

Alex Kummant
President and Chief Executive Officer



February 20, 2008

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, the National Railroad Passenger Corporation (“Amtrak” or “the Company”) submits its Grant and Legislative Request for Fiscal Year 2009. In this letter, I will summarize the operational improvements the Company has achieved in Fiscal Year 2007, state and explain the Company’s request for financial support in Fiscal Year 2009, and outline Amtrak’s views on the need and opportunities for passenger rail growth.

Introduction

Amtrak has come to a pivotal moment. On January 18, 2008, the Company concluded agreements with nine of its bargaining partners representing Amtrak’s agreement-covered employees that will, when ratified, bring Amtrak closer to resolving the last outstanding issue of a long unsettled and financially difficult period. Now that the labor negotiations are almost complete, Amtrak will be able to focus greater attention on the key tasks of further improving Amtrak’s business processes, improving the consistency and reliability of our service, and undertaking some limited expansion of our services to meet a growing demand for passenger rail travel that has manifested itself in the last five years.

During that period, the Company has effected many changes and improvements, and has realized some important and material gains and efficiencies in its operations. A pattern of passenger and revenue growth has allowed Amtrak to gradually reduce the federal subsidy per passenger mile by about 17% since FY 2004, while increasing its revenue per available seat mile during the same period by about 25%. These are welcome trends, but while they are reflective of improvements in management and revenues, they must be understood in the context of the collective bargaining process, and larger economic trends that will affect our costs in upcoming years.

For these reasons, Amtrak is requesting a somewhat higher level of funding for FY 2009 than it requested for 2008. We are doing so because we must accommodate a significant increase in our labor costs (wage and benefit increases) attributable to the collective bargaining process and because of very real uncertainties about larger national economic trends. While we will work to sustain and expand our revenue base, we cannot guarantee continued large, incremental increases in our revenues over the same period. Subject to our employees' ratification of the labor contracts that were signed on January 18, 2008, wages will increase by about 33% by the end of FY 2009. The preponderance of the increase will fall in FY 2008, but the FY 2009 budget will include a 4.5% wage raise for the affected agreement employees. We anticipate that health care and diesel fuel costs will continue to grow in the pattern we have seen in recent years (discussed in greater detail below). This combination of fixed and variable price increases has led us to reassess our revenue projections to ensure that the Company has sufficient funds to operate, particularly in light of the known need for funding of retroactive pay settlements which will be discussed below. The larger national economic trends are not entirely clear, and we are therefore forecasting a modest net growth in revenues of 3.5%, which is just below the FY 2003-2007 average revenue growth of 3.7%. Under such circumstances, we believe that the combination of known and foreseeable cost increases, conservative projections of revenue increases and budgeted federal operating support will avoid the risk of financial overstretch.

Strategic Priorities

Amtrak's strategic priorities must be derived from its unique location at the intersection of public policy and private industry; we are the national provider of intercity passenger rail service. We understand that our role involves both the stewardship of public money and the provision of an essential national service. Our guiding principles are accountability and intelligent growth – goals that will help us focus our efforts on increases in our ridership and return on existing services over the next few years, while concurrently developing selected new services that will maximize return on our assets and improve net revenue gain. Work on a detailed corporate strategy document is underway, and we intend to complete both a detailed strategy and an implementation document in the early spring; both will be provided to the committee when they are complete.

We understand what is expected of us, and we will need to improve and refine several aspects of the Company to accomplish it. An effort of this kind will involve modernization of management systems and information technologies. It will require the development of a modern workforce and the management with the skills, experience and education to deliver a quality product. It will require the exploitation of comparative advantages Amtrak now enjoys and of potential advantages such as intermodal connectivity. Finally, and perhaps most importantly, we will have to begin the process of procuring a modern fleet – one that will allow us to support both the full range of current operational needs and the needs of the year 2020. Amtrak's equipment is aging; average age of its coach fleet is 24 years, and the average age of the locomotive fleet is over fifteen years. Replacement of this equipment with modern rolling stock is a high priority.

These priorities will be the focus of our efforts in coming years. In cooperation with freight railroads, Amtrak is interested in developing fast, frequent and reliable service over distances of less than 350 miles on corridors linking major metropolitan areas. State partners and federal matching funds will be essential to the realization of this vision.

Amtrak has obtained efficiency savings through improved management processes and through targeted investment in areas such as dining car and lounge car service as well as infrastructure projects to improve reliability. Some improvements have provided additional revenue, while others have reduced expenditures. Collectively, they resulted in savings of \$61.3 million in FY 2006, and another \$52.8 million in FY 2007. In FY 2008 the Company projects a net savings of \$40.3 million. This savings will be realized through a series of cost-cutting and revenue-generating initiatives that will include:

- Improvement of *Acela* maintenance practices
- Improvements to long distance service, including the introduction of Diner/Lounge cars on selected trains and the relaunch of the *Coast Starlight*
- Rationalizing and consolidating facility maintenance activities
- E-ticketing and on-board credit card service

The Company will continue to require a core level of investment and support for operations and capital investment to continue progress on state of good repair and technology initiatives.

Table 1. FY 2009 Grant Request vs. FY 2008

Amtrak Funding Needs (\$millions)	FY 2008			FY 2009
	Grant Request	Board Approved Budget	Appropriation	Grant Request
Operating	485	475	475	525
Capital	760	600	565	801
Debt Service	285	285	285	345
Total Amtrak needs	1,530	1,360	1,325	1,671
Additional Needs for the 60% Retro wages for labor per PEB				114

Challenges and Risks

While demand for passenger service has reached record levels, Amtrak will continue to face some serious economic, managerial, and mechanical challenges. Expenditure and investment drive and sustain our operations, and help us to meet those challenges. In the case of our labor force, pay raises will improve our ability to retain our skilled workforce, reduce turnover, and save on the expense associated with replacing employees who depart for better paid jobs elsewhere. Similarly, the Company will continue to require a core level of capital investment if operating costs are to be minimized. Investing in our fleet, infrastructure, and business processes allows us to avoid the significant costs and lost business associated with service failures and infrastructure problems, and allows us to provide expanded service with our existing fleet and staff.

New Labor Agreements

Amtrak expects to realize a general settlement with our unions in the first half of 2008. Presidential Emergency Board (PEB) 242 recommended a settlement include full retroactive (to 2002) pay. Amtrak's FY 2009 operating request includes health care cost increases, benefits costs, and wage costs, but does not include any of the retroactive pay costs. The PEB recommended that Amtrak break its retroactive payments into two parts. The 40% "back pay" payment that the PEB recommended the Company make in FY 2008 is affordable with management of favorable year to date results. However the 60% (or \$114 million) of the "back pay" payment the PEB requested be made in FY 2009 is not included in this FY 2009 request, nor do we believe it will be covered by increased net revenues. While Amtrak does not have the means to pay the additional 60%, the PEB made clear its belief that the decision to fund this amount lies with Congress.

Included in the 2008 budget and the 2009 forecast are wage and benefits increases mandated by the labor agreement. The 2009 round of agreement wage increases will add \$27 million to the budget in direct wage and overtime costs. The Company will also have to address corresponding wage-related increases in Railroad Retirement tax payments (which will be addressed in their entirety below).

Health Benefit Expenses:

In FY 2007, Amtrak expended \$250 million to fulfill its obligations to provide contracted-for health benefits. Two independent estimates indicate that Amtrak will experience a ten percent growth in those expenses in FY 2008. Additionally, the PEB decision, while accepting Amtrak's position on increases in the employee matching contribution for cost sharing, will require increases in benefits payments by Amtrak to match certain benefit levels provided by the rail industry's group health care plan. The inflationary pressure of health care costs is a national phenomenon, and Amtrak is no exception. Employee cost sharing will relieve the company of some expenses – but the growth in costs will nevertheless be significant.

Rising Fuel Costs

Fuel costs have also risen drastically. Amtrak believes that these increases have driven increased passenger rail ridership demand as travelers avoid driving and seek alternatives to expensive airplane travel. However, they have also raised operational costs, even as fuel consumption has dropped annually since FY 2003. In FY 2007 the company spent approximately \$139.0 million for diesel fuel, and it expects fuel costs to increase by another 10.8% in FY 2008 to \$154 million. It expects to spend an additional \$7.9 million in FY 2009 even as fuel consumption declines slightly.

Engineering Expenses

Amtrak's high speed lines on the Northeast Corridor are laid on concrete ties. These ties provide the stability vital to high-speed service, and Amtrak has purchased 3.4 million of them since 1978. Track inspections have revealed varying levels of cracking in numerous ties, resulting in slow orders on the Northeast Corridor in 2007, and the problem has accelerated in 2008. This is a critical problem, since tie-related slow orders are already delaying trains on the Corridor. Speed restrictions translate into increased expense and lost revenues, so Amtrak intends to replace defective ties as rapidly as possible. About forty percent of the potentially defective ties have been inspected, and the replacement process has already begun. The supplier is contractually obligated to replace many of the defective ties, but this does not

cover the substantial labor costs associated with replacement, much of which must be done during off-peak hours to minimize traffic disruption. The full scale of the problem is still being analyzed, but Amtrak expects an expenditure of at least \$23.5 million in FY 2008; costs in 2009 are not yet known, but could be substantial.

New Equipment Procurement

Although Amtrak has invested heavily in the maintenance of our rolling stock, much of our fleet is aging and will reach the end of its service life in a few years. Maintenance costs rise as equipment ages, and this increases the stress on a fleet sized for lower levels of demand. If Amtrak is to provide efficient service, it will need to begin a new round of equipment procurement in the years ahead. Failure to procure new equipment will eventually lead to greatly increased operating costs and lost revenues as failure rates affect service and decrease equipment availability, generating a correspondingly unfavorable effect on revenues as travelers respond to delays and discomfort. To start this equipment acquisition process, Amtrak intends to use some of the funds in its 2009 capital budget for pilot programs, procurement of new equipment for short distance corridor service, and the testing or demonstration of new equipment for the Northeast Corridor.

Compliance with the Americans with Disabilities Act

Compliance with the terms of the Americans with Disabilities Act, as it pertains to accessibility of rail stations for passengers with disabilities, is another significant challenge. Insufficient funding to date, lack of clarity in the DOT regulations and, by itself, insufficient time will prevent full compliance by the statutory deadline of July 26, 2010. The projected cost of compliance is under study and is likely to range between \$250 and \$500 million. If, however, the DOT's proposed rules on full platform length level boarding are promulgated – which would necessitate high-level platforms at many stations - this cost could increase to between \$1.2 and \$1.6 billion. Amtrak has requested that DOT withdraw its 2005 Guidance and proposed rules on full platform length level boarding and conduct a collaborative study (with Amtrak and other interested parties) to determine if any regulatory changes are warranted. In the meantime, Amtrak will continue the process of compliance with the requirements of the Americans with Disabilities Act which permit lifts, ramps and mini-high platforms as acceptable means for making trains accessible to mobility-impaired passengers. Because the ultimate regulatory outcome is unclear, Amtrak requests an extension of at least five years from the date of promulgation of the final DOT regulations to meet its statutory obligations, and additional time for any station which needs extraordinarily expensive structural changes (e.g., raising platforms, installation of elevators, or alterations of similar magnitude or cost).

Risk of Recession

There are other external challenges that could affect the Company. A recession could slow or reverse growth as riders reduce discretionary or business travel. This could accompany or follow rises in the price of diesel fuel that exceed the increases we are currently planning for, and the effects on our operating costs could be significant.

FY 2009 Operating Request

A number of factors outside of the Company's control will increase operating costs in FY 2009. Salaries, wages and employee health benefit costs that collectively account for 60% of total operating expenses will increase due to new labor agreements. Amtrak had hoped to gain certain savings by changing work rules to allow for the more efficient employment of its workforce. The PEB did not accept Amtrak's recommendations and this will contribute in part to the rise in costs in upcoming years. Total employee-related expenses (salaries, wages, overtime, benefits and related expenses) will rise by \$85.0 million (5.2%) from the FY 2008 forecast, as a result of the cost of the labor settlement and increased health benefit costs. Of this total, wage increases account for \$27 million, salary increases will total \$8 million. The largest single component, \$31 million, represents health care cost increases, while Railroad Retirement tax payments account for \$9.5 million. Pension costs are \$600,000, and 8.9 million represents cost allocations related to capital projects.

Table 2 summarizes the Company's operating needs for FY 2009:

Table 2. FY 2009 Operating Forecast

\$ millions	FORECAST 2008.FY	PROJECTION 2009.FY
Ridership (millions of riders)	26	26
PROJECTED OPERATING LOSS		
REVENUES:		
Total Passenger Related Revenue	1,898	1,977
Commuter & Other Revenue	427	430
Total Operating Revenue	2,325	2,407
EXPENSES:		
Salaries	216	224
Wages & OT	886	913
Benefits	534	584
Train Operations	224	238
Fuel, Power, & Utilities	344	358
Materials	166	173
Facility, Communication, & Office	148	153
All Other	264	270
Total Expenses	2,782	2,913
Projected Net Operating Profit (Loss)	(457)	(506)
Amtrak Office of Inspector General	19	19
Projected Net Operating Profit (Loss)	(475)	(525)
Retro payment due (60%)		114

To offset increasing expenses, Amtrak is working to implement a range of programs aimed at cost reduction. Amtrak is also evaluating its management options, with a view to seeking efficiencies in the organization of its non-agreement staff.

Radical upgrade of Amtrak's information systems is critically needed. To meet this objective, our CIO is developing an information strategy based on a comprehensive blueprint for an enterprise-wide architecture to guide new systems development and business process reengineering. A high-priority portion of this effort focuses on our Strategic Asset Management (SAM) project, integrating financial, supply chain, material and asset management (linear, fixed, and rolling stock) business processes and information. This effort, which will require about seven years to achieve full implementation, will change the way we manage the company by improving business processes and providing the tools necessary to support a corporate-wide transformation through improvements in transparency of overall operational and financial information. Preliminary multi-year full implementation cost estimates for the SAM project are in the \$200 million range, of which \$47.5 million is part of the FY09 capital grant request. Preliminary estimates of savings opportunities associated with this effort are in the range of \$50 million per year, when fully implemented.

To enhance equipment availability and reduce failure rates, Amtrak implemented a "reliability-centered" maintenance program on its *Acela* trains in June 2006. This program, which aims to reduce failures by a rigorous analysis of component failure rates and the introduction of a preventive maintenance process, has allowed the Company to add 2 extra *Acela* trains to daily service. Amtrak expects to add one more *Acela* train in FY 2009, raising the total number of available trainsets to 17. Amtrak estimates that the addition of the two trainsets added about \$7.6 million to annual revenues, and anticipates that the availability of the 17th set in FY 2009 will allow it to maintain existing scheduled service levels while trainsets are rotated through scheduled overhauls. Plans are in place to extend this program to the remainder of Amtrak's locomotive fleet. The implementation of the process on HHP-8 electric engines is beginning, and the program will be extended to the AEM-7 electrics and P-42 diesels which constitute the overwhelming majority of the Company's motive power fleet in the spring. Amtrak's Inspector General has estimated that the Reliability Centered Maintenance Program could, when combined with other ongoing maintenance initiatives and extended through the totality of the coach and locomotive fleets, result in savings of around \$100 million per year.

Amtrak is including in its grant request funding requested by the Office of the Inspector General to support its oversight operations and programs through FY 2009. The OIG was funded at \$18.5 million for FY 2008 and has requested \$19.0 million in the coming year.

FY 2009 Capital Request

In FY 2009, Amtrak will request \$801.4 million in capital funding, an amount consistent with our requests in prior years and consistent with our program to protect the nation. This capital investment is summarized in detail in Table 3, below. Of the requested sum, \$506.9 million is planned to continue the work on state of good repair (SOGR) for infrastructure and rolling stock.

Amtrak's ongoing program of funding to return its fleet and infrastructure to a state of good repair has paid significant dividends. On-time performance has generally improved. Amtrak spent a total of \$653.6 million from federal support and state and local partnerships in FY 2007, an increase of \$27.6 over FY 2006. The bulk of this money (\$410.3 million) was invested in infrastructure, while \$166.3 million was invested in sustaining our rolling stock.

Major investments Amtrak will make in the Northeast Corridor in FY 2009 include:

- Investment in the Niantic River Bridge replacement in Connecticut
- Fire and life safety programs for the New York tunnels – First Avenue ventilation shaft, standpipe installation
- Surfacing, wood and concrete tie replacement, and wayside turnout replacements on the Northeast Corridor between New Haven and Springfield
- Consolidation of train dispatching and power direction
- Reconstruction of interlockings and track switches
- Overhead electric catenary, transmission line, substation and frequency converter improvements along the Northeast Corridor

Compliance with the Americans with Disabilities Act is a major legislative requirement, and Amtrak requests \$68.5 million toward our compliance effort in FY 2009. Technology improvements total \$97.0 million (\$47.5 million for ERP (financial) system improvements) and improvements in data security and network infrastructure.

Table 3 summarizes estimates of the Company’s needs. Project details will be reviewed and prioritized during the Budget process.

Table 3. Amtrak Capital Needs

<i>\$millions</i>	FY 2009 as				
	FY 2008 Request	FY 2009 Request	percent of Total Request	Variance to FY08 Request	%
<u>State of Good Repair</u>					
Bridges/Culverts/Tunnels	57.0	61.1	8%	4.1	7%
Facility/Stations/Other	31.0	31.3	4%	0.3	1%
Communication and Signal Systems	28.8	21.4	3%	(7.4)	-26%
Electric Traction	64.0	63.0	8%	(1.0)	-2%
Track	144.2	129.2	16%	(15.0)	-10%
Other Infrastructure Improvements	31.2	24.7	3%	(6.5)	-21%
<i>Subtotal Infrastructure</i>	356.2	330.8	41%	(25.4)	-7%
Passenger Cars	178.0	137.9	17%	(40.1)	-23%
Locomotives	49.0	35.4	4%	(13.6)	-28%
Mandatory Programs	2.8	2.8	0%	-	0%
<i>Subtotal Rolling Stock</i>	229.8	176.1	22%	(53.7)	-23%
Subtotal SGR	586.0	506.9	63%	(79.1)	-14%
Fire & Life Safety	39.0	50.6	6%	11.6	30%
Security	30.0	8.0	1%	(22.0)	-73%
ADA	-	68.5	9%	68.5	100%
Equipment Procurement	21.0	30.5	4%	9.5	45%
<u>Business Improvement</u>					
ERP Systems	24.0	47.5	6%	23.5	98%
Trip Time Reductions for High Speed Rail		40.0	5%	40.0	
Technology Projects	60.0	49.5	6%	(10.5)	-18%
Subtotal Business Improvement	84.0	137.0	17%	53.0	63%
Total	760.0	801.4	100%	41.4	5%

Summary

The outlook for Amtrak is good. Demand for passenger service is strong on existing routes and states continue to approach Amtrak about new and expanded train service (Amtrak is currently in discussions with several states for service enhancement or initiation). There is a growing public appreciation of the environmental and economic benefits of passenger rail service. This demand for service is a good sign of a favorable trend, but rising costs are inescapable facts of economic life and they are pressuring our budget. We will continue to enhance our management efficiency to realize the opportunity for service growth and positive revenue generation.

Amtrak has planned and continues to plan to meet this challenge. Capital projects will require funding support. Assets that have reached the end of their service life must be replaced, and the Company must continue to address SOGR issues. Also, Amtrak must start and has started planning for the acquisition of the next generation of passenger equipment.

The conclusion of our labor agreements represents an important achievement, one that will be good for the Company and for our employees. I am pleased that we are able to recognize their years of hard work and patience with a fair settlement. Favorable economic trends are bringing passengers to our trains in ever-increasing numbers, and the conclusion of these agreements will allow us to focus our efforts in coming years on the provision of something I believe the nation truly needs us to provide – safe, timely, and efficient intercity passenger rail service.

Sincerely,

A handwritten signature in black ink, appearing to read "Alex Kummant". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Alex Kummant
President and Chief Executive Officer

APPENDIX

The appendix includes graphical depictions of key corporate performance indicators for recent fiscal years.

Figure 1. Total Ridership

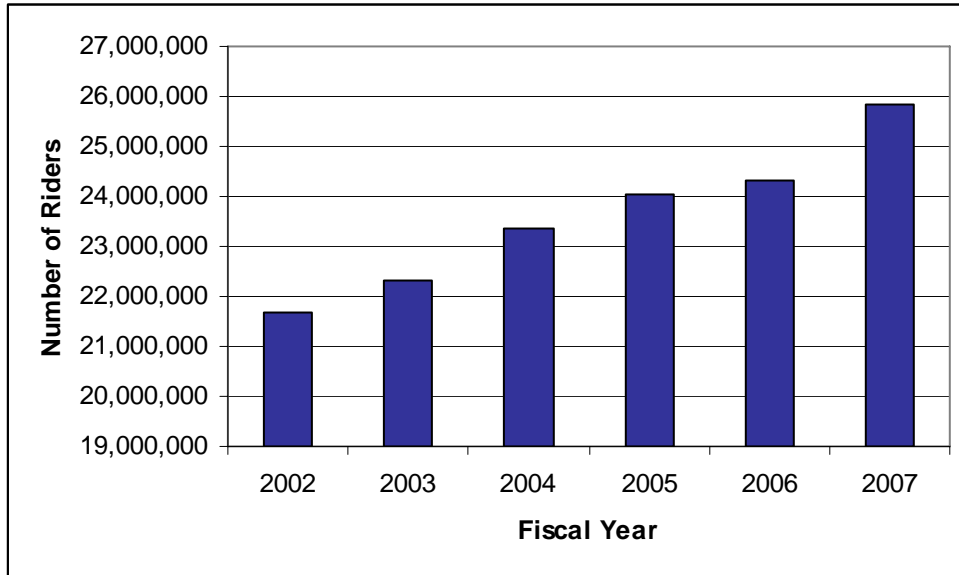


Figure 2. Total Revenues

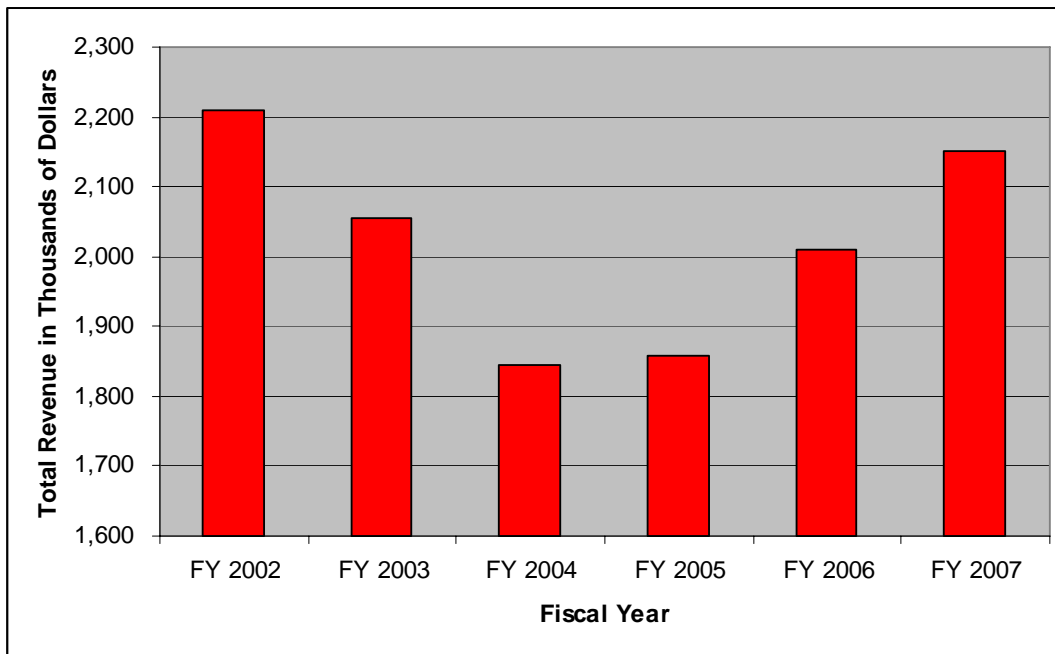


Figure 3. Actual Net Operating Results

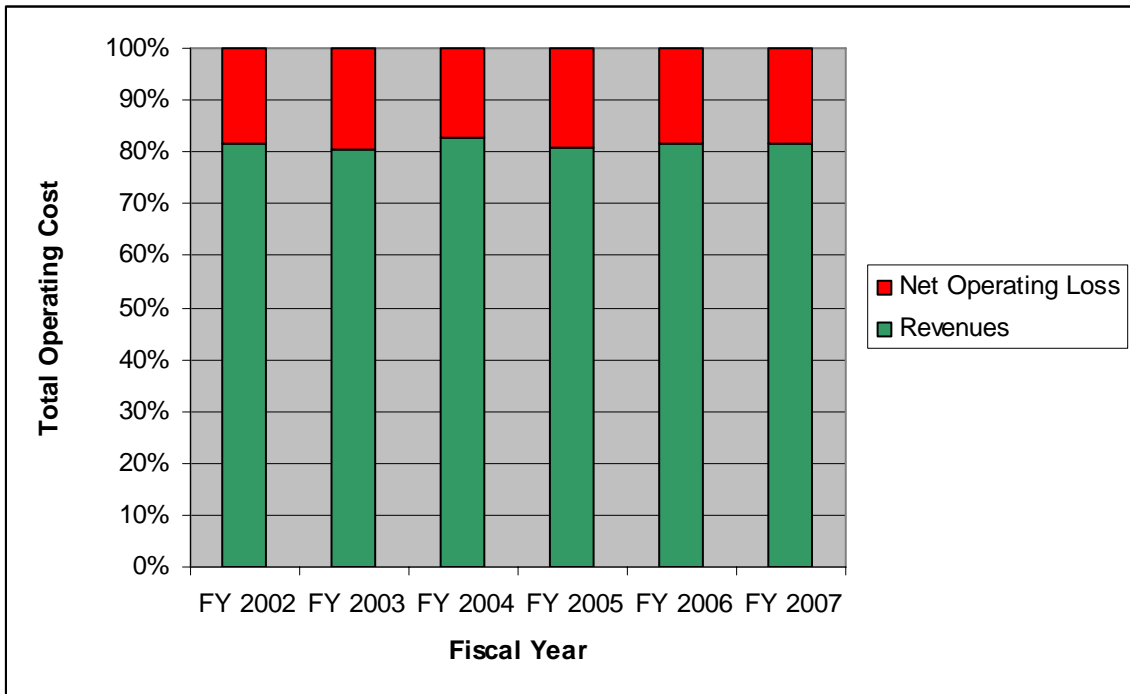


Figure 4. Headcount

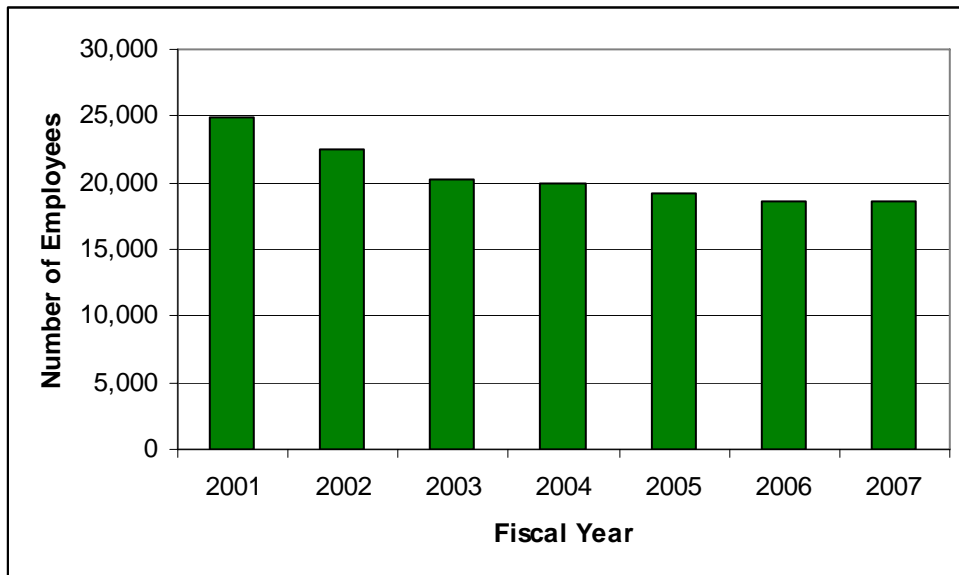


Figure 5. Air-Rail Market Share – North End, NEC

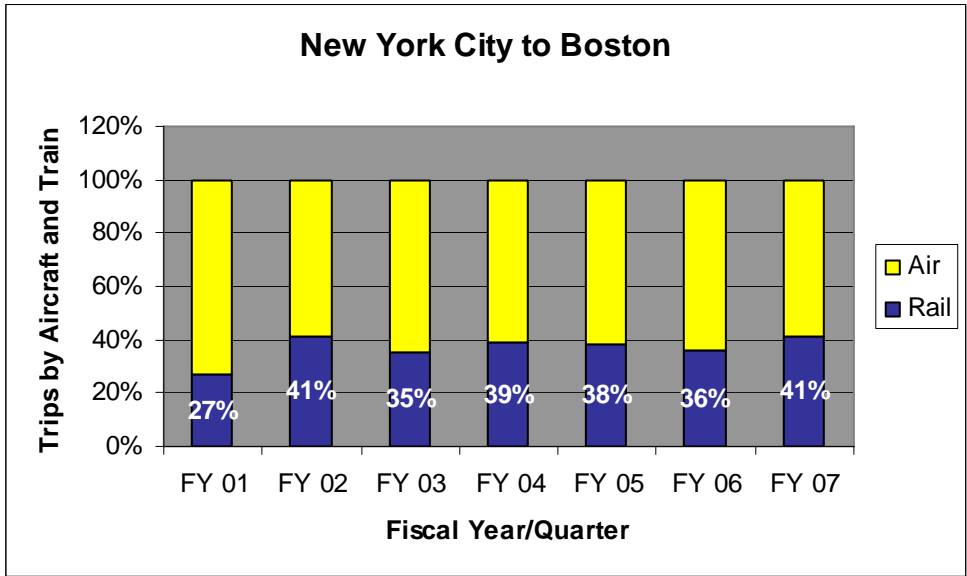


Figure 6. Air-Rail Market Share – South End, NEC

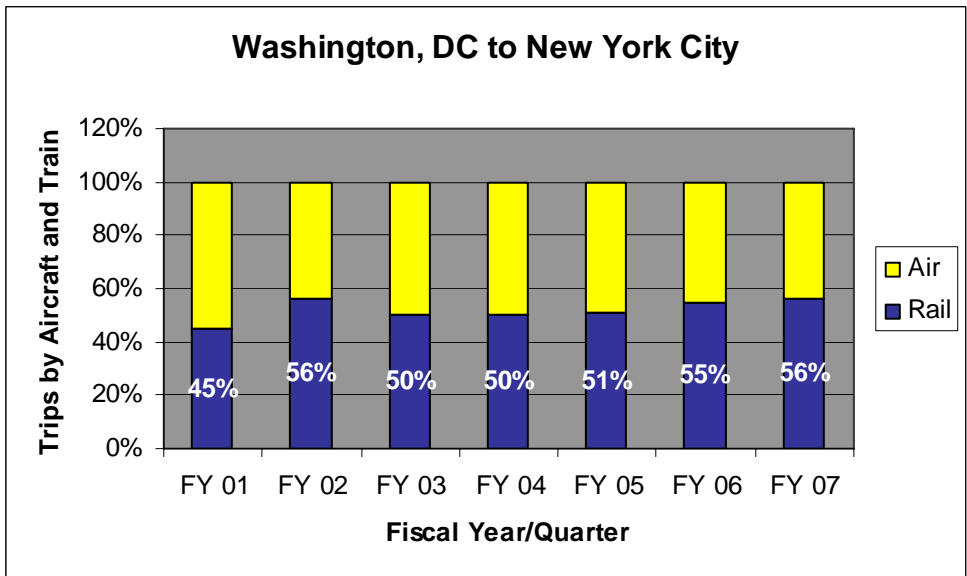


Figure 7. Yield

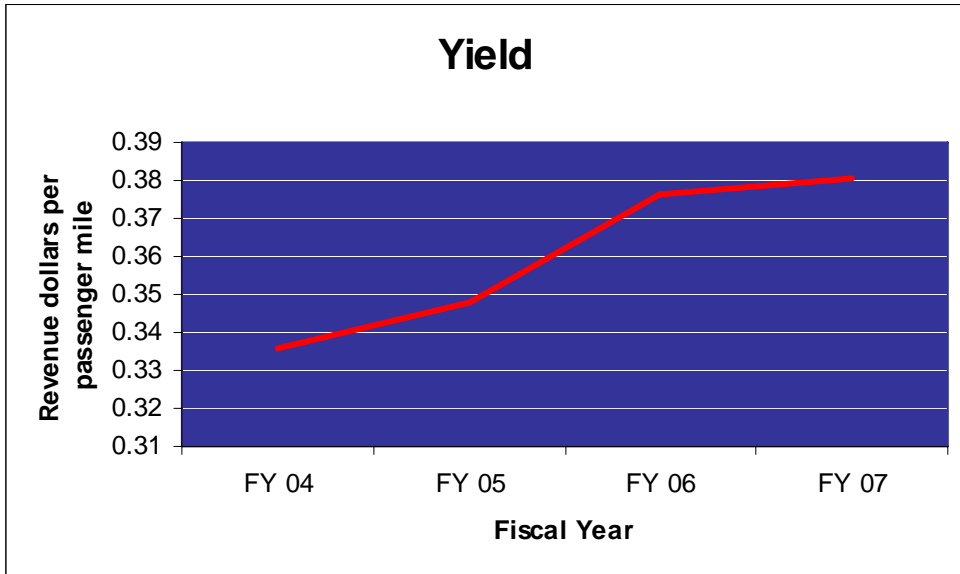


Figure 8. Subsidy per Passenger Mile

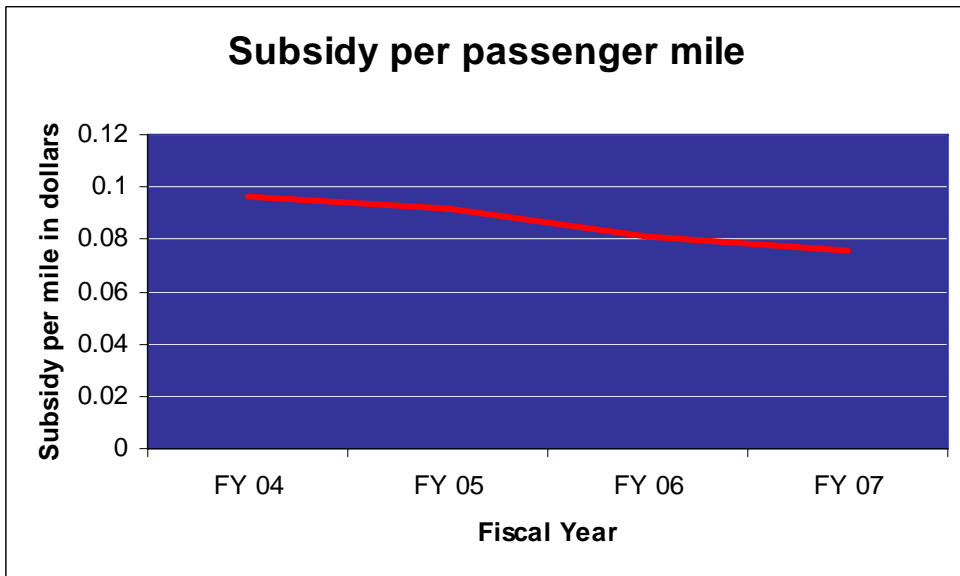


Figure 9. Injury Ratio

