



**National Railroad Passenger Corporation**

**AMTRAK**

**FY2008 Comprehensive Business Plan**

**March 14, 2008**

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# FY2008 Amtrak Comprehensive Business Plan

The Department of Transportation Appropriations Act, 2008 (Public Law No. 110-161) requires that Amtrak submit a Comprehensive Business Plan to the Department of Transportation and Congress. In order to meet the requirements set forth in that law, Amtrak has prepared this Comprehensive Business Plan discussing the Operating and Capital Budget federal funding requirements. This plan was developed by Amtrak and approved by Amtrak's Board of Directors in September of 2007 and portrays the business view at that time.

## **Introduction**

Amtrak's business plan for FY2008 directs the application of the company's resources toward the attainment of measurable objectives that will return value to the company, its state partners, and its customers.

In the summer of 2007, Amtrak's Board developed a set of strategic priorities to govern planning and operations in coming years. They focus on continuous improvement of operating results and service quality through teamwork, efficiency and effectiveness. During the year, performance will be measured against clear and objective goals. As we prepare the FY2009-2013 plan, Amtrak has embarked on a new strategic planning process that may modify some of these longer term objectives. The strategic priorities for this budget are:

**Financial:** Grow annual revenue and ridership on all operating business lines. Generate increases in net operating income from NEC operations. Reduce overhead expense as a percentage of revenue annually. Reduce net food, beverage and sleeper expense to lower but feasible operating levels. Use private capital where appropriate, available, and financially prudent.

**On-Time Performance and Trip Reduction:** Achieve and maintain minimum acceptable annual on-time performance targets for Acela and Regional trains. Continue to improve Acela trip times. Improve performance of corridor and long distance trains that operate on host freight railroads to commercially reasonable levels. Establish route-level performance targets.

**Safety and Security:** Achieve and maintain industry leadership in employee and passenger safety, and in security and security strategy.

**Long Distance:** Develop and implement a strategy for Amtrak long distance operations that preserves and enhances connectivity; eliminates failed service where regeneration is impossible; enhances service where warranted, and protects and builds ridership and revenue.

**State Corridors:** Reduce required Federal operating support. Grow existing and emerging state corridors, where demand warrants it. Develop long-term corridor funding strategies in partnership with states.

**Labor:** Achieve a fair, good-faith resolution of outstanding labor negotiations.

**Reauthorization:** Obtain enactment of a Federal reauthorization that includes a Federal-State financial match program targeted to support expansion of state corridors.

Equipment and Infrastructure: Develop a plan for funding of an effective rolling stock program for the next 10-15 years. Reduce backlog of deferred maintenance on the NEC infrastructure and continue the process of returning the corridor to a state of good repair. Develop a comprehensive NEC master plan to form the basis for future capital allocation decision making.

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

## **FY2008 Budget Synopsis**

In its FY2008 grant request, Amtrak asked Congress for \$1,530 million for Operating, Capital and Debt Service support. This request was designed to support operations at then-current levels pending the outcome of Amtrak’s reauthorization as envisioned in S.294, the Senate’s bill reauthorizing Amtrak, and to continue the work of restoring the railroad to a state of good repair. It assumed a continuation of the existing national network. Amtrak continues to make progress streamlining the organization, controlling costs, and rebuilding infrastructure and equipment.

Amtrak’s Operating and Capital support from Federal Grants for FY2008 (compared to the Grant and Legislative Request) is as follows:

**Table 1 – FY2008 Federal Funding**

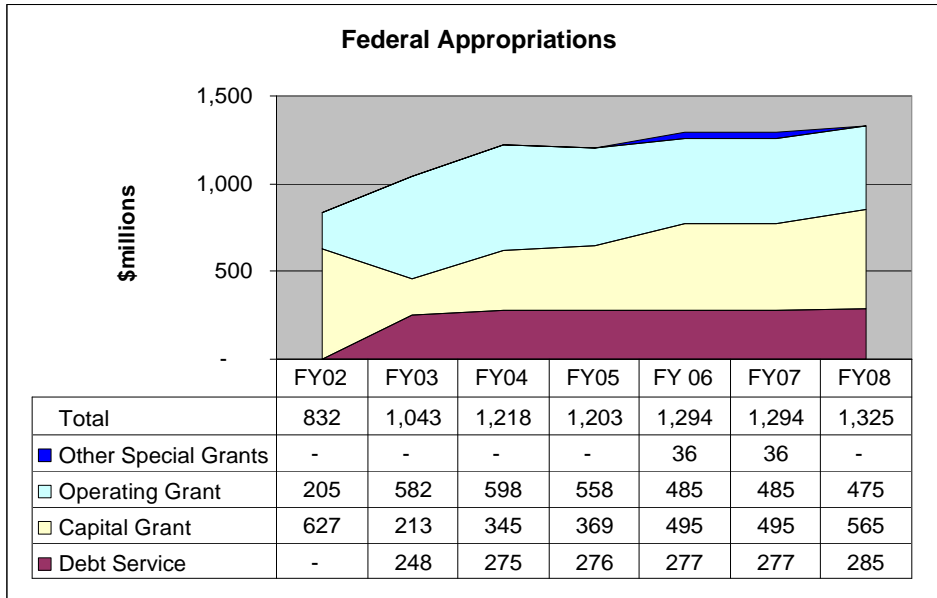
	<b>Grant &amp; Leg Request</b>	<b>Original Board Approved Budget</b>	<b>Final Appropriation</b>
Operating	\$ 485	\$ 475	\$ 475
Capital	760	600	565
Debt Service	285	285	285
<b>Total Federal Support</b>	<b>\$ 1,530</b>	<b>\$ 1,360</b>	<b>\$ 1,325</b>

The FY2008 Budget, originally approved by the Amtrak Board of Directors at a level of \$1,360 million in Federal funding, has been revised downward to conform to the reduced Federal funding level of \$1,325 million and contains:

- Operating funding of \$475 million, \$10 million less than the sum requested in the 2008 Grant and Legislative Request;
- Capital funding of \$565 million that is \$195 million below the 2008 Grant and Legislative Request and \$35 million below the original Amtrak Board Approved Budget; and
- Funds for Debt Service principal and interest not to exceed \$285 million.

Chart 2 below displays the history of Federal support for Amtrak for operating expenses, capital investment and debt service from Fiscal 2002 to Fiscal 2008.

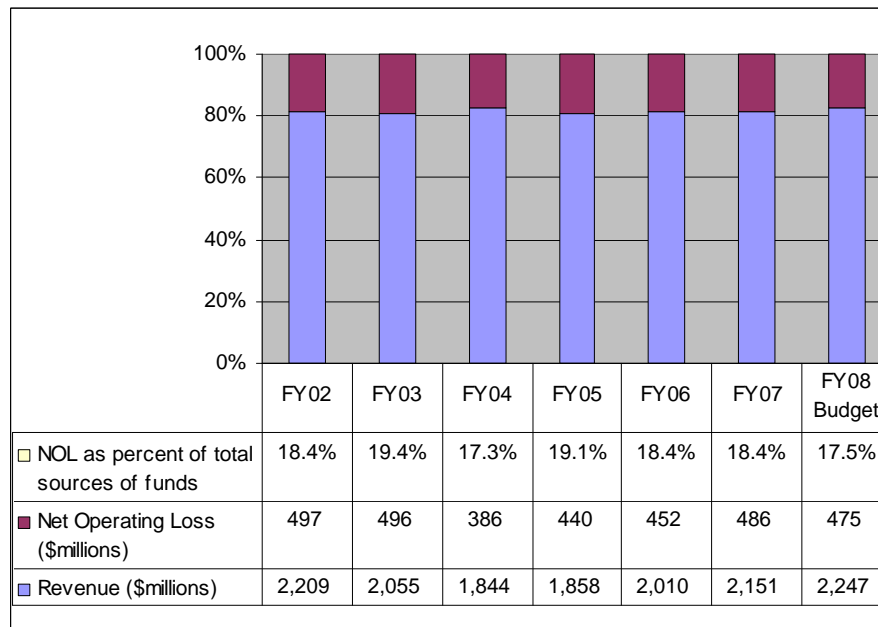
**Chart 2 – History of Federal Appropriations**



Note: Differences may occur due to rounding

Over the last three years, FY2006-FY2008, Amtrak has managed with approximately the same amount of federal operating grant by an increased reliance on other sources of income and improvements in productivity. Chart 3 below shows that the Net Operating Loss for FY2008 as a percent of all fund sources is nearly 1% lower than FY2007 actual results.

**Chart 3 – Federal Support as a Percent of Fund Sources**



## Strategic Business Lines

Without disrupting the current GAAP-compliant accounting and budgeting beginning in FY2006, Amtrak added a business line overlay to that framework to report according to the Strategic Business Plan. Specifically, the company has provided financial reporting for five business lines and shared unallocated functions as follows:

- National Train System - Northeast Corridor (NEC) Operations – train operations on the NEC spine from Boston to Washington (primarily Acela and Regional services).
- National Train System - 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.
- National Train System - Long Distance Operations – train operations on routes of more than 750 miles, currently including 15 trains.
- Infrastructure Management (Amtrak-owned) – maintenance, capital construction and management on Amtrak-owned infrastructure, including:
  - Most of the Boston-Washington spine,
  - Philadelphia-Harrisburg, New Haven-Springfield,
  - 29 miles of the Empire Corridor,
  - 96 mile portion of the Michigan line, and
  - Maintenance yards and terminal track in several other locations.
- 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 (including depreciation) and legal services that are handled more economically on a central basis and are not easily assignable to specific business lines.

### *Northeast Corridor Operations*

Revenue for the Northeast Corridor Operations is expected to be \$916.9 million with operating expenses totaling \$657.3 million (19% of the expense budget). A profit of \$259.6 million is projected from this line of business.

### *State Corridor Operations*

The State Corridor Operations are budgeted to achieve \$528.8 million in revenue. Operating expenses total \$614.8 million and account for 18% of the expense budget. This line of business is projected to lose \$85.9 million.

### *Long Distance Operations*

The revenue budget for Long Distance Operations is \$439.7 million with operating expenses totaling \$930.0 million (27% of the total expense budget). Long Distance Operations project a loss of \$490.3 million.

### *Infrastructure Management*

Infrastructure Management represents expenses in Amtrak's Engineering group and totals \$252.9 million (7%) in operating expenses. Some revenue is attributed to this line of business for Cost Sharing and Access fees as well as Propulsion Revenue, resulting in a loss of \$4.8 million.

### Ancillary Businesses

Ancillary businesses include the management of services provided to commuter agencies, reimbursable engineering expenses, and commercial real estate activities. Total revenue from this line of business is projected to be \$261.1 million. Amtrak does not actively seek reimbursable work on behalf of others, as it is generally performed by the same maintenance of way work crews used for owned-infrastructure improvements. Increased Amtrak infrastructure work reduces the availability of these crews to perform reimbursable work. The contribution margin in the commercial business line tends to fluctuate due to the revenue from an occasional real estate transaction rather than changes in expense. The budget reflects an estimate of \$76.4 million profit from Ancillary businesses.

### Unallocated System

Unallocated System costs include shared overhead functions like Finance, Human Resources, Legal, Labor Relations, Government Relations, Amtrak Technologies, etc. Expenses for these activities make up about 9% of Amtrak's total budgeted operating expense not including depreciation.

The following Table 4 provides a summary Income Statement by these lines of business. A more detailed statement is included as an attachment to this document.

**Table 4 - FY2008 Operating Budget by Business Line**  
September 2008 - Year to Date Budget  
(\$ millions)

	NEC Operations	State Corridor Operations	Long Distance Operations	National Train System	Infrastructure Management	Ancillary Businesses	Unallocated System	Eliminations and "GAP"	Total Operations
<b>REVENUE:</b>									
Total Passenger Related Revenue	882.3	520.2	427.8	1,830.3	-	-	-	-	1,830.3
<i>Other Transportation Revenue:</i>									
Cost Sharing & Access Fee Revenue	29.4	6.6	8.8	44.8	108.6	-	-	(44.4)	109.0
Propulsion Revenue	-	-	-	-	97.1	-	-	(63.2)	33.9
Miscellaneous Revenue	5.2	2.0	3.2	10.4	-	-	5.2	-	15.6
Total Other Transportation Revenue	34.6	8.6	12.0	55.2	205.7	-	5.2	(107.6)	158.5
Commuter	-	-	-	-	-	120.1	-	-	120.1
Reimbursable	-	-	-	-	-	81.8	-	-	81.8
Commercial Development	-	-	-	-	-	59.2	-	-	59.2
Total Operating Revenue	916.9	528.8	439.7	1,885.5	205.7	261.1	5.2	(107.6)	2,249.9
<b>EXPENSE:</b>									
Total Salaries, Wages and Overtime	368.4	360.1	546.1	1,274.5	161.6	107.6	122.6	-	1,666.4
Train Operations, including Access Fees	57.5	75.7	127.6	260.9	0.0	0.3	-	(44.4)	216.7
Fuel, Propulsion Power, & Utilities	77.8	65.7	106.1	249.6	104.1	7.1	0.0	(63.2)	297.6
Materials	42.5	31.7	51.8	126.0	11.4	22.6	3.5	-	163.4
Facility, Communication, & Office	24.4	24.3	28.5	77.2	12.0	9.7	61.4	-	160.3
Advertising and Sales	50.8	20.7	21.2	92.7	-	0.0	0.0	-	92.8
Casualty and Other Claims Total	22.4	24.4	33.2	80.0	3.7	1.8	0.3	-	85.9
Depreciation	-	-	-	-	-	-	470.9	-	470.9
Amort of Gain On Sale/Leaseback	-	-	-	-	-	-	(20.8)	-	(20.8)
Other Expenses	31.4	29.0	40.0	100.4	26.9	13.3	113.1	-	253.6
Indirect Costs Capitalized To P&E	(18.0)	(16.8)	(24.5)	(59.2)	(66.8)	22.3	-	-	(103.7)
Total Operating Expense	657.3	614.8	930.0	2,202.1	252.9	184.7	751.1	(107.6)	3,283.3
Income (Loss) from Operations	259.6	(85.9)	(490.3)	(316.6)	(4.8)	76.4	(745.9)	-	(991.0)
									Interest Expense, Net
									(95.2)
									Net Profit / (Loss)
									(1,086.2)
									Adjustments to come to Federal Operating Support
									Eliminate: State Capital Payments
									(42.3)
									Add back: Change in OPEB's Liability and PRJ costs
									87.5
									Add back: Interest Expense, Net
									95.2
									Add back: Depreciation
									470.9
									Federal Operating Support (Need)
									(475.0)

## Revenue and Expense Summary

FY2008 total Ticket Revenue is expected to be \$75.7 million higher than in FY2007. Assumptions used to build the forecasted revenue include fare increases, economic growth, revenue management and the addition of an *Acela* train set to service for a full year: combined these caused estimated revenues on continuing business to grow 5% with a ridership increase of 3%.

Amtrak will be undertaking the replacement of the Thames River Bridge in Connecticut, which will entail a service outage on the North End of the Northeast Corridor; the foregone revenue associated with this service outage will be \$2.7 million. Through a series of fare increases spread across the business lines, Amtrak expects to increase revenues by \$31 million in FY 2008.

Sixteen (16) Acela trainsets will be in revenue service. By changing Acela equipment turns and operations in Washington, New York and Boston, Amtrak expects to improve Acela on-time performance to 90%. The FY2008 ticket revenue projection for Acela assumes an improvement of \$8.0 million in Acela ticket revenues due to both more service and improved quality of service.

In FY2008, economic growth is assumed to be 1%, and overall expense inflation is assumed to be about 3%. Fuel and propulsion costs are expected to increase \$13.4 million (5.0%) over FY2007. Employee Benefit and other related costs are expected to increase more rapidly than inflation and increase \$23.6 million over FY2007 primarily due to health benefit costs. These insurance costs are expected to increase 10% even after adjustment for estimated employee contributions from a labor settlement. Labor settlement costs include increases due to an expected settlement with bargaining units but do not include amounts for back pay. A management COLA is included with no merit or bonus program. Salary costs are expected to be up from FY2007 because some vacancies are planned to be filled.

The following Table 5 details the 2008 Operating Budget Profit and Loss statement by major account:

**Table 5 – Operating Profit and Loss**

\$ millions	Actual FY07	Budget FY08	\$ Variance FY07 to FY08	% Variance FY07 to FY08
<b>REVENUES:</b>				
<b>Passenger Related:</b>				
Ticket Revenue	1,492.3	1,568.0	75.7	5%
Food and Beverage	84.7	91.3	6.6	8%
State Supported Train Revenue	154.0	171.0	16.9	11%
<i>Subtotal Passenger Related Revenue</i>	<b>1,730.9</b>	<b>1,830.2</b>	<b>99.2</b>	<b>6%</b>
<b>Other Revenue:</b>				
Commuter	117.4	120.1	2.6	2%
Reimbursable	72.4	81.8	9.4	13%
Commercial Development	64.6	59.2	(5.4)	-8%
Other Transportation	128.4	123.6	(4.8)	-4%
Freight Access Fees and Other	36.8	34.9	(1.9)	-5%
<i>Subtotal Other Revenue</i>	<b>419.7</b>	<b>419.6</b>	<b>(0.1)</b>	<b>0%</b>
<b>Total Operating Revenue</b>	<b>2,150.6</b>	<b>2,249.8</b>	<b>99.2</b>	<b>5%</b>
<b>EXPENSES:</b>				
Salaries	202.8	232.5	29.7	15%
Wages & Overtime	905.6	857.0	(48.5)	-5%
Employee Benefits	529.9	548.3	18.5	3%
Employee Related	23.0	28.1	5.1	22%
Train Operations	209.9	216.7	6.8	3%
Fuel, Power, & Utilities	284.2	297.6	13.4	5%
Materials	176.7	159.9	(16.8)	-10%
Facility, Communication, & Office	140.7	144.9	4.1	3%
Advertising and Sales	83.2	92.8	9.7	12%
Casualty and Other Claims Total	25.7	85.9	60.2	234%
Depreciation	473.1	470.9	(2.2)	0%
Amort of Gain On Sale/Leaseback	(19.0)	(20.8)	(1.7)	9%
Other Expenses	240.5	245.9	5.4	2%
Indirect Costs Capitalized To P&E	(106.5)	(103.7)	2.9	-3%
<b>Total Expenses</b>	<b>3,169.7</b>	<b>3,256.1</b>	<b>86.4</b>	<b>3%</b>
<b>NET Profit (Loss) prior to adj.</b>	<b>(1,019.1)</b>	<b>(1,006.3)</b>	<b>(12.8)</b>	<b>1%</b>
Adj. for Deprec/OPEB's/Impairment	532.8	531.3	(1.5)	0%
<b>Earnings/ (Loss) before Interest, Depreciation, &amp; OPEB's</b>	<b>(486.3)</b>	<b>(475.0)</b>	<b>(11.3)</b>	<b>2%</b>
<b>Federal Operating Support "Required"</b>	485.0	475.0	10.0	2%
<b>Variance</b>	<b>(1.3)</b>	<b>0.0</b>	<b>(1.3)</b>	

At the time this budget was developed, Amtrak expected to realize a general settlement with its unions in early fiscal 2008. In December of 2007, Presidential Emergency Board 242 recommended a settlement including full retroactive pay. Amtrak's FY 2008 operating budget included changes to health care costs, wage and benefit costs for a settlement agreement. The budget included \$96.3 million for FY2008 wage impact for operating and capital activities and is expected to fall short of the actual expenses. We anticipate at this writing that the final actual costs for this fiscal year can be covered by the current forecasted revenue and expense but this does not include some of the back pay prior to 10/1/07.

### Amtrak Strategic Priorities and Action Plans

As stated earlier, in the summer of 2007, Amtrak's Board developed a set of strategic priorities to govern planning and operations in coming years. The cornerstone of Amtrak's action planning is the increase of ridership on existing services through a series of actions and choices designed to ensure that capital investments and equipment assignments attract additional customers to existing services, and that new corridors realize their inherent growth potential. The company believes it can double its ridership by 2020, and is targeting its investment and making management decisions accordingly.

The company is undertaking a number of initiatives that will allow it to manage its capital. To ensure that the vital Northeast Corridor is capable of accommodating the growth Amtrak and the other users anticipate, the company has initiated with each of the NEC states and commuter partners, the “NEC Master Plan” process to allow for the creation of a collaborative investment plan. Key points on freight systems that would streamline service are being identified, and agreements concluded for joint capital investment projects that will allow greater frequencies with existing equipment; these will include the installation of cab signal equipment on the Chicago-Springfield, Illinois corridor (allowing higher speed service), the addition of two stops on the Surfliner route, and the construction of a passing siding outside of Seattle. Together with a program of planned and ongoing state investment and cooperation, these measures will contribute greatly to the attractiveness of Amtrak service.

In line with its emphasis on ridership increases, Amtrak intends to increase its revenues in FY 2008 by 5% and to increase them by 30% through FY 2012. Key to this initiative is the improvement of various indices of customer satisfaction, on-time performance first among them. Amtrak is monitoring on-time performance on the NEC with a view to implementing reduction plans, if needed, while it is also working with the freight railroads and states to mitigate other corridor and long distance on-timer performance problems. Amtrak is engaging the states to raise the issue of freight congestion, a program that will complement the limited investments we have already mentioned. We are also launching a series of initiatives aimed at attracting and satisfying customers, as well as cost reduction. The upgrades to on-board service on *Acela*, the improvement of station land use revenues, and re-launch of the *Coast Starlight* fall primarily into the first category; the introduction of improved dining facilities on the *City of New Orleans* falls into both categories, as does a range of initiatives aimed at the improvement of customer service, the rationalization of service and trip frequencies, and the improvement of product management. Similarly, the implementation of cost action plans is expected to hold cost growth on core wage and salary expenses in operations at 2% as Amtrak installs additional Quik-Trak kiosks, implements new labor collection technology in its call centers, and pilots ticket less travel programs on the *Downeaster*.

To build upon previous improvements in finance and accounting practices and to assist its cooperation with state partners, the company will continue to improve its financial transparency in FY 2008. It will undertake a detailed look at the economics of its fleet usage, engage states and commuter agencies, and review existing requests for information to ensure that a forthcoming request for information for a new round of fleet procurements is effective and economical.

Safety, environmental stewardship, and management of human capital are all vital responsibilities. To ensure that Amtrak trains and stations are secure, Amtrak has already begun a program of having police officers present at train boardings, and it has begun a passenger screening program. In FY 2008, the company will undertake a program designed to create a series of standards for the hardening and protection of its critical infrastructure. It will also undertake several initiatives aimed at further reduction in its injury rate. To reduce diesel fuel consumption and pollutant emissions, the company expects to continue the installation of automatic start/stop equipment on its diesel engines, and it has made “carbon neutral” travel available through its Whistlestop website.

### Business Initiatives

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 designed 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:

- Addition of one Acela trainset to daily scheduled service
- Improvement of Acela maintenance practices
- Productivity savings and operational efficiencies
- Improvements to long distance service
- E-ticketing and on-board credit card service
- Energy conservation actions

In the FY2008 plan, Amtrak estimated operating benefits from a number of new and ongoing business initiatives presented in the following Table.

**Table 6 – Operating Benefits from Business Initiatives**  
(\$millions)

Initiatives	Revenue Fav(Unf)	Expense Fav(Unf)	Total Benefit to the Bottom Line
Productivity Savings in Env., Transp. & Mech.	-	\$17.7	\$17.7
Other Operating Efficiencies	-	7.8	7.8
NEC Acela Service Improvements	4.0	-	4.0
Coast Starlight Relaunch	3.2	(0.5)	2.6
Reduce Energy Costs	-	2.1	2.1
On-board Credit Card automation	2.4	(0.2)	2.1
16th Acela Trainset	2.3	(0.4)	1.9
Gate Gourmet	-	1.8	1.8
Engineering Efficiencies	-	1.8	1.8
Develop & Implement On-board WI-FI	1.3	-	1.3
eTicketing Customized Access	1.3	-	1.3
Luxury Charter Services	1.8	(0.6)	1.2
Reduce Bad Debts	-	1.0	1.0
Long distance service improvements	0.9	-	0.9
Reliability Centered Maintenance	-	(7.2)	(7.2)
<b>FY08 Proposed Budget</b>	<b>\$17.0</b>	<b>\$23.3</b>	<b>\$40.3</b>

## **Revenue and Ridership**

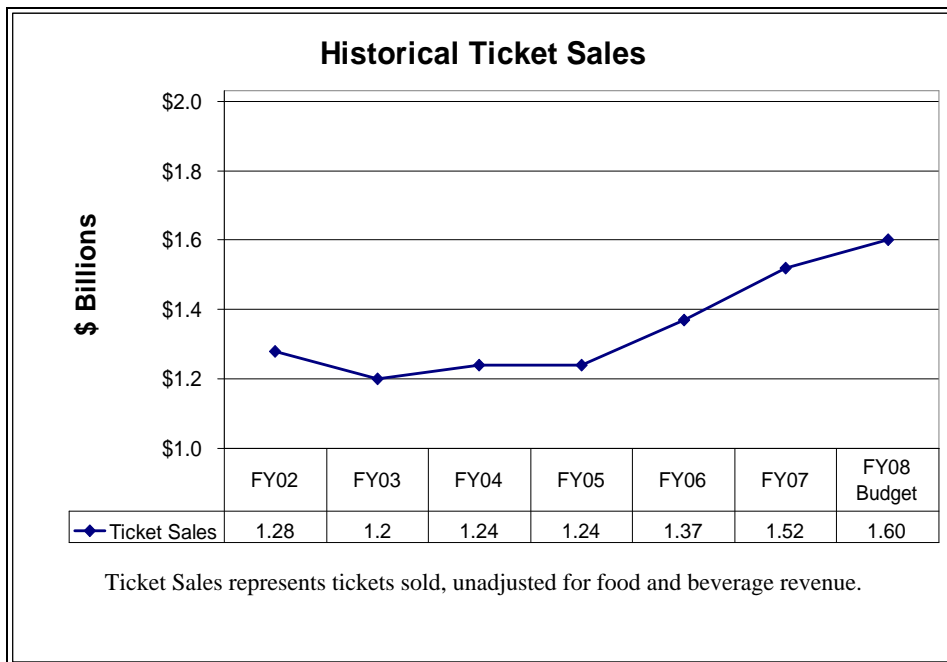
### **Ticket Revenue**

Amtrak's FY2008 ridership (26.5 million trips) and ticket revenue targets (\$1,568 million adjusted for Food & Beverage revenue) are modest but healthy. While Amtrak will continue to benefit from the trends that have propelled the tremendous ridership and revenue growth of the previous two years, the near-term outlook for travel remains somewhat uncertain. The congestion of competing modes such as highways and

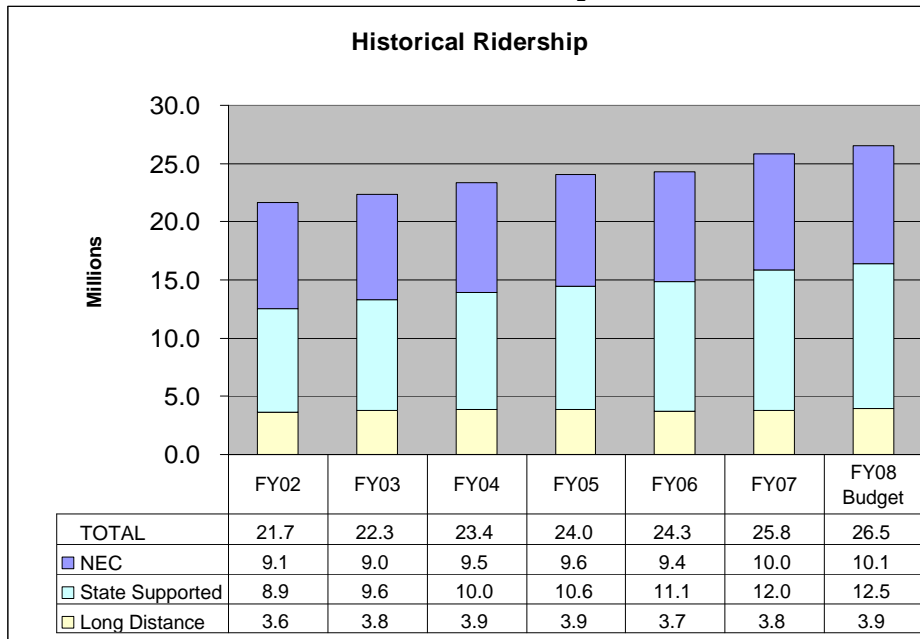
airlines and rising gas prices are trends that would contribute to a favorable pattern of passenger growth, these trends (particularly the latter) must be balanced against the possibility of a recession, which would affect both business and leisure travel markets.

The near-term outlook for domestic travel remains somewhat uncertain -- there are unknowns that continue to surround the economy, unemployment, and security, each of which can have a measurable impact on travel. Faster and more reliable Acela service will enfranchise customers and offer incremental ridership and revenue benefits, but long distance train on-time performance issues remain a serious threat. Within this environment, Amtrak FY2008 ticket sales and ridership projections compared to prior years as follows:

**Chart 7 - Ticket Sales**



**Chart 8 - Ridership**



Assumptions for Budgeted Ticket Revenue:

- +1% economic/demographic growth to the Northeast spine and the Long Distance trains;
- Adjustments to the Cascades and Regionals ticket sales due to Talgo Equipment problems;
- 16 Acela trainsets in service;
- Acela on time performance (OTP) at 90% with all other services at FY2007 levels;
- Adjustments to Acela and Regional revenues to reflect the 4 day service outage north of New York that replacement of the Thames River Bridge will require;
- Incremental ticket revenue benefits of over \$31 million from pricing actions;
- Incremental ticket revenue benefits of \$21 million from more advertising;
- Incremental California dorm car sales;
- Re-launch of the Coast Starlight;
- Phased-in value for the favorable demand effects that will follow improvements in *California Zephyr* OTP

Ancillary Businesses

*Commuter*

The Commuter business segment includes the results from the operating activities Amtrak provides to Commuter Agencies through contractual arrangements. Commuter revenues are budgeted to be \$2.6 million higher than FY2007. Additional opportunity exists for Amtrak to perform work above the level specified in the existing commuter contracts. Since the work is completed on an as-requested basis, Amtrak takes a conservative approach when budgeting both the revenues and expenses associated with any additional work.

*Reimbursable*

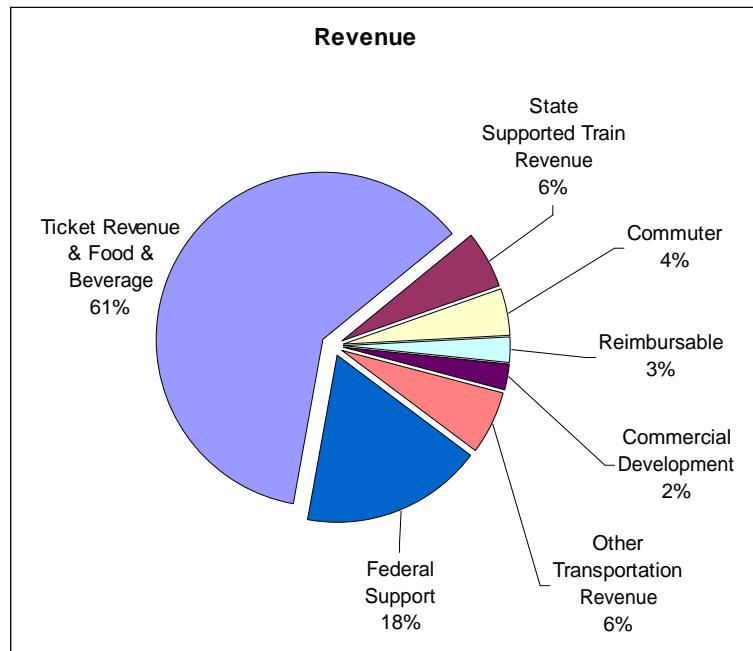
The Reimbursable business segment reports financial results from various activities Amtrak performs for other entities. These include maintenance of way services for the benefit of other railroads or agencies that do not fall under the Commuter umbrella and limited maintenance of equipment activities. Reimbursable revenues are budgeted at \$81.8 million, an increase of \$9.4 million over FY2007. Increased Reimbursable revenue requires equal amounts of increased costs.

*Commercial*

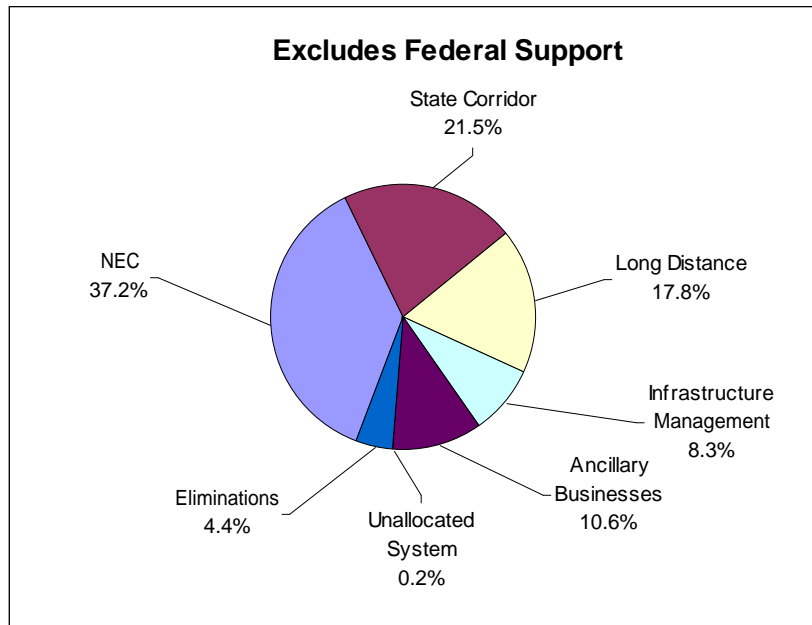
The Commercial business segment includes real estate and retail activities, including pipe and wire communication access rights. Commercial revenues, at \$59.2 million, are budgeted to be lower than FY2007 by \$5.4 million.

The following charts illustrate Amtrak’s Budgeted sources of revenues:

**Chart 9 - Revenue Sources for FY2008**



**Chart 10 – FY2008 Revenue Sources by Business Line**



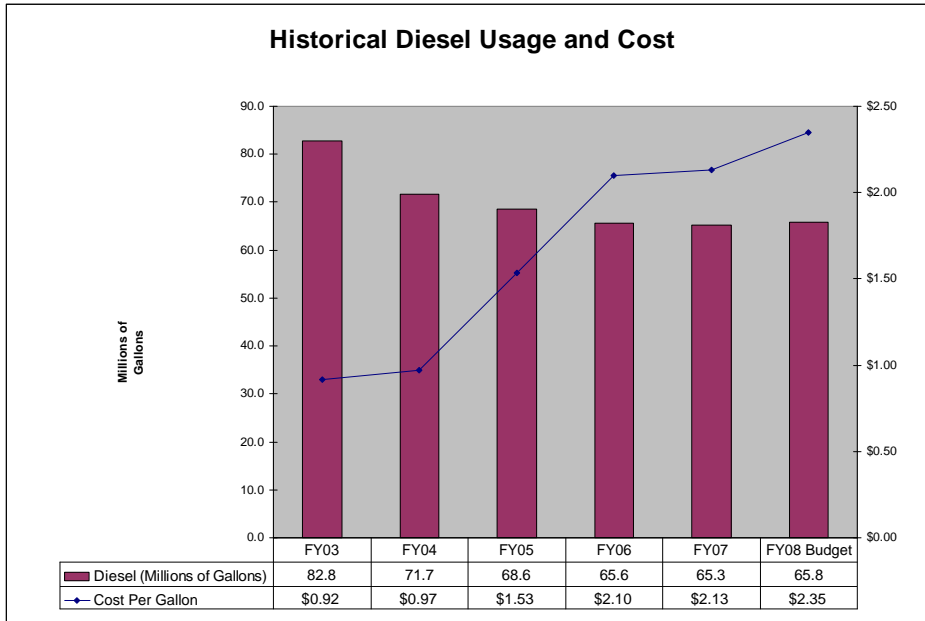
## **Expense**

Total expense is up about 3% from FY2007 primarily due to an increase in FELA and Casualty Claims expenses that were unusually favorable in FY2007. Amtrak's actuaries provided the estimate in this budget based upon historical trends. Also impacting this change in expense is the plan to fill salaried vacancies experienced in FY2007. As of this writing, management is taking steps to closely review the necessity of filling these vacancies; creating an expectation that salaries will be favorable to budget by year end. Wages and Overtime costs are projected to be lower than actual FY2007 due to accrued back pay costs for an anticipated labor settlement in FY2007 offset by some savings due to the productivity initiatives mentioned above.

Employee Benefit and other related costs are expected to increase more rapidly than inflation and increase \$23.7 million (4%) over FY2007 primarily due to health benefit costs. These insurance costs are expected to increase \$26.7 million (10%) even after adjustment for estimated employee contributions from a labor settlement. Employee related expenses consisting of employee travel, training and uniform costs are projected to increase \$5.1 million. Employer taxes are budgeted to be lower by \$21.4 million than FY2007 due to taxes on accrued back pay estimates in FY2007 for expected labor settlement. Allocations to capital projects for employees working on capital investments are expected to decrease \$9.3 million offsetting some of the changes in tax expense. Lastly, pension costs are expected to increase \$4.0 million.

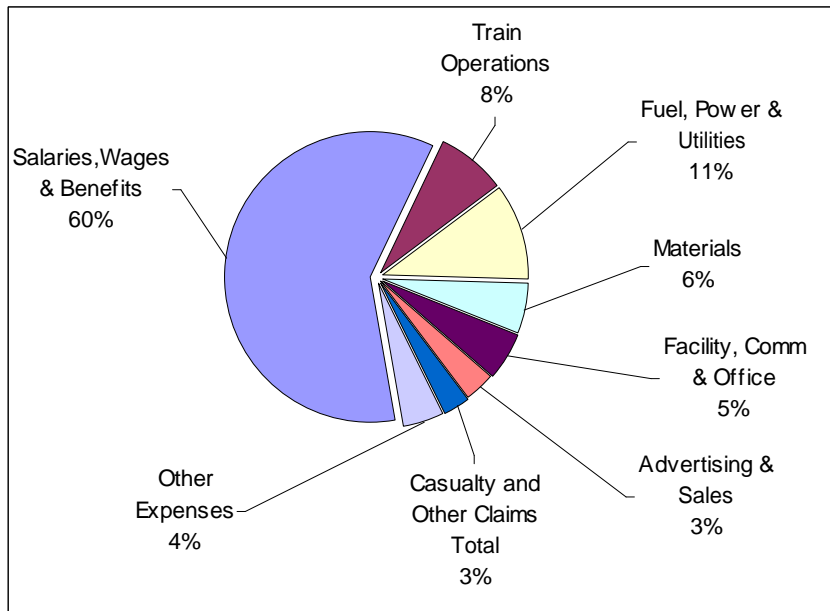
Fuel costs are projected to increase 5% over FY2007, however current forecasts project significant increases in the cost of diesel fuel; creating an expectation that fuel costs will be unfavorable to budget by year end. A chart follows that shows the trends for fuel costs:

**Chart 11 – Diesel Fuel Costs**



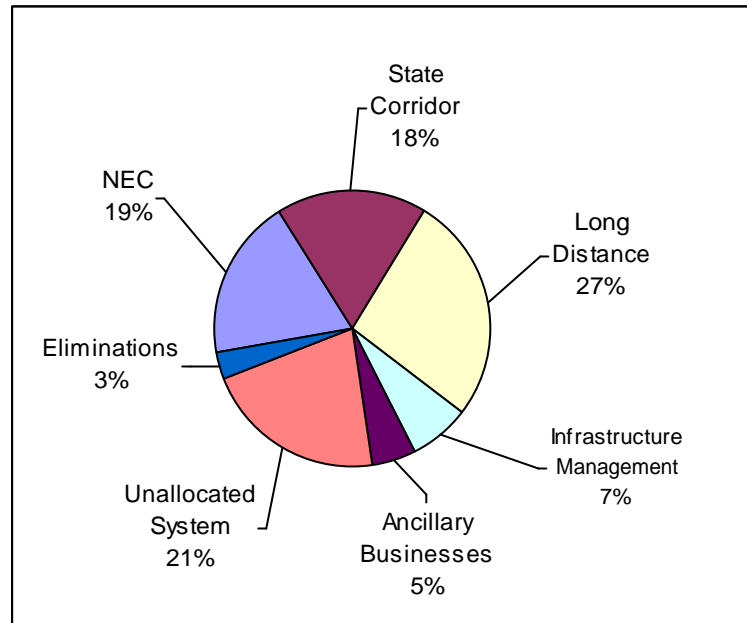
FY2008 advertising expense increased to drive greater ticket sales, as outlined above. Casualty and other Claims include employee FELA expense as well as passenger and other claims. FY2007 actual results were a result of one time favorable experience. Amtrak’s actuaries project our FY2008 Budget at a higher level than FY2007, consistent with historical trends. The following chart shows the expenses as a percent of total expenses in the FY2008 Budget:

**Chart 12 – FY2008 Expenses**



The following charts illustrate the distribution of expenses by business segment:

**Chart 13 – Cash Expense by Business Line**



## **Debt Service**

Federal appropriations will fund principal and interest payments not to exceed \$285.0 million.

**Table 14 – FY2008 Debt Service (Cash \$millions)**

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Principal Payments	\$ 29.1	\$ 80.3	\$ 25.8	\$ 19.0	\$ 154.2
Interest Payments	33.1	36.8	32.0	28.9	130.8
<b>Total</b>	<b>\$ 62.2</b>	<b>\$ 117.1</b>	<b>\$ 57.8</b>	<b>\$ 47.9</b>	<b>\$ 285.0</b>
Federal Grant Funds					\$ 285.0

## **Capital Budget**

Amtrak receives funds from State and Local entities as well as from Federal Appropriations. The total Capital Budget (not including debt service) is \$781.9 million from all sources with \$565.0 million from General Federal appropriations and \$216.9 million from third party, special grants and internal funds.

**Table 15 - Capital Budget by Major Category**

<i>\$millions</i>	FY2008 BUDGET		
	Federal Capital Grant	Third Party & Special Grants	Total
<b>Infrastructure (Engineering)</b>			
Track	110.9	46.7	157.6
Fire & Life Safety	18.8	57.1	75.9
Electric Traction	42.4	22.3	64.7
Bridges/Culverts/Tunnels	52.6	4.9	57.5
Facility/Station/Other	16.2	27.1	43.3
Freight Railroad Improvements	22.1	-	22.1
C & S	7.9	13.7	21.6
Other	1.6	6.4	8.0
<b>Subtotal Infrastructure</b>	<b>272.5</b>	<b>178.2</b>	<b>450.7</b>
<b>Fleet (Mechanical)</b>			
Passenger Cars	132.6	0.2	132.8
Locomotives	33.8	0.3	34.1
Non Passenger Equipment	6.5	-	6.5
Facility Improvements	5.9	0.2	6.1
Mechanical IT Projects	3.5	0.1	3.6
Mandatory Projects	2.4	-	2.4
General Safety & Reliability Projects	1.7	-	1.7
Wrecks	0.4	-	0.4
<b>Subtotal Fleet</b>	<b>186.8</b>	<b>0.8</b>	<b>187.6</b>
<b>Other Departments</b>			
Information Technologies	45.6	5.0	50.6
Marketing & Product Mgmt.	14.6	12.6	27.2
Office of Security Strategy and Special Ops	5.9	16.2	22.1
Chief Financial Officer	13.2	1.4	14.6
Environmental Health	10.2	0.1	10.3
Real Estate	8.2	0.2	8.4
Transportation	4.9	1.5	6.4
Procurement	1.3	0.2	1.5
Strategic Partnerships & Bus Dev. (Contr)	0.7	0.7	1.4
Human Resources	1.1	-	1.1
<b>Subtotal Other Departments</b>	<b>105.7</b>	<b>37.9</b>	<b>143.6</b>
<b>Total</b>	<b>565.0</b>	<b>216.9</b>	<b>781.9</b>

Amtrak's Capital Investment Program continues to focus on bringing the infrastructure and fleet to a state of good repair (SGR) within the limits of the funding.

Engineering Expenditures

FY2008 will see construction continue on several key, multiyear bridge and tunnel contracts that were started in FY05, including the Thames River bridge reconstruction. 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; 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.

### Mechanical Expenditures

Fleet investments continue to focus on improving availability and reliability. The capital plan focuses on returning the fleet to a state of good repair. This process ensures that major systems are rebuilt to original functionality and perform as expected to deliver a safe and comfortable trip. Interiors are being standardized to reduce the inventory required to support maintenance as well as to improve customer satisfaction. Fleet maintenance is tied to fleet requirements which will allow the corporation to store or retire some excess units and avoid associated capital costs.

Reliability centered maintenance will assist in the determination of changes and updates to the scope and schedule of some maintenance activities with the goal of improving the reliability of the asset. In addition to reliability and availability, the plan focuses on safety excellence, improved productivity, and strategic initiatives to deliver a maintenance plan that achieves the most from our fixed assets and leverages our ability to perform work that matches our core competencies.

### Other Expenditures

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. The FY2008 Budget includes amounts to launch this effort. Preliminary multi-year full implementation cost estimates for the SAM project are in the \$200 million range with preliminary estimates of savings opportunities associated with this effort are in the range of \$50 million per year, when fully implemented.

Many other technology improvements are included to support the Business Initiative mentioned above. E-ticketing, testing of Wi-Fi technology and implementation of on-board credit card automation are a few important initiatives that require technology investment.

A Capital Budget Appendix document is available that includes detailed project descriptions for all projects in this budget as well as the projected costs for the life of the project.

## **Working Capital Requirements**

All companies carry working capital on their balance sheets. Working capital is defined as current assets (cash, accounts receivable, inventory, prepaid expenses, and other current assets) minus current liabilities (accounts payable, current portion of long-term debt, other current liabilities). “Current assets” in this definition are those assets that will be liquidated within a year or those liabilities that will come due within a year. Although working capital has become a surrogate for cash when discussing Amtrak’s working capital balances, it is important to understand that working capital actually encompasses all of the accounts discussed above. Most important, with the level of capital investment Amtrak has begun in infrastructure and fleet, the overall investment in inventory has increased substantially. It should be noted, furthermore, that the lead times for much of the material required for infrastructure and fleet investment exceed nine months, and that a reduction in capital budgets actually causes an increase in inventory, further reducing cash balances. This assumption has been built into the cash flow analysis, but it underscores the critical need for cash to support future working capital funding.

As the capital grants are structured, Amtrak is unable to utilize grant funds to cover inventory until the inventory is actually applied to a unit in production and a capital expenditure is recognized. In many cases this occurs several months after the cash payment is made for that inventory. When Amtrak indicates that it is necessary to build working capital, the reference is to building cash balances to mitigate variations in cash flow in the absence of a line of credit as well as to support additional inventory and other working capital needs.

This Budget maintains an acceptable level of available working capital. During FY2007 and continuing into FY2008, Amtrak has increased the focus on collecting accounts receivable and managing a much stronger inventory management program.

## **Sources and Uses of Cash – Budget Basis**

Amtrak’s FY2007 Cash flow is based on receipt of federal funding of \$1,322.9 million **during the year**. \$2.125 million is designated to be held back the Department of Transportation for Federal Railroad Administration oversight. Amtrak continues to have no access to short-term credit lines.

The following summarizes Amtrak’s planned source and use of funds for FY2008 based upon this budget:

**Table 16 - FY2008 Sources and Uses**

<i>\$millions</i>	<b>FY2008</b>
<b>Beginning Available Cash (after outstanding payments)</b>	<b>\$ 223.9</b>
<b><u>Uses:</u></b>	
Operating Expenses	1,006.3
Labor Settlement to be paid in FY09 (FY08 Accrual of 60%)	(25.7)
Non-Cash Adjustments	<u>(531.3)</u>
<i>Net Operating Expenses</i>	449.4
Capital Expenditures	782.1
Debt Service Principal & Interest	285.0
Labor Settlement (FY07 Accrual of 40%)	<u>76.0</u>
<b>Total Uses</b>	<b>1,592.4</b>
<b><u>Sources:</u></b>	
FY08 Federal Grants	
Operating	475.0
Capital and Debt Service	850.0
Retainage for DOT - FRA oversight	<u>(2.1)</u>
<i>Subtotal Federal Grants</i>	1,322.9
Third Party and Special Grants	<u>234.7</u>
<b>Total Sources</b>	<b>1,557.5</b>
<b>Estimated Ending Cash</b>	<b><u>\$ 189.0</u></b>

## **Attachments**

Strategic Business Line Operating Performance - Management Report, September FY2007 –  
FY2008 Budget

Appendix

FY2008-12 Capital Budget Appendix – Department Project Summaries

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