfully implementing its Strategic Business Plan, rehabilitating and replacing aging equipment and infrastructure, and obtaining relief from any statutory restraints that unduly restrict its long-term financial prospects.

CONCLUSIONS

Amtrak has pledged to eliminate its need for federal operating support by fiscal year 2002 by increasing revenues, controlling costs, and providing customers with high-quality service. Although its business plans have helped reduce net losses, Amtrak continues to face significant challenges in accomplishing this goal, and it will likely continue to require substantial federal financial support—both operating and capital—well into the future if it is to continue with its present national structure. Consequently, in today's budget environment, the Congress faces fundamental decisions involving Amtrak's future as a national passenger rail system.

SELECTED U.S. GENERAL ACCOUNTING OFFICE REPORTS ON AMTRAK

1. *Intercity Passenger Rail: Amtrak's Financial Crisis Threatens Continued Viability* (GAO/T-RCED-97-147, Apr. 23, 1997).
2. *Amtrak's Strategic Business Plan: Progress to Date* (GAO/RCED-96-187, July 24, 1996).
3. *Northeast Rail Corridor: Information on Users, Funding Sources, and Expenditures* (GAO/RCED-96-144, June 27, 1996).
4. *Amtrak: Early Progress Made in Implementing Strategic Business Plan, but Obstacles Remain* (GAO/T-RCED-95-227, June 16, 1995).
5. *Intercity Passenger Rail: Financial and Operating Conditions Threaten Amtrak's Long-Term Viability* (GAO/RCED-95-71, Feb. 6, 1995).