

FY07 Grant and Legislative Request



REBUILDING AMERICA'S
PASSENGER RAIL SYSTEM

MARCH 2006



AMTRAK – FY07 Grant and Legislative Request

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I. Introduction

2006 marks the beginning of a new era at Amtrak. It has been an exceptionally productive year. Building on the blueprint published a year ago in the April 2005 Strategic Reform Initiatives (SRI), we have either begun or completed the review of virtually every major facet of Amtrak's operations. Correspondingly, we have launched a broad range of reform actions aimed at reducing our operating deficit and its burden on federal taxpayers, while positioning Amtrak and passenger rail for the prospect of a resurgence of interest in passenger rail.

There will, of course, always be more to do; but to have accomplished more by way of reform than we have during the past year would be hard to imagine. More importantly, we need to see the initiatives through to their targeted outcomes and we will need continued Congressional support in 2007 to do so. Those outcomes will mean considerably less federal financial support in later years.

It is premature to gauge with accuracy the financial impact of Amtrak's reform initiatives, and we will have more reliable projections later this year. It is not unrealistic, however, to expect the combination of revenue enhancements and cost reductions to improve Amtrak's annual operating results by \$500 million or more over the next three to five years (before consideration of inflation). Whatever the precise financial results, we are confident that the outcome of our SRI efforts will be a dramatic reduction in Amtrak's future need for federal operating support. It is important to note, however, that we do not believe that our efforts will eliminate the need for some level of continued financial support for operations and capital needs. A more detailed multi-year financial plan will accompany the updated strategic plan to be released later this year.

Each of the reform initiatives requires fundamental changes in the way Amtrak has traditionally done business, and none of them will be easy. With an operation stretched as thin as Amtrak is, there is a balance to be maintained between urgency of reform and imprudence. The balance we have struck maintains passenger and employee safety as well as organizational stability as priorities. Nonetheless, Amtrak has never in its history instituted so pervasive a reform effort so aggressively.

As this document reflects, our FY2007 funding request reflects the initial benefits of our reform efforts, reducing what would otherwise be our federal operating support request by over \$40 million. But as with any turnaround, the success of our efforts cannot be fairly measured in the first year of progress; similar efforts in many companies regularly generate greater losses in their early years. The test of our reform efforts will be in our ability to implement substantial, sustainable change that deliver not only ongoing financial improvement, but a new environment for passenger rail that moves us past the stalemate of the last 35 years. At this time, continued federal financial support and maximum operating flexibility are essential for Amtrak to continue these improvements.

Key Reform Initiatives

While Amtrak continues to operate without a guiding authorization statute, legislative proposals, recent appropriations laws, and reports from oversight agencies such as the GAO and DOT IG, confirm the Board's and management's

objective of progress through methodical change. We have charted a course that will, over time, fundamentally recast the way intercity passenger rail is delivered:

- *Cost efficiencies.* Building on the initiatives laid out last April, we are continuing to review, prioritize and invest capital and manpower to reform the Corporation, ranging from our internal business model, outsourcing and strategic partnering, improved management systems and reporting, to all forms of services. Initial areas of focus are: food & beverage services, equipment maintenance and deployment, reservations and sales, crew utilization and overhead functions, among others – all aimed at reducing the unit costs of delivering service.
- *Revenue and customer service.* The company is aggressively pursuing revenue management to improve load factors and grow revenues. Sustainable increases in revenue, however, will require renewed focus on the product we deliver and the service we provide. The company has talked about customer service for years, but has been unable to make noticeable strides in improving the quality of that service, particularly on time performance. The Board and management have made this issue a top priority, and are pursuing several strategies to make the passenger experience truly more dependable, comfortable and convenient, including the use of technology, employee training, new measurements and lines of accountability, the piloting of entirely new service models, and more reliable equipment.
- *Labor reform.* More than 80 percent of our passenger revenues are consumed by labor and benefit costs alone. Moreover, operational flexibility is severely constrained by work rules established during the steam engine era that are not suited to modern railroad operations. These constraints need to change. Making simple, but fundamental reforms will result in a more flexible, efficient, and higher skilled workforce.
- *Corridor service funding.* As Amtrak and others have suggested, development and service decisions around corridor services should fundamentally be a state responsibility. States should have the ability to determine the role of rail corridors in their transportation policy mix, the level of services offered, and the providers of those services. In return, they should bear the responsibility for funding the operations of those services. Therefore, we have proposed to begin transitioning state funding for all corridor services to full operating cost recovery plus an equipment charge over four years starting in FY08. For this approach to be effective, a federal capital matching program of 80-20 federal-state funding should be in place.
- *Infrastructure planning and funding.* Amtrak's Northeast Corridor infrastructure is a complicated, joint use asset that must be brought up to a state of good repair and managed efficiently for the benefit of all users. We believe that this requires a more collaborative planning effort and a fair sharing of costs among users. Amtrak is the only high-speed end-to-end user representing 60 percent of train miles, and owns most of the corridor, and therefore should bear the basic responsibility for coordinating and managing the infrastructure. But we must do so in the context of a jointly developed master plan, and operational practices that protect the rights and contributions of all users.
- *Long distance services.* Finally, and perhaps most challenging, is the shape of the long distance network. As outlined in the SRI and in our FY06 grant agreement with the Federal Railroad Administration (FRA), Amtrak is working to measure and improve the performance of all routes through a combination of efficiency and revenue initiatives. We are also in the process of conducting a long overdue, comprehensive, "clean slate" review of the network to identify

a route and service structure that makes sense for the future. We will present our recommendations later this year, and our plan will match customer needs and expectations with services we offer.

II. FY07 Funding Needs

Amtrak's funding request for FY07 is \$1,598 million. It includes \$730 million for capital, \$498 million for operating, \$295 million for debt service, and \$75 million for working capital (see table below for a summary).

The FY07 funding request reflects the initial benefits of reform implementation. While many of the reforms will take several years to fully implement, a number of the cost and revenue efficiencies will be in place by FY07, and the result is a reduced operating funding need and a redirected capital program.

This request would be similar to the FY06 funding level of about \$1.3 billion, but for several extraordinary capital needs:

- Additional investment in legally or regulatory mandated work, such as environmental, security and Americans with Disability Act (ADA) station compliance (\$43 million);
- Essential rebuilding of major 100-year old Northeast Corridor bridges, electric traction systems, facilities such as our dispatching center, and other infrastructure backlog investment (\$70 million);
- Investment in strategic initiatives with sustainable operating returns – including \$43 million expected savings in FY07 (\$67 million);
- Additional debt service payments due (\$18 million); and
- A one-time minimal infusion of working capital (\$75 million).

In the absence of these unique investment requirements, our funding request for FY07 would be \$1,325 million – just over the FY06 federal grant amount.

Additionally, as part of this request, Amtrak has outlined a set of strategic investment options that address national network reliability, state corridor development, additional ADA station compliance funding, and debt restructuring. These are issues that are more properly addressed in the context of reauthorization, but Amtrak believes it is important to advance consideration of these even in the absence of reauthorization. The total proposed funding for these strategic investment options in FY07 is \$275 million.

It is important to bear in mind that the document we are submitting comes well before we have completed Amtrak's budgeting process for FY07. The amounts that we have requested, particularly for the operating and capital needs, are the best estimates we can make at this time. As the company has done in the past, we will provide Congress with a revised FY07 budget request later this year once we have a clearer idea of what our actual FY06 end of year results will be. Therefore while these numbers may change to some degree over the next few months, they provide a framework of need for Amtrak in FY07. Obviously, we will continue to work with the appropriate committees in Congress as our budget process moves forward.

The table following summarizes our FY07 Grant Request compared to FY06.

FY07 Grant Request vs. FY06			
(\$ millions)	FY06		FY07
	Plan	Budget	Request
Capital			
<i>Legal Mandates</i> ^(a)	145	118	155
<i>Infrastructure</i>	483	352	441
<i>Rolling Stock</i>	221	177	176
<i>Other Services</i> ^(b)	110	64	68
<i>Business Initiatives</i>	-	-	67
<i>Non-Federal Funding</i>	(172)	(215)	(177)
Subtotal, Capital	787	495	730
Operating	560	540	498
Debt Service	278	277	295
Subtotal, Capital/Operating/Debt	1,625	1,312	1,523
			75
			1,598
			100
			50
			100
			25
			275
<p>(a) Security fencing, NY tunnels life safety, ADA assessments, mandatory rolling stock inspections, and environmental remediation and pollution control</p> <p>(b) Information technology, real estate, procurement, and financial systems</p> <p>* Numbers may not add due to rounding</p>			

Capital Program

The FY07 capital grant request of \$730 million continues Amtrak's investment in rolling stock and infrastructure. Because rail is a capital intensive industry, the condition of Amtrak's infrastructure and equipment assets has a major impact on financial performance. Unfortunately, inadequate investment in prior years has left Amtrak's rolling stock and infrastructure in unacceptably deteriorated condition. This, in turn, contributes to higher operating costs and reduced reliability of services. Although progress has been made over the past several years, more investment remains. Achieving a state of good repair is essential to helping stabilize Amtrak's financial performance and providing a platform for future rail development.

While this request represents an increase in funding from the current FY06 enacted level of \$490 million, it reflects the need for investment in deferred projects. The increase is driven largely by the need to fund the lifetime replacement and upgrades to critical assets at the same time as the ongoing program investment toward a state of good repair continues. For example, the FY07 request includes half of the funding for the replacement of the Thames River Bridge lift span in Connecticut and the upgrade of the Centralized Electrification and Traffic Control (CETC) systems. Historically, investment in these areas has been deferred in order to meet reduced funding levels.

Overview

The specific elements of the capital request are¹:

- Legal mandates – \$90 million. Investment required to address legal and regulatory requirements, including NY tunnel life safety program, environmental remediation and pollution control, police and security, FRA-mandated rolling stock investment, and initial ADA station compliance work. The need is up from \$47 million in FY06 due to additional environmental and security requirements and ADA work.
- Infrastructure state of good repair – \$333 million. Much progress has been made on Amtrak’s infrastructure, but a significant backlog of work remains. This request includes continued work on track, tunnels, catenary, facilities and other assets to make ongoing progress in improving reliability and reducing the cost of maintaining the infrastructure. The request is up from a budget of \$214 million in FY06 due primarily to major bridge reconstruction and facility projects, along with the expected absence of one-time non-federal funding sources that occurred in FY06 (e.g, electrification contract settlement and carryover funds). The infrastructure section below summarizes the program in more detail.
- Rolling stock reliability investment – \$176 million. The availability of reliable rolling stock is critical to Amtrak’s performance and for states to build their customer base for future corridor development. This year’s program includes overhauls and remanufactures of corridor fleet such as Amfleets, Acela and Horizon cars, along with the long distance Superliner coach fleet. If funded, over two-thirds of the car fleet and 90 percent of the locomotive fleet would be back in a good state of repair. The funding request is flat with respect to the FY06 budgeted levels. The rolling stock section below summarizes the program in more detail.
- Business initiatives and other investment – \$131 million. Includes improvements in redesigned food service cars, sales and distribution systems, mechanical facilities, management information and other technology to reduce future operating requirements. This year’s request represents an increase from FY06 budgeted levels of about \$75 million of which \$67 million is for investment related to the initiatives, but will result in a first year benefit of at least \$43 million in operating cost reductions. The business initiatives section below summarizes the program in more detail.

Infrastructure

Amtrak owns or maintains 730 route miles of rail right of way nationwide, including 400 miles of high speed, main line right of way between Boston and Washington.

¹ These figures exclude non-Federal sources within each of these categories.

The Northeast Corridor main line is the most densely utilized rail line in the nation and suffers from a lack of capacity on major segments due to commuter growth. In addition to Amtrak, nine commuter agencies² operate over portions of the corridor as well as four freight railroads³. Including Connecticut and New York owned territory between New Haven and New Rochelle, as well as the Harrisburg, Springfield and Albany branch lines, nearly 2,000 commuter and Amtrak trains use Northeast Corridor (NEC) rail infrastructure carrying nearly 750,000 passengers and 40,000 car miles of freight daily.

Adequate investment in NEC infrastructure, independent of Amtrak's own operating needs, remains a critical priority for all NEC users. Critical areas that must continue to be addressed include:

- Major bridges dating to the turn of the century can no longer be maintained economically or reliably and must be replaced;
- Wood ties on main tracks, through switches and interlockings are difficult and costly to maintain in a high-traffic environment and must be replaced with more durable concrete ties;
- Much of the overhead catenary system (that supplies environmentally clean power for NEC locomotives) dates from the early part of the last century and must be fully rehabilitated or replaced;
- Major portions of the power supply systems, including trunk lines, frequency converters and transformers are reaching the end of their useful life and must be replaced to avoid outages stemming from failed components and increased power demand; and
- Interlockings and signal systems must be upgraded.

Amtrak's capital plan recognizes the need to work closely with states and commuter agencies to develop joint capital plans that return the infrastructure to a state of good repair and anticipate the need for speed and capacity improvements in the future. Towards this end, the grant request includes development of a Northeast Corridor Master Plan to define long term capital needs for improved services in closer coordination with states and commuter agencies using the Northeast Corridor.

Rolling Stock – Equipment and Fleet

Amtrak's passenger fleet is old – the average age is 23 years in service, and the range of age is from 5 years to 55 years (not including our Acela train sets). Because of financial constraints in the late 1990's through 2002, investment in major overhaul work on much of Amtrak's 1,700 car passenger fleet was deferred. Predictably, the reliability of Amtrak services declined as en-route failures mounted due to deferred investment.

At the same time, there is a significant demand for updated and in some cases new equipment – particularly on state corridor routes. Amtrak is currently developing a

² Massachusetts Bay Transit Authority, Shore Line East (Connecticut), Metro-North (Connecticut/New York), Long Island Railroad (New York), New Jersey Transit, Southeastern Pennsylvania Transportation Authority, Delaware Transit Corporation, MARC (Maryland), VRE (Virginia)

³ CSX, Norfolk Southern, Conrail Shared Assets, Providence & Worcester

detailed fleet plan to address these shifting requirements and reflecting the reform initiatives outlined above.

Amtrak’s FY07 goal is to continue selective major overhauls to prevent en-route failures and improve reliability. At the same time, Amtrak’s capital plan seeks to improve the efficiency and utilization of the core fleet while rationalizing facilities and transitioning to more modern maintenance practices.

The current plan:

- Targets significant improvements to the reliability and availability of Amtrak’s fleet;
- Defers all new equipment purchases pending development of a comprehensive fleet plan (anticipated in 2006); and
- Includes funding to consolidate and rationalize facilities and transition to reliability centered maintenance (RCM) practices.

Business Initiatives

Another area leading to the request for increased funding in FY07 is the integration of the capital grant request with certain initiatives being implemented as part of Amtrak’s strategic reform effort and designed to reduce costs, improve asset utilization and financial performance. These include:

- Reconfiguring long distance diner and lounge equipment to reduce equipment requirements and improve financial performance;
- Investing in systems and facilities to reduce costs, increase reliability and modernize rolling stock maintenance practices; and
- Developing management information systems to improve unit costing of services, performance metrics, benchmarking and transfer pricing to states and Amtrak business lines.

While these investments will yield some immediate benefits in FY07 operating savings, their value will be measured in long-term and sustainable returns to business performance. Moreover, they represent a piece of the larger package of initiatives that have been developed since the company released its Strategic Reform Initiatives in 2005. The table below highlights the major categories of initiatives that have been identified for efficiency and revenue improvements over the next several years.

CORPORATE INITIATIVES	
Food & Beverage	Significantly reduce losses and enhance service flexibility by redesigning food services (e.g. fully-prepared meals, multi-purpose food service cars) and outsourcing.
Mechanical	Reduce unit costs and increase equipment availability/reliability by adopting reliability centered maintenance, consolidating facilities and outsourcing.
Stations and Call Centers	Reduce station and ticketing unit costs through reduced staffing, increasing utilization of lower cost distribution channels and outsourcing.
Overhead Functions	Reduce unit costs of corporate support functions through selective outsourcing, staffing reductions, skills development and greater use of technology.

CORPORATE INITIATIVES (continued)	
Customer Service	Enhance ridership, revenue and customer loyalty by focusing management accountability on train service performance, giving tools and training to employees, and modernizing ticketing processes.
Service Reliability	Improve OTP of Acela/NEC trains (Amtrak-owned infrastructure), and seek OTP improvements for corridor/long distance trains (host railroad infrastructure) through operational modifications and targeted investments.
Labor Contracts	Update labor contracts to enhance customer service, equipment and service reliability, provide greater efficiencies, improve skill levels and training, ensure orderly job advancement, focus on core competencies and reduce unit costs.
Management Information	Improve near-term accuracy and timeliness of financial and performance data to facilitate management and policy decisions (while modernized systems developed).
BUSINESS LINE INITIATIVES	
Long Distance	Improve performance on all routes (initial focus on worst five) by redefining sub-brands, restructuring services/routes, selected luxury outsourcing and corporate initiatives.
NEC Operations	Boost financial contribution through improved load factors, adjusted service patterns, re-launching of brands, trip time investments, and corporate initiatives.
State Corridors	Improve competitiveness of state services, establish pilot competition project, and transition states to full cost recovery, based on unit prices, for all corridor routes (concurrent with federal capital matching program).
Fleet	Maximize load factors, and increase revenues by improving current train consist efficiency, and retiring or redeploying excess equipment – based on business line service plans.
Infrastructure	Develop long-term capital master plan and operate NEC efficiently on behalf of all users, while establishing a fair sharing of operating and capital costs among all users.

Operating Budget

Amtrak's grant request for operating support for FY07 is \$498 million which represents 19.5% of its total operating budget. The FY07 grant request for operating support was developed with reference to the FY06 expected operating performance, adding and subtracting anticipated business changes. The history and relevant data points referenced are:

FY06 Approved Operating Budget: On September 22, 2005, the Amtrak Board of Directors approved an operating budget for the company that projected a \$586.3 million shortfall between non-federal revenues and expenses. Board approval of that budget was conditioned upon (a) the company realizing \$46.3 million of unidentified efficiencies and (b) receiving \$540 million of Federal operating support. *(Note: the ultimate Federal grant for operating support was \$490 million, requiring that the company supplement operations with its own cash balances.)*

DOT IG FY06 Baseline Operating Budget: On January 5, 2006 the Inspector General for the Department of Transportation (in compliance with Amtrak's FY06 Congressional appropriation) adopted a "baseline" for Amtrak's FY06 operating funding requirement of \$586 million. The requested operating

support for FY07 is \$42 million below the approved FY06 budget and \$88 million below the DOT IG baseline operating budget. This requested level represents a significant stretch goal for Amtrak. This baseline was to be used to measure efficiency improvements the company might realize during FY06 in order to access funds held back by the Department of Transportation.

Current FY06 Forecast: On January 27, 2006, the company completed its first quarterly forecast for FY06, incorporating three months actual and nine months forecast performance and capturing many of the efficiencies anticipated by the Board when they approved the FY06 Budget. The forecast reflects revenue gains and expense reductions actually realized (and expected). It is this \$553.4 million forecast, as well as other business initiatives that management will pursue over the balance of the year, that has been used as the basis to develop the FY07 grant request for operating support.

FY07 Inflationary Assumptions

To develop the projected financials for an operating grant request for FY07, certain assumptions, such as ticket revenue growth, inflation and the anticipation of costs associated with taking over maintenance of high speed rail equipment were all factored into our projections.

The net impact of all these assumptions was to reduce the baseline FY07 operating support requirement from the base of \$553.4 million to \$541.7 million, excluding settlement of outstanding labor agreements.

FY07 Business Initiative Benefits

Besides the assumptions described above, the FY07 budget has attributed the benefits of revenue enhancement and/or cost reduction associated with a variety of strategic initiatives developed by the company, approved by the Board and planned for implementation during FY06 and FY07. In total, these initiatives are expected to reduce next year's required Federal operating support requirement by \$43.3 million. These benefits reduce the FY07 Base operating support requirement from \$541.7 million to \$498 million.

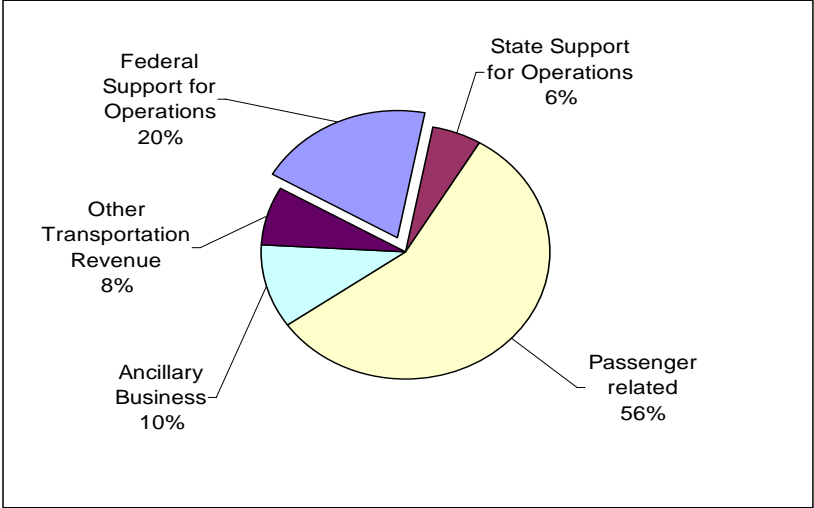
Summary

In summary, the table below illustrates the development of the FY07 Operating support grant request. As stated, the FY06 current forecast was inflated to FY07 and the benefits of approved initiatives were then applied:

	\$ millions
Base (FY06 Forecast)	\$553.4
Ticket revenue growth due to price adjustments, yield improvements, and economic growth	(40.5)
Other revenue growth including commuter and ancillary business	(18.0)
Average inflationary impact	46.8
FY07 Inflated Budget before initiatives	\$541.7
Benefits of Business Initiatives	(43.3)
FY07 Operating Funding Requirement	\$498.0

While Federal support for operations is critical, as the chart below illustrates, Amtrak's total operating budget is derived from many sources, not just the Federal appropriations process. Amtrak is able to internally generate about 80% of its total operating needs requiring about 20% to be derived from Federal support. Other sources include: ticket revenue, food and beverage, state support for operations, ancillary businesses such as commuter contracts, commercial development such as real estate and retail activities, and other transportation and reimbursable revenues.

FY07 Estimated Operating Revenue Sources



Working Capital/Restructuring

The request for working capital and restructuring support is the minimum necessary to begin to restore the company's level of cash reserves commensurate with the level of business risks common to a \$3.0 billion company and to fund a labor settlement and work rule changes. It should be noted that \$75 million amounts to only about 2.5 percent of the company's annual operating budget, and is an essential funding requirement.

The company understands the Federal funding constraints that led to the operating grant for FY06 (\$490 million plus a contingent holdback of \$31 million) and the Congressional expectation that the company would supplement that grant with beginning-of-year cash balances. In all likelihood, however, this strategy will reduce Amtrak's level of cash reserves to an imprudent level for managing any variety of business risks. Last year's operating problem with the Acela braking system jeopardized the company's cash position and it is important for any company to provide some margin for unanticipated business risks.

Although \$75 million in funding represents approximately ten days of cash expenditures, no company the size of Amtrak would reasonably allow its cash balances to decline below this amount without assured prospects of new funding. Leaving Amtrak with too little cash presents very high liquidity risks for all Amtrak stakeholders. As we have observed in the past, a prudent level of cash reserves is, in part, dictated by the fact that the company has no access to a working capital line of credit (to cover unexpected costs and for short term only).

Summary by Business Line

Amtrak operates what can logically be thought of as a number of distinct lines of business. Specifically, as outlined in last year's Strategic Reform Initiatives, Amtrak's business lines are broken down as follows:

Infrastructure Management. Maintenance, capital construction and management on Amtrak owned/maintained infrastructure. including:

- Boston-Washington main line (excluding Metro-North owned / maintained between New Haven, CT and New Rochelle, NY) – 400 route miles
- Philadelphia-Harrisburg – 104 route miles
- New Haven-Springfield – 61 route miles
- Empire Corridor – Portions between New York City to Albany – 29 route miles
- Michigan line – Porter, IN to Kalamazoo, MI – 96 route miles
- Maintenance yards and terminal track in several other locations, including Chicago, Lorton, VA, various Florida locations, New Orleans, Los Angeles, and Seattle.

Northeast Corridor (NEC) Operations. Train operations on the NEC main line from Boston to Washington (primarily Acela and Regionals).

State Corridor Operations. Train operations on all other short distance corridors (generally less than 500 miles), some of which are currently state-supported and others that for historical reasons, are "system" segments that are not currently state supported.

Long Distance Operations. Train operations on routes of more than 750 miles, currently including 15 trains.

Ancillary Businesses. Often referred to as "non-core" businesses, including real estate, commercial, reimbursable and commuter services, all of which are intended to make a contribution to other Amtrak operations.

Unallocated System. Shared functions such as accounting and legal services that are handled **more** economically on a central basis and are not easily assignable to specific business lines.

In the future, Amtrak will also have a separate business line for 'Fleet Management' so that its costs can be separately identified and managed.

This breakdown has already proven highly useful for Amtrak's business management, even while the company moves to a more robust activity based accounting system. The table on the following page identifies Amtrak's federal grant request by business line.

FY07 Grant Request by Business Line
Estimated Operating Sources and (Uses) of Funds*
(\$ millions)

	NEC Operations	State Corridor Operations	Long Distance Operations	National Train System	Infrastructure Management	Ancillary Businesses	Unallocated System	Total
Operations								
Operating Revenue	798.0	299.0	407.0	1,504.0	173.0	262.8	(87.0)	1,852.8
State Supported Train Revenue	-	145.0	-	145.0	-	-	-	145.0
Federal / (Internal) Operating Support	(244.0)	94.2	438.2	288.4	69.0	(77.1)	217.7	498.0
Total Revenues	554.0	538.2	845.2	1,937.4	242.0	185.7	130.7	2,495.8
Efficiency Initiatives	13.4	2.0	26.8	42.2	1.5	0.3	(0.7)	43.3
Total Operating Expense	(567.4)	(540.2)	(872.0)	(1,979.6)	(243.5)	(186.0)	(130.0)	(2,539.1)
Operations Funded by Internal Sources	-	-	-	-	-	-	-	-
Capital								
General Capital Needs	(83.0)	(52.0)	(84.0)	(219.0)	(530.0)	(16.0)	(75.0)	(840.0)
Efficiency Initiatives	(26.0)	(11.0)	(24.0)	(61.0)	(4.0)	(1.0)	(1.0)	(67.0)
State / Other Funding	-	-	-	-	173.0	4.0	-	177.0
Federal Capital Support	109.0	63.0	108.0	280.0	361.0	13.0	76.0	730.0
Capital Funded by Internal Sources	-	-	-	-	-	-	-	-

FY07 Grant Request by Business Line (Estimated) *
(\$ millions)

	NEC Operations	State Corridor Operations	Long Distance Operations	National Train System	Infrastructure Management	Ancillary Businesses	Unallocated System	Total
Federal / (Internal) Operating Support	(244.0)	94.2	438.2	288.4	69.0	(77.1)	217.7	498.0
Federal Capital Support	109.0	63.0	108.0	280.0	361.0	13.0	76.0	730.0
Total Federal Support for Operating and Capital	(135.0)	157.2	546.2	568.4	430.0	(64.1)	293.7	1,228.0

Mandatory Debt Service	295.0
Working Capital/Restructuring	75.0
Subtotal Debt Service and Working Capital	370.0
Total Federal Grant Request	1,598.0

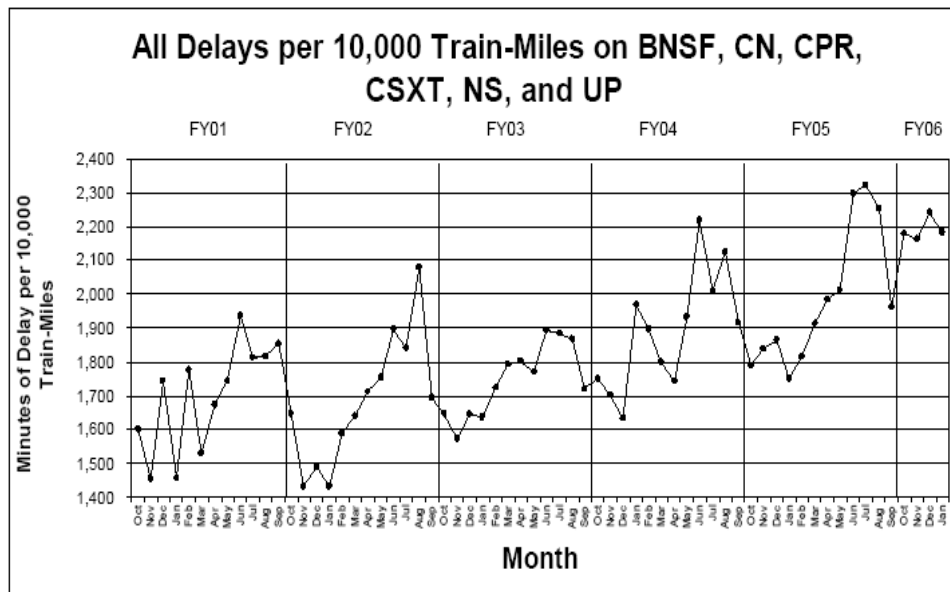
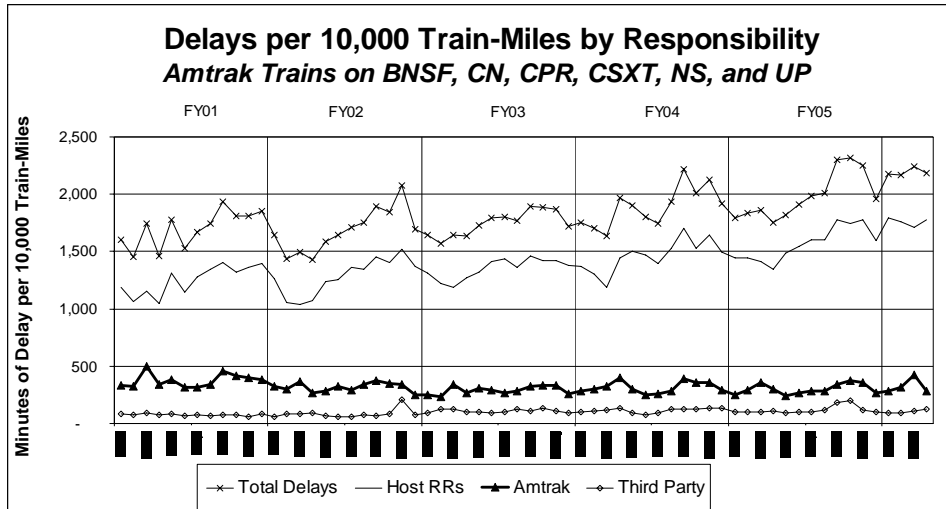
* Business line numbers should not be construed as distinct grant requests that can be funded separately; not all business line costs are eliminated if a line is eliminated. Estimates are preliminary and are subject to refinement. Numbers may not add due to rounding.

Strategic Investment Options

In addition to Amtrak's basic system requirements, there are a number of additional needs for intercity passenger rail, including national network reliability and growth in corridor services. These are issues that are more appropriately addressed in the context of reauthorization, but Amtrak believes it is important to advance this discussion even in anticipation of reauthorization.

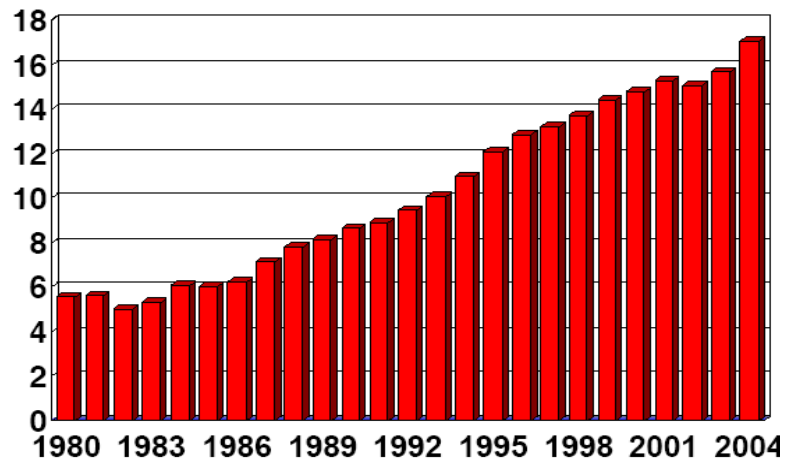
Network Reliability

Approximately 70% of Amtrak's train-miles are operated on tracks owned and operated by private, for-profit freight railroads and by commuter railroads ("host railroads"). For Amtrak trains operating on host railroads, the hosts are the largest single factor affecting Amtrak on-time performance (OTP). The six host railroads with the most Amtrak train-miles are consistently responsible for 75% to 80% of the delay minutes per Amtrak train-mile operated on their lines, and almost all of the variability in delays. Over the last five years, Amtrak-responsible delays have decreased slightly, while host railroad-responsible delays have increased dramatically as illustrated in these charts.



High delays and poor OTP are route-specific: some Amtrak routes on host railroads operate well, while others operate at OTP levels unsatisfactory to both Amtrak and its passengers. Routes with poor OTP often carry increasingly high volumes of freight traffic which in some cases approach or exceed a line's capacity (see chart below). As a result, the main causes of Amtrak delay on host railroads are constrained track capacity and high freight train traffic involving: freight train interference, speed restrictions, and signal delays. These three causes alone account for 60% of all delay minutes per 10,000 Amtrak train-miles operated on the six major host railroads. Delays to our long distance trains cost Amtrak tens of millions of dollars each year.

Millions of Class I Ton-Miles Per Mile of Road Owned



Source: AAR

Many of these delays could be reduced by carefully targeted capital investments. However, Amtrak does not control host railroad dispatching, maintenance, or capital investment decisions. If, or when, a host makes investments on a line to improve performance of its trains, as well as Amtrak trains, is outside Amtrak's direct control. However, lower-cost capital could be made available to host railroads for investments tied to demonstrable improvements in Amtrak transit time or on-time performance.

Keeping these issues in mind, Amtrak believes states, railroads, and other sources of private capital are poised to accelerate investment in rail improvements if proper legislative and financial incentives are put in place. That said, Amtrak also believes that any legislative initiatives to provide incentives for rail infrastructure investment should provide a joint benefit to both passenger and freight operations with a measurable improvement to OTP for passenger trains.

Specifically, Amtrak recommends a capital matching program of \$50 million that would augment operating incentive payments to freight railroads. It could come through Amtrak, the FRA and/or states. This program would:

- Fund joint benefit investment targeted to network chokepoints and linked to threshold performance improvements in intercity passenger rail OTP;
- Prioritize investment to areas that offer the greatest benefit to corridor services with the highest passenger volumes;
- Amtrak, states and FRA, working with host railroads, would work together to identify the projects and develop the criteria for funding.

State Corridor Development Grants

Amtrak, the FRA and states are currently working to advance planning and development of corridors through several cooperative efforts including:

- Development of a route competition pilot in which state(s) would develop a proposal to bring additional private sector participation into the delivery of corridor services; and
- Development of common specifications for next generation corridor equipment to reduce development and acquisition costs of new rolling stock.

While these are important steps, the key to spurring corridor development is the establishment of a federal matching capital program. In order to jump-start such a program, Amtrak is proposing that \$100 million of capital matching funding be included in FY07, even in advance of reauthorization. This grant money could be made available through the FRA directly to states for infrastructure and equipment grants on a federal-state matching basis. Eligible corridors – existing and new - would have to meet criteria demonstrating sufficient market demand and development of comprehensive corridor development plans.

Debt Service/Refinancing

\$295 million is needed for FY07 debt service payments, including some contractually required lease buyouts.

Amtrak proposes to begin a restructuring program for a portion of its long-term equipment lease debt to achieve a significant reduction in future debt service requirements. The cost would require an added appropriations increment of up to \$100 million. The restructuring is intended to achieve savings of \$45 million, above the initial \$100 million cost, and a rate of return of 14.8% per year.

Amtrak's total long-term debt is \$3.6 billion, of which almost \$0.9 billion is pre-funded or "defeased" (i.e. future debt service payments are met with the proceeds from existing, dedicated cash and security balances). The remaining long-term debt, \$2.7 billion, accounts for Amtrak's annual requirement for Federal funding for debt service (\$295 million in FY07 for principal and interest).

Of the unfunded debt, \$2.2 billion was originally structured as long-term sale/leaseback agreements. All such leases stipulate a fixed number of years during which Amtrak must make lease payments (comprised of principal and interest) and provide an opportunity (*but not an obligation*) for Amtrak to repurchase the leased equipment for its fair market value (FMV) at the end of the lease. Most lease agreements have an early buyout option as well as early termination schedules that provide the economic cost (to Amtrak) and reward (to the lessor) of an early lease termination.

All Amtrak equipment lease agreements are unique and must be evaluated individually, but Amtrak believes that there are immediate and significant opportunities to restructure a number of lease agreements that would reduce future Federal funding for debt service requirements. In order of restructuring priority, the individual leases provide a diversity of opportunities:

(1) **High Benefit - Recommended for Restructuring:** Some leases cover equipment that is currently surplus to Amtrak needs, but readily salable. In these cases, Amtrak would offer a lessor a payment that would:

- (a) attempt to obtain a discount off the otherwise stated termination cost,
- (b) eliminate future lease payments (principal and interest),
- (c) avoid all future obligations associated with storage and maintenance of the equipment to the satisfaction of the lessor, and
- (d) regain ownership of the leased equipment, creating the opportunity to promptly sell the equipment and receive an up-front cash benefit.

(2) **Moderate Benefit - Recommended for Restructuring:** Some older leases cover equipment that is foreseen as integral to Amtrak's operations in the future. In these cases, Amtrak would offer a lessor a payment that would:

- (a) attempt to obtain a discount off the otherwise stated termination cost,
- (b) eliminate future lease payments (principal and interest), and
- (c) regain ownership of the leased equipment, avoiding the need to pay the lessor FMV to repurchase the equipment when the lease matures just a few years from now.

(3) **Low Benefit - Not Recommended for Restructuring:** Some leases cover equipment that is surplus to Amtrak needs, but not readily salable. In these cases, unless a sale opportunity arises, Amtrak intends to allow the leases to run their course and forgo the opportunity to repurchase the equipment when the lease matures. Additionally, some newer leases cover equipment which is integral to Amtrak's operations but may not be economically restructured at the present time. In these cases, Amtrak intends to allow the leases to run their course until an economic opportunity to restructure arises.

If Amtrak were appropriated \$100 million in FY07 for the purpose of debt restructuring, our first targets would be those leases affording a high restructuring benefit. The expected economic benefits from a restructuring outlay of \$100 million are estimated at \$145 million: \$35 million up-front from the sale of surplus equipment and discount off the early termination costs; and \$110 million over the remaining life of the leases from the elimination of interest, principal, storage and maintenance costs. The transactions could demonstrate a payback period of 4.3 years and an internal rate of return of 14.8%. Specific initial target leases related to surplus and salable equipment (High Benefit option) are listed in the chart below.

(\$ millions)	Lease Example A	Lease Example B	Combined
Early Termination Costs:			
Current Principal Balance	\$ 22.00	\$ 58.20	\$ 80.20
Early Repayment Premium *	5.40	14.40	19.80
<i>Gross Termination Cost</i>	<u>\$ 27.40</u>	<u>\$ 72.60</u>	<u>\$ 100.00</u>
Potential Salvage Value	(5.00)	(30.00)	(35.00)
<i>Potential Net Termination Cost</i>	<u>\$ 22.40</u>	<u>\$ 42.60</u>	<u>\$ 65.00</u>
Annual Benefits (for the next 8.6 years):			
Eliminate Debt Service	\$ 4.00	\$ 10.00	\$ 14.00
Eliminate Storage/Maintenance	0.30	0.70	1.00
<i>Total Annual Benefits</i>	<u>\$ 4.30</u>	<u>\$ 10.70</u>	<u>\$ 15.00</u>
* Early Repayment Premium represents			
(a) future foregone interest premium,			
(b) stipulated equipment repurchase price and (c) "make whole" for lessors' tax losses.			

III. Reauthorization Issues

After several years of debate, Congress is now poised to find consensus and reach closure on the longstanding issue of Amtrak reauthorization and the future of intercity passenger rail in the United States. Since Amtrak's authorization expired in 2002, the lack of a comprehensive federal passenger rail policy has led policymakers to address Amtrak 'reform' issues in the annual federal appropriations process. The result has been piecemeal rather than comprehensive in its approach to change. We have identified two of the key issues that should be addressed in the context of Amtrak reauthorization and they are also the basic principles upon which Amtrak's SRI was developed. They include:

- Establishment of a predictable multi-year capital funding program, including federal capital matching funds available to the states to improve intercity rail service; and
- An end to Amtrak's virtual monopoly on intercity rail service with the introduction of increased competition into the industry to spur efficiency, productivity and performance improvements.

Capital Matching Program for States

There is considerable agreement in the transportation planning community that traffic congestion and urban sprawl present significant economic and environmental challenges for our growing cities and suburbs. These problems have existed for years, but now approach a point in the development of transportation policy at which intercity passenger rail service must be positioned on comparable footing with more conventional transit, highway and aviation programs, particularly when it comes to federal funding. Intercity passenger rail corridor development between a number of large metropolitan areas presents a worthwhile option for state transportation planners and for millions of travelers.

Unlike passenger rail, other modes of passenger transportation—highways, transit, aviation—currently enjoy a federal capital matching program ranging from 50-100%. Passenger rail, however, has never benefited from such a long-term, committed capital match program that attracts states into the funding mix—an essential element of the future of passenger rail. Today, if a state or local agency is interested in addressing a transportation need, they have a choice of: (1) investing in transit, highways or airports and leveraging their dollars as much as nine to one; or (2) investing in rail and receiving no federal match. The demand is clearly present as a number of states have begun developing rail corridors in spite of this imbalance, but the lack of a federal match has severely retarded state and local investment. A serious effort to establish rail as part of the strategy for addressing this country's transportation needs will require modal equity in capital matching support.

In other words, as federal match programs have demonstrated with other modes of transportation, state and private industry will only find investments in rail attractive with a federal program commitment; without that commitment, unleveraged investment coupled with the risk that without federal support passenger rail might cease to exist at all, simply make investment in passenger rail infrastructure, equipment and operations too risky for many states and most private investors. Time is of the essence in establishing such a matching program.

Amtrak's SRI requires that starting in FY08 all states with corridor passenger rail service will begin to phase in to 100% coverage of Amtrak's fully-allocated operating losses.

Therefore, Amtrak agrees with the Administration and every other responsible proposal for passenger rail reform that the federal government should create a capital funding match program for rail corridors (Amtrak believes that match should be 80%-20% federal-state). The bottom line is this: a dedicated funding source for passenger rail is absolutely essential if it is to succeed as a viable transportation alternative in the 21st century.

Federal Platform for Competition

The introduction of competition across many industries, from telecommunications to transportation (including the airline industry), has generally resulted in lower prices, higher quality and more options for consumers. Currently, there is little competition in the intercity passenger rail industry. Amtrak believes that in order to grow intercity passenger rail in the future, a greater level of competition and private sector participation is essential.

Amtrak's SRI outlines a series of legislative initiatives intended to foster competition in passenger rail – initiatives that would need to be addressed by Congress. For our part, Amtrak is currently identifying opportunities for private participation and competition for services and functions. For example, we are evaluating alternative food service providers and other potential options for outsourcing – particularly in areas where Amtrak is not, or is unable to become, the most cost-effective or highest quality provider of a service.

These are complex issues for which there are no simple remedies. Open, competitive operator/supplier markets are vital to the future of intercity passenger rail and Amtrak is committed to working with all stakeholders to arrive at an approach that can bring about fair competition.

Station Accessibility

The Americans with Disabilities Act requires Amtrak to make all stations for which it is a "responsible person" readily accessible to passengers with disabilities by no later than July 26, 2010. Except for stations that are more than 50% owned by a public entity, Amtrak has either sole or shared responsibility for accessibility improvements necessary to meet this statutory requirement at 425 of the 517 rail stations which it currently serves. The definition of stations includes platforms.

Insufficient time and funding are likely to prevent full compliance at all station stops by this deadline. Based on partial surveys performed to date, Amtrak estimates the projected cost for necessary ADA improvements to exceed \$200 million. Platforms represent 75% of the accessibility costs at stations. However, uncertainty in the regulatory framework applicable to the height of station platforms will further complicate timely implementation of actual work. The Department of Transportation issued a Notice of Proposed Rulemaking on February 27, 2006 to address, in part, ADA platform requirements. This rulemaking will address the uncertainties in the current regulations and will hopefully resolve disputes that have arisen over the current interpretation of the platform height requirement. The rulemaking process, itself, is likely to take many months to complete. Until the platform height issue is definitively resolved, proceeding with

platform work is, at best, risky, and at worst, a wasteful expenditure of public funds. Accordingly, Amtrak requests an extension of time to meet the statutory obligation until at least 5 years after promulgation of final regulations by the Secretary addressing platform requirements.

Even after clarification of platform obligations, Amtrak will not have sufficient funding to complete the statutory mandate. Amtrak's base request above includes \$22 million for station accessibility design work in FY07, but significant additional funding will be needed from a combination of sources to ensure full compliance. For this purpose we request an additional \$25 million in FY07.

Security

Congress needs to fully address rail security needs either as part of an Amtrak reauthorization or separately. In the meantime, Amtrak continues its aggressive campaign of improving and re-engineering security across the corporation. Executive and senior level management involvement in security issues through the Executive Security and Regional Security Coordinating Committees has helped in developing a security consciousness among employees. The Vice President, Security and Chief of Police have instituted a reorganization of the Police and Security Department that includes a more concentrated focus on counter-terrorism policies and initiatives and a commitment toward establishing interagency law enforcement relationships to build partnerships that will improve support and assistance for the national rail passenger service. In addition, Amtrak continues to work closely with federal agencies, including Department of Homeland Security (DHS) and FRA, to ensure that rail security efforts are effectively channeled and coordinated.

Amtrak has made other important strides on the rail security front. In 2005, employees completed a Security Awareness Training program that stressed security is everyone's responsibility. The Police and Security Department utilized new deployment methods to increase police presence and visibility by creating the Tactical Intensive Patrol program and by having police officers perform train-riding assignments on a regular basis. In a first for Amtrak, a DHS security grant was awarded in fiscal year 2005 for over \$6.3 million. Amtrak is using these grant funds to increase explosive detection canine teams, deploy explosive resistant trash cans, chemical detection systems and various other counter-terrorism devices as well as to promote passenger awareness and to conduct a full scale emergency exercise.

A part of the grant program allowed Amtrak to have a risk assessment of the Corporation's Northeast Corridor and Chicago area conducted by a DHS contractor who will also help Amtrak prepare a five (5) year security plan. These security products will form the basis of future security funding requests and will help shape and prioritize Amtrak's security needs through detailed analysis and assessment of identified risks and vulnerabilities. Through this process, Amtrak identified \$15 million in its capital funding request for FY07. It also anticipates additional grant funds from DHS to expand upon security programs and to begin a risk assessment of Amtrak's western service area.



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