

Alex Kummant
President and Chief Executive Officer



February 15, 2007

Honorable Richard B. Cheney
President of the Senate
U.S. Capitol
Washington, DC 20510

Honorable Nancy Pelosi
Speaker of the House of Representatives
U.S. Capitol
Washington, DC 20515

Dear Mr. President and Madam Speaker:

Pursuant to Section 24315(b) of Title 49 U.S. Code, we are transmitting to you Amtrak's FY2008 Grant and Legislative Request. In this letter, we briefly summarize operational improvements achieved over the last two years, outline Amtrak's views on the need for passenger rail growth, and provide an overview of our FY2008 funding needs.

Operational Improvements

As we enter 2007, Amtrak continues to make progress on reform efforts begun in 2005. The company achieved \$61.3 million in operational reform savings – cost and revenue improvements – in FY2006¹, and has budgeted an additional \$61 million for FY2007. With an additional \$80 million plus in savings targets in FY2008, Amtrak will have eliminated \$200 million in recurring annual losses in just three years. At the same time, we have maintained and expanded our focus on safety – achieving a 40 percent reduction in our injury rate in the most recent quarter.² Finally, Amtrak has continued to reduce its long term debt – from nearly \$4 billion in 2002 to under \$3.5 billion today.

¹ See DOT Office of the Inspector General – January 2007 quarterly report to Congress pursuant to Public Law No. 109-115.

² FRA reportable injury rate per 200,000 man-hours was reduced from 3.3 in FY2006 to 1.9 in the first quarter of FY2007.



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In addition, as highway and airport congestion mounts, gas prices remain volatile, and the public becomes increasingly concerned with the environmental impact of automobile emissions, many travelers continue to look for alternatives. Amtrak's recent focus on customer service, along with growing state investment in corridors, has made intercity rail an increasingly attractive option. The result was record ridership in FY2006 of 24.3 million and record ticket revenues in FY2006 of \$1.37 billion – a jump of 11 percent from FY2005. Early FY2007 trends suggest similar strength, with ridership up 4 percent and ticket revenues up 10 percent in the first quarter over the same period last year.

During the balance of FY2007 and FY2008, Amtrak will build on operational improvements the company has made over the last year and a half. While continuing to instill a culture of continuous improvement throughout the organization, we will focus our efforts on seven critical areas:

- Security – Coordinate and integrate security enhancements into capital investments and the protection of critical assets. Develop a comprehensive passenger screening methodology.
- Ridership and revenue – Expand the successful Acela customer service improvement and product test programs. Accelerate the e-ticketing program and expansion/upgrades of self-service ticketing kiosks.
- Long-distance services – Continue the implementation of more cost-effective, higher quality food and beverage services, and selective route adjustments.
- Corridor development – Work with states on service, infrastructure and equipment planning, begin procurement of new diesel multiple unit (DMU) cars, and continue to focus the organization on corridor partnerships.
- Mechanical operations – Continue revamping of traditional maintenance practices through expansion of Amtrak's reliability centered maintenance program beyond Acela and restructuring of work at facilities, in order to improve equipment reliability and availability while reducing maintenance costs.
- Information technology – Develop and implement a new IT architecture to replace outdated and ineffective legacy systems and business processes, and provide relevant, timely and accurate management information for improved decision-making.
- Labor settlements – Strive to achieve labor agreements providing reasonable wage increases while ensuring modernized workplace flexibility and cost containment.



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These areas represent key drivers not only of financial performance, but of the future success of Amtrak's brand and positioning in an emerging competitive marketplace. Demonstrating success in these parts of the business will also serve to advance continuous improvement throughout the organization.

Passenger Rail Growth

While Amtrak is committed to delivering continuing operational efficiencies and financial improvement, we also recognize that passenger rail is poised to play an increasingly significant role in our nation's transportation system – particularly in 100-500 mile corridors.

States have begun to take the initiative in meeting the burgeoning demand for enhanced rail services as an option for travelers, and the federal government seems ready to join in these efforts. The growing attention to environmental quality and energy efficiency has accelerated the push to expand the role of freight and passenger rail.³

The establishment of a modest federal capital program to leverage state investments, as proposed in both the President's FY2008 budget and in S. 294, the Passenger Rail Investment and Improvement Act, could substantially expand states' abilities to meet the growing demand for rail corridor services. Strategic public investments in passenger rail corridors would also benefit the movement of freight, an increasingly critical issue for the nation's economy.

Amtrak is doing its part to advance corridor development. First, the company is refocusing efforts on meeting future fleet replacement and growth needs by working with states and car manufacturers on a standardized set of equipment specifications; this grant request proposes to seed the effort through a small procurement of diesel multiple unit (DMU) cars well suited for lower density corridors. Second, we are working closely with states to transition decision-making, and ultimately funding responsibility, on all corridor routes from Amtrak to states; during the transition, Amtrak is committed to assisting states on service, infrastructure, and equipment planning. Finally, we are undertaking a series of organizational changes to become more responsive to our state customers, establishing a strong regional presence around the country.

Growth on the mature Northeast Corridor (NEC) between Boston and Washington is likely to be more modest than on emerging corridors across the country. But ongoing investment is needed to complete

³ Studies suggest that rail is substantially more energy efficient than other modes; the Oak Ridge National Laboratory's Transportation Energy Book (2006), for example, reports that Amtrak consumed 18 percent less energy per passenger mile than commercial aviation and 17 percent less than automobiles (based on 2003 data).



the return to a state of good repair and to meet future growth among commuter services that rely on the corridor. While Amtrak operates more train miles than all other users of the corridor combined, Amtrak also recognizes that it plays an important public role in managing and operating the NEC for a number of other important commuter and freight users. In addition to focusing on an increasingly efficient operation – continuing, for example, to reduce slow orders (26 percent decline in FY2006) and enhance reliability for all users (e.g., on time performance improved to 87 percent on Acela, and 94 percent on New Jersey Transit trains in FY2006) – we will establish an Infrastructure Advisory Council to foster greater collaboration, particularly around capital planning for the corridor.

Finally, Amtrak believes that a national system of long-distance routes should continue to be part of the fabric of a future rail network. We must continue to improve the efficiency of that network, and selectively adjust routes or convert segments to corridors where market demand warrants. But while most of the future growth in service will be in shorter-distance corridors, a basic network of inter-regional connections should remain in place.

With a federal-state capital program in place, along with strong freight railroad and state partnerships, Amtrak believes that intercity passenger rail ridership can double over the next 15-20 years, with the bulk of the growth in corridors across the country.

FY2008 Funding Needs

While Amtrak believes an increasing share of federal rail funds should go directly to the states on a “matching” grant basis for use in corridor development, there is a core level of investment in Amtrak that is needed to provide the foundation for growth. Amtrak’s FY2008 funding needs are estimated at \$1.53 billion, a slight increase over the FY2007 budget due entirely to capital investment needs.⁴ In addition, we suggest, as we did last year, that Congress provide matching investment funds to states and communities for strategic investment needs. Table 1 (page 5) summarizes the FY2008 funding request vs. FY2007 budget.

⁴ Amtrak’s federal funding level for FY2007 remains undetermined at this time; if the level is substantially below our budget of \$1.45 billion, funding needs in FY2008 would be greater to ensure an adequate level of working capital.



Table 1. FY2008 Grant Request vs. FY2007

Amtrak Funding Needs	FY07		FY08
	Grant Request	Adjusted Budget	Grant Request
Operating *	498	485	485
Capital	730	675	760
Debt Service	295	294	285
Working Capital	75	-	-
Total, Amtrak Needs	1,598	1,454	1,530
Strategic Investment Needs			
	State Corridor Match		100
	Initial ADA Station Compliance		50
	Total, Strategic Investment		150

* FY08 projections account for anticipated inflation (e.g., benefits, fuel) offset by additional initiative savings; see discussion below.

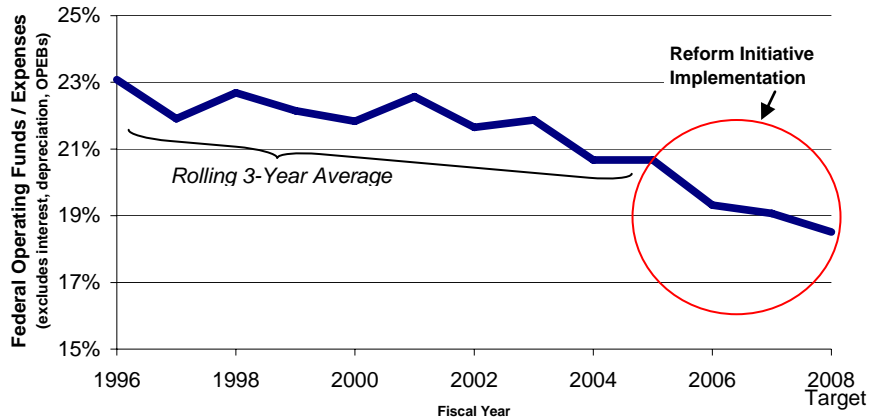
Operating Funding

In FY2008, we continue the trend of operating revenues covering a growing portion of our expenses, with a resulting reduction in federal operating funding requirements. As Table 2 (page 6) shows, the ratio of federal operating support vs. expenses continues to drop, from over 20 percent in 2005 when the reform initiatives program began to a projected 18.5 percent in 2008.⁵

⁵ Federal support ratio is defined as federal operating funds needed (\$485 million in FY2008) divided by total expenses excluding interest, depreciation, and other post retirement expense benefits, projected at \$2,619 million in FY2008.



Table 2. Federal Operating Support Ratio



If Amtrak were to continue operating with efficiencies in place through FY2007, but no additional improvements, inflation in revenues and expenses would leave baseline operating needs at \$567 million. Our ongoing efficiency program currently targets \$82 million in savings in FY2008, bringing federal operating funding requirements back to \$485 million. Table 3 summarizes the FY2008 operating needs building from the FY2007 budget.

Table 3. FY2008 Operating Forecast

	\$ millions
FY 07 Budget	
Operating revenues	2,080
Operating expenses (less interest, depreciation, OPEBs)	(2,565)
Net cash operating budget - FY07	(485)
Projected FY08 Changes	
Ticket revenue growth	67
Other revenue increase (incl. ancillary businesses)	14
Benefits inflation (e.g., healthcare)	(92)
Other expense inflation (e.g., fuel)	(71)
Incremental benefit from initiatives (revenue and expense)	82
Net cash operating forecast - FY08	(485)



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Capital Needs

Basic capital needs to return Amtrak-owned infrastructure and fleet to a state of good repair, and to maintain it in that state, continue at levels required over the last several years. The capital overhaul program on existing rolling stock is needed both to keep aging equipment in safe working order and to minimize failures. Recent efforts have focused on catching up from deferred investment prior to 2003. Since 2004, Amtrak has concentrated on overhauling basic equipment types to improve reliability – including Amfleet and Horizon equipment used in Northeast and Midwest corridor services and Superliner cars used in long-distance service. As a result, almost 70 percent of Amtrak’s passenger car fleet and 85 percent of its locomotives will be in a state of good repair by the end of FY2007, with the balance of the fleet scheduled for overdue overhauls in FY2008 and FY2009.

Moreover, we will continue building on recent efforts to upgrade or replace obsolete infrastructure assets – efforts that have put the Northeast Corridor in its best condition in over 20 years. Major projects last year included:

- Initiating replacement of the Thames River bridge in Connecticut;
- Renewal of 61 miles of electric catenary hardware;
- Replacement of unreliable, 1930s-era transmission cable in the Baltimore tunnels;
- Completion of freight and commuter projects in Rhode Island and Massachusetts; and
- The advancement of the Penn Station tunnels fire and life safety program, including a new ventilation plant and completion of the floodgates in each tunnel.

We have also rebuilt much of the track, including replacing wood with concrete ties, and worn or jointed rail with continuous welded rail, and improving below-track drainage. This recent work is bearing fruit, with Amtrak and commuter services all experiencing improved reliability. Continuing the work of the last few years is critical to ongoing safe and increasingly reliable service.

In addition, our grant request also includes an initial “seed” purchase of diesel multiple unit (DMU) cars for use on lower density corridors, allowing Amtrak to free up equipment for state corridor growth⁶. The request includes high-return business initiative investments (e.g., electronic ticketing, diner-lounge conversions) to address our ongoing reform efforts – delivering near term benefits to the operating bottom line. Table 4 (page 8) summarizes the base capital needs.

⁶ Amtrak has previously proposed purchasing DMU equipment but capital budget constraints have necessitated postponing such a procurement.



Table 4. Amtrak Base Capital Needs
 FY2008 Request vs. FY2007 Budget

\$ millions

Amtrak Capital Needs	FY07 Budget	FY08 Request
Legal Mandates ^(a)	93	106
State of Good Repair		
Infrastructure	406	407
Equipment Overhauls	181	182
Stations/Facilities	60	87
Other ^(b)	59	60
Subtotal	706	736
New Equipment	1	21
Business Initiatives	85	89
Non-Federal Funding	(210)	(192)
Total	675	760

(a) Tunnels life safety, mandatory equipment inspections, ADA assessments, environmental remediation and pollution control. ADA compliance funding is not included here; see separate discussion below.

(b) Safety and security, information technology, vehicle procurement.

Strategic Investment Needs

Finally, there are two key areas that require special investment: Americans with Disabilities Act (ADA) compliance at stations, and federal-state capital matching funds for corridor development. As we stated last year, insufficient time and funding are likely to prevent full compliance at all station stops by the 2010 ADA deadline. The projected cost of compliance is approximately \$250 million. The outcome of a pending DOT rulemaking regarding station platforms, however, will likely affect the time required to comply and could significantly increase the costs. Accordingly, similar to last year, Amtrak requests an extension of at least five years to meet the statutory obligation after promulgation of final regulations by the Secretary. In the absence of clarity over the ultimate station platform requirements, Amtrak proposes a placeholder figure of \$50 million in ADA funding for FY2008 above our base grant request.

With regard to corridor development, an initial investment of \$100 million in FY2008 – as proposed in the recently introduced Passenger Rail Investment and Improvement Act (S. 294) and in the President's FY2008 Budget – would be an important start and a valuable signal to states regarding passenger rail. This money should be provided directly to states as a match on corridor investment capital funds. Ideally, such an investment program will be addressed through reauthorization or another legislative vehicle.



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In the coming months, Amtrak will update our multi-year strategic plan. The Board and senior management held a comprehensive strategy session on January 31 and February 1 to reassess priorities and milestone targets. The strategic plan will provide a progress report on the reform initiatives, a more detailed approach to developing corridors across the country, and a multi-year capital plan. We will brief Congress and our stakeholders as the plan is finalized in the spring.

Sincerely,

A handwritten signature in black ink, appearing to read "Alex Kummant". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Alex Kummant
President and Chief Executive Officer