



March 18, 2014

Honorable Joseph R. Biden, Jr.
President of the Senate
U.S. Capitol
Washington, DC 20510

Honorable John Boehner
Speaker of the House of Representatives
U.S. Capitol
Washington, DC 20515

Dear Mr. President and Mr. Speaker:

We are pleased to transmit Amtrak's Fiscal Year (FY) 2015 General and Legislative Annual Report to you. Pursuant to Section 24315(b) of Title 49 U.S. Code, this letter provides you with a brief overview of the past year's activities and financial performance, and outlines our views on financial, legislative, and policy strategies to support the improvement and expansion of high-speed and intercity passenger rail service in the United States.

Introduction

As we look back on Fiscal Year 2013, I think it is fair to say that I am pleased with the work Amtrak has done to maintain our aging rail system and sustain and even improve service in the face of unprecedented natural disasters and a challenging environment. Service disruptions caused by weather and other issues cost us more than 440,000 riders and \$42 million in ticket revenue. In spite of that, we set an annual ridership record of 31.6 million passengers and a ticket revenue record of \$2.1 billion. That we did this in spite of serious obstacles says a lot about the demand – but the losses we did see are just the first of the challenges we can expect to face if we do not act now to stop the decay of the Amtrak system.

While I am very proud of the way the men and women of Amtrak have sustained that system, the time has come for us to do something to reverse this trend so passenger rail can continue to contribute to our national economy. Infrastructure deterioration and changes in business patterns have reached a point where something has to change. While the Northeast Corridor (NEC) once required a Federal operating grant, better customer service, marketing and sales have generated greater revenue, higher ticket sales and better return on those sales. Revenues now exceed operating costs by more than \$300 million, and we have improved cost control by implementing the strategic vision for a private sector model.

Honorable Joseph R. Biden, Jr.

Honorable John Boehner

March 18, 2014

Page 2

In spite of these successes, the likelihood of major infrastructure failure has grown. Capital support levels have fallen. The growing risk is described in the attached report of the independent Northeast Corridor Infrastructure Advisory Commission. Current investment levels leave us vulnerable to a bigger, costlier, and far more damaging failure than anything we have seen. The nation cannot afford to let a railroad that carries half of Amtrak's trains and 80% of the nation's rail commuters fall apart; the economic consequences would be devastating.

We must act to address this issue by investing the NEC's profits in the NEC's infrastructure and equipment. This is not a complete solution, but NEC revenues could pay for debt service on loans, which would help us address the most urgent issues. We are willing to work together with our stakeholders to help fashion a solution that could increase investment in the NEC through strategies such as debt financing, grants of assistance, public-private partnerships, and State and Commuter Rail partnerships. All of these will help, but to avoid continued decapitalization of the Northeast Corridor, we need a significant and reliable multi-year capital commitment from the Federal government. Only this type of commitment will allow us to plan and undertake major multi-year projects like bridge and tunnel replacements.

This means a logical and structural change in the alignment of our assets and their needs with our revenues and, in parallel, a comparable change in our Federal support request. Over the last ten years, we have used the NEC's revenues to fund the operating needs of the state-supported and long distance trains. We did this because these business lines play critical roles, connecting America's small cities and rural towns, providing economic development opportunities, and carrying interstate trade and commerce. Our national system supplies effective and efficient connections for people and businesses in these communities, so they can access the national transportation infrastructure of airports, highways and buses that they pay for and wish to use. Amtrak has successfully sustained our national system for four decades, thanks to growing ticket revenue, strong freight railroad support, and the Federal grants designed to ensure national connectivity throughout the United States. Congress stated in Section 228 of PRIIA that the operation of a national system was "a vital and necessary part of our national transportation system and economy," and that is a sentiment with which I strongly agree. To ensure that we keep these critically important services going in FY 2015, Amtrak intends to request Federal operating support financing at a higher operating level than in previous years. This will help us to sustain these services, and together with our requested capital funding will help us to continue to support investment in stations and the replacement of the aging Heritage fleet to sustain these services.

Table 1 shows our total FY 2015 request, as well as the divisions of operating and capital need. Taken as a whole, our FY2015 request is approximately 16% higher (excluding FRA oversight funding) than our FY2014 appropriations. We have taken a very careful approach so that we can keep operating costs down, and operating revenues up, resulting in a cost recovery that has continued to rise, reaching 89% in FY 2013, and a projected 91% by FY 2015 (If we continue to use NEC revenues to cross-subsidize our national system as we have in the past, we would need approximately \$333 million for our operating need in FY 2015, our lowest need in actual dollars since 1973).

If Amtrak could obtain access to a multi-year Federal funding commitment, it could build and follow through on a capital program that would address our fleet and infrastructure needs. Amtrak has never had a true capital commitment, one that allowed us to sign multiyear contracts, knowing that the money would be

Honorable Joseph R. Biden, Jr.

Honorable John Boehner

March 18, 2014

Page 3

there to carry out the work. As a result, we have put off major capital programs to renew aging bridges and tunnels, in some cases for decades. The projects we have been able to undertake have been completed in a manner that is less efficient than it would have been if we could say with certainty that our projects were funded in advance. Our ability to buy in bulk for out years, which saves money, is hindered by our inability to commit money for purchases in coming fiscal years.

The uncertainty associated with an annual appropriation sometimes means we are left with excess inventory that must be stored or held until a use can be found for it. It is difficult to get industry to respond to orders or proposals if we can't guarantee large purchases, and it is hard to know when our workforce will be needed, a challenge that is made even harder by the limited work windows that are available on the Northeast Corridor. The process of "ramping up" the organization so that we can effectively invest at a level that will make a difference will take a period of years, as we will have to develop capabilities that are currently scaled to our existing program – both management capabilities, such as project and contractor oversight, and workforce capacity – to accommodate significantly higher levels of funding. While we can expand and contract these capabilities to accommodate fluctuating levels of investment, there are significant long term cost savings that will come if we can plan our activities in advance and manage our workforce and inventory in a manner that ensures we obtain the most efficient return for our investment. This would be another efficiency benefit that will flow naturally from access to a committed source of capital support.

Such a funding stream would also be important for our long distance services, which enjoy strong support from the states and communities they serve. In addition to the aging fleet, which we have begun to replace, there is a need for investments in the freight network to provide improvements that are needed for passenger service. We are working closely with strong support from the states of Kansas, Colorado, and New Mexico – as well as BNSF Railway – to sustain our *Southwest Chief* service. These states are strongly committed to the sustainment of the existing service, so much so that in the absence of available Federal funding, they are trying to find a way to invest together to preserve the service. We would like to be able to invest in the future to support successful programs, particularly those, such as grade crossing projects, that bring safety benefits.

While only a Federal funding commitment can provide sufficient capital to sustain and improve the Amtrak system, some discrete needs could potentially be addressed with debt financing, in situations where the assets are expected to generate sufficient revenues to cover the cost of debt service and loan repayment. Amtrak's plans to develop the next generation of high speed equipment for the Northeast Corridor will depend on either the FRA's RRIF program, vendor financing, or some other private financing option. While we are still in the process of developing our options, the improvement in our fiscal situation over the last decade has given us access to a wider and better range of financing choices.

Table 1. Reconciliation of FY 2015 Federal Grant Proposal
(dollars in millions)

Operating Estimates					
	Operating Revenue	Operating Expenses	Net Operating Profit /(Loss)	Operating Profits Used for Capital Investment	Federal Operating Grant Request
NEC	\$1,566	\$1,276	\$290	(\$290)	\$0
State-Supported	932	1,015	(83)	0	83
Long Distance	639	1,257	(618)	0	618
Corporate Development	98	19	79	(79)	0
Total, Operating	\$3,235	\$3,567	(\$333)	(\$369)	\$701
Capital Estimates					
		Planned Capital Investments	Capital Investment Funded from Operating Profits (See above)	Federal Capital Grant Request	
NEC		735	290	445	
State-Supported		20	0	20	
Long Distance		295	0	295	
Corporate Development		79	79	0	
Total, Capital		\$1,129	\$369	\$760	
Other Required Grant Needs					
Debt Service					150
FRA Oversight Takedown					9
Total Federal Grant Request					\$1,620

Does not include revenues from joint benefit programs; commuter and reimbursable revenue and expenses are included in each business line.

NEC includes infrastructure-related expenses.

Contributions from states envisioned under PRIIA 212 not included.

Realignment and Revitalization

Over the course of the past year, Amtrak has undertaken a reorganization designed to improve our customer service performance, financial efficiency, and operational focus. As part of this reorganization, Amtrak has created three rail-related “business lines” which will manage our basic intercity passenger rail operations.

These are:

- Northeast Corridor (NEC) Operations
- State-Supported Services
- Long Distance Services

The General Managers of these three primary business lines are responsible for the operations, capital investment and financial performance of their respective passenger rail services.

The next phase, which began in early FY 2014, is the creation of an organization to manage Amtrak's corporate assets. This fourth business line will be known as "Corporate Development," and is still in the process of formation. While the organization's scope is not yet fully defined, it is being designed to create common stewardship, management and development of all of Amtrak's infrastructure assets across the nation, while also building new capacity to pursue ancillary business opportunities by leveraging Amtrak's unique business assets and maximizing their value. By October, 2014, Amtrak will have a better defined corporate asset business line that will be designed to extract the maximum revenue from other transportation assets of the company. In addition to these business lines, Amtrak will continue to execute the traditional railroad functions (Engineering, Safety and Mechanical), key passenger service functions (Customer Service, System Operations, and Food and Beverage), and the necessary corporate overhead functions such as marketing, finance, IT, legal support, and human capital management to provide the essential support and function capabilities necessary for each of the business lines to provide their services.

Business Line Responsibilities

Each of Amtrak's three rail business lines is a fully integrated operation, combining traditional transportation and mechanical and, in some cases, engineering functions to improve accountability and service focus. This represents a considerable cultural shift; in the past, managers were responsible principally for ensuring that they managed to their budget and executed only their portion of a complex job. Today, however, they will be held accountable for ensuring that each business line meets its strategy-driven goals for safety, financial performance, and customer satisfaction.

Business line General Managers are responsible for day-to-day train operations, with metric-driven safety, on-time performance, customer satisfaction and service delivery improvements as their key responsibilities. Implicit in this slate of responsibilities is Amtrak's expectation that the General Managers will find and exploit opportunities for improvement. They will develop short- and long-range strategies to improve customer service, build ridership and revenues, improve on-time performance, and develop a safer, more customer-focused and more effective organization. They are also expected to develop strategies to mitigate risk, and will be responsible for the overall profits or losses of their businesses.

Northeast Corridor Operations Business Line

The General Manager for the Northeast Corridor (NEC) Operations business line will be accountable for the financial and operating performance of services that connect Boston, New York, and Washington. This is the busiest passenger rail line in the United States and the only one currently capable of services up to 150mph. The core of these services is furnished by Amtrak's very successful high speed *Acela* and our *Northeast Regional* services, but several other operational responsibilities are also included, most notably the day-to-day management of commuter services that use the route. The General Manager, NEC is a key participant in the acquisition of the next generation high speed trains which could enter service on the NEC in 2018. This new generation of high speed trains represents the future for the successful continuation of high speed service in the Northeast, and it is essential that it be designed and built in a manner that will allow it to serve the market competitively for decades to come.

To conduct its operations in FY 2015, the NEC will require no Federal operating support, but it will require approximately \$445 million in Federal capital investment, in addition to other funding provided by commuter authorities in accordance with Section 212 of PRIIA. This investment will be augmented by approximately \$290 million in revenue generated by our NEC services. While this level of investment is far below the amount needed to stabilize and improve the NEC, as called for in the draft Five-Year Northeast Corridor Capital Plan now under development with the Northeast Corridor Commission, it reflects what we believe is a realistic request for funding giving our continued reliance on the annual appropriations process for capital funding. The majority of the investment will be spent on infrastructure renewal, which includes stations, rail and safety mandates, and rolling stock. The remaining \$34 million will be invested in Amtrak's most important ongoing investment project, the Gateway Program, designed to build additional track, tunnel and terminal capacity at Amtrak's most congested point, New York Penn Station and the tunnels connecting it with New Jersey.

State Supported Business Line

The state-supported services have become a major source of ridership growth, with ridership almost doubling between 1998 and 2013. Today, nearly half of the passengers who ride an Amtrak train ride a state-supported train. The frequency of service on these routes can vary from as few as two to as many as 32 trains a day, and each has developed in close partnership with the sponsoring state to fill a specific transportation need on 29 routes, each less than 750 miles in length. Over the course of the past year, we have worked closely with our state partners to implement the cost-sharing mandates established by Section 209 of PRIIA. Section 209 requires the states to assume a larger and consistent share of the costs associated with each service, and their willingness to do so has allowed Amtrak to preserve every single state-supported service – an eloquent testament to the value these trains provide to the communities they serve.

To manage these services, the General Manager will be responsible for the financial and operating performance of these services and for sustaining Amtrak as the provider of choice for short-distance intercity rail transportation in markets where a state government is interested in partnering with Amtrak. This will entail positioning Amtrak for growth in the years ahead – both by focusing on providing more cost-effective and market-competitive service, and by building relationships with current and potential state partners. The General Manager will be responsible for such partnership initiatives as the implementation of Section 209 and the introduction of next generation passenger equipment in partnership with the states, as provided for in Section 305 of PRIIA.

While the 209 process has secured state support for the majority of operating expenses, Amtrak will still require approximately \$83 million of Federal operating support for these trains in FY 2015. While these services as a whole will continue to require some level of state and Federal operating support, it should be noted that by the end of FY 2013, preliminary analysis indicates that nine of these routes had reached or exceeded the 90% cost recovery level for the year. In most of these instances, the availability of multiple frequencies, the promise of reliable service, and the additional choices conferred by intercity rail and transit service connectivity have driven this growth – which strongly suggests that the success of our NEC services could be replicated in other corridors, if sufficient levels of capital funding and freight railroad access could be obtained to develop them.

Long Distance Business Line

Amtrak's fifteen long distance routes are the backbone of our system. Providing the only Amtrak service to half of the states and on 70% of our route system, these trains are scheduled on a daily or tri-weekly basis, but are nevertheless heavily patronized and vital to the communities and the people they serve. Our long distance trains are, on average, as full on the peak leg of their trips as are the *Acela* services on the Northeast Corridor.

Their principal mission is connectivity, and it is an increasingly important one to communities that have been losing their bus and air connections at a steady pace over the last decade. Our trains connect rural communities with major metropolitan areas, and afford our passengers a wide range of destinations – a service that has become increasingly important as air and bus options have contracted in many states. Since 1998, long distance ridership has grown by roughly 20%, without the introduction of any new services, frequencies, or equipment; FY 2013 ridership reached its highest point in twenty years.

The General Manager, Long Distance will be accountable for the financial and operating performance of these services. The General Manager's core responsibilities will include ensuring the effective connectivity of the nation's major regions through Amtrak's network of long-distance trains, providing a foundation of intercity passenger rail service and preserving intercity mobility for underserved communities or populations. The General Manager will be expected to preserve and improve this network in a manner that demonstrates the highest value for taxpayer investment. He will also play a key role in the development and execution of our plan, announced late in 2013, to eliminate Amtrak's food and beverage service deficits.

While the long distance service costs have been offset in recent years by revenues from our Northeast Corridor services, Amtrak is proposing in FY 2015 that the Federal Government provide for the totality of their operating need, \$618 million, as part of our FY 2015 operating need. Like the Northeast Corridor, these trains will require significant capital investment, with a total identified FY 2015 need of \$295 million. About \$50 million of this cost will be required for ADA compliance at our stations. The purchase of new rolling stock (including the ongoing replacement of our Heritage cars) will require \$130 million. Approximately \$115 million will be required for overhauls to our fleet, much of which dates to the early 1980s. Our Superliner cars, which are used in long distance service, are probably the hardest-run passenger equipment in North America, with the average car traveling an annual distance equal to seven trips around the world.

Conclusion

Fiscal Year 2013 has been a great year for Amtrak and our services to the traveling public, in spite of some huge challenges, such as the recovery from Super Storm Sandy. The next few years will be critically important for the future of both our company and our system. Amtrak has managed to sustain our ridership growth and develop services on the back of an aging infrastructure and a fleet that has been severely stretched. Today, the system's greatest capital needs lie ahead of us, rather than behind. We have taken some measures to address the most immediate problems through investment in our infrastructure and the purchase of new electric locomotives and long distance cars, but substantially greater investment will be required in the near future. Major needs, such as the Gateway Program, NEC State of Good Repair, and the replacement of the existing fleet cannot be accomplished at today's financing levels, or with today's policy instruments.

The question of how this is to be accomplished is both a policy matter and a financial one. The states and our other partners have important roles to play, but investment on the scale required to achieve program goals will have to come from the Federal government. It is equally clear that the existing investment model, with its unpredictable timing and funding levels is incapable of providing financing in a manner that supports the development of major multiyear projects. If America wants a modern intercity passenger rail system, this problem must be addressed – as much to sustain the existing level of service as to develop the capacity Amtrak will need in the years to come. A new and sustainable financing framework is needed for the benefit of the entire nation, as well as the multiple state and regional economies which we do or could serve.

It is clear that Americans want such a national system of intercity passenger rail, and will continue to use it in greater numbers if we can provide it. Our work over the past decade proves this – but to maintain and improve that system will require both an increase in the overall capital levels and a real Federal commitment to deliver the needed financing. Table 2 will put our FY 2015 need in the context of our needs for the following years, which will, if financed, bring us up to a level that will allow us to make meaningful improvements in our system reliability. Funding at these levels will permit us to begin to address the problems of the Northeast Corridor, to stabilize the infrastructure, and to move ahead on important multi-year programs such as a new B&P Tunnel in Baltimore, our Gateway Project, and the replacement of the Connecticut River Bridge.

Table 2. Capital Investment	FY 2015	FY 2016	FY 2017	FY 2018
Northeast Corridor	\$735	\$1,573	\$1,692	\$1,650
State Support	20	25	30	35
Long Distance	295	285	275	279
Corp Development	79	80	80	80
Total	\$1,129	\$1,963	\$2,077	\$2,044

Note: Does not include revenues from joint benefit programs or contributions from states envisioned under PRIIA 212.

Amtrak therefore urges Federal policymakers to consider carefully both the enclosed grant proposal for FY 2015 financing, as well as the larger question of how the nation's passenger rail transportation is to be financed. I have repeatedly stated in testimony that the need for investment is pressing, and that the gradual process of decapitalization will, if left unchecked, lead to higher costs and worse service, for Amtrak, the

Honorable Joseph R. Biden, Jr.

Honorable John Boehner

March 18, 2014

Page 9

commuters, and Northeastern freight carriers. This year is for many reasons an optimal moment to address the need for a long-term Federal capital commitment. As part of this discussion, we felt this was an opportune moment to show how Amtrak uses its financing – including the revenues it generates itself – so that we can make a transparent and meaningful contribution to the discussion, and help accelerate the process of investment so we can ensure the viability of our entire system for decades to come.

Sincerely,

A handwritten signature in black ink, reading "Joseph H. Boardman". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Joseph H. Boardman

President and Chief Executive Officer

Enclosures