



February 12, 2016

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

Honorable Paul Ryan
Speaker of the House of Representatives
U.S. Capitol
Washington, DC 20515

Dear Mr. President and Mr. Speaker:

I am pleased to transmit Amtrak's Fiscal Year (FY) 2017 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 Amtrak's 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.

Before I address those matters, however, I believe it is vital that I begin this document by expressing to you my belief in – and our corporate commitment to – the mission of operating a safe railroad. Amtrak experienced two significant derailments in 2015 – one by *Northeast Regional* Train 188 on May 12 in northeast Philadelphia, which resulted in the death of 8 people and injuries, some very serious, to many others among the 250 passengers, and the other by Train 55, the *Vermont*, near St. Albans, Vermont on October 5, which was fortunately far less impactful to passengers and crew. Both were serious and are under investigation by the National Transportation Safety Board (NTSB), with our full support. Amtrak is doing everything possible to assist those investigations, and is working closely with the NTSB and the Federal Railroad Administration (FRA) to learn the possible causes of both accidents and implement any necessary corrective actions.

On a personal note, this will be the last grant request sent to Congress during my tenure as President and CEO at Amtrak. I will retire by the end of FY 2016, almost eight years after I assumed the leadership of this company. It has been a productive period, given our financial limits - a time of service expansion, increased ridership and revenue, reduction of debt, and a focus on improving our passenger rail services and related business to 21st Century standards. Annual ridership has risen to over thirty million; debt is two thirds less than its previous level, and cost recovery is at an all-time high.

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It is, however, clear to me that our business accomplishments rest on an overburdened base of infrastructure and rolling stock, and that essential investments in Amtrak will have to start soon. Over the past eight years, I, our board members, and senior executives on our staff have frequently spoken out about the need for higher levels of investment. Amtrak's capital needs are pressing: outdated and inadequate infrastructure and equipment must be replaced to sustain and grow both the Amtrak system and the economy it supports. My successor, if he or she is fortunate enough to spend as many years in this position as I have, will not have much time to reverse current trends before they adversely affect our performance and the economy.

The recent FAST Act is an important step forward, and I am very pleased that it brought Amtrak's Congressional authorization into the Federal surface transportation program. I appreciate the strong bipartisan effort that went into this bill, and believe it is an important step forward. This letter will detail some of the changes that Amtrak will have to make to the way we manage and report our finances to comply with the FAST Act's creation of two financial accounts for the two major components of our system – the National Network and the Northeast Corridor (NEC). This work has just begun, and we will provide an updated report later in the year after we have had time to take action. With regard to Congress and our other partners who purchase our service, Amtrak knows that our credibility rises and falls on the accuracy of our financial reporting, and we take this responsibility very seriously. The transition to this new accounting approach is, however, a process that will require time, investment, and careful attention to detail, so we will ask for your patience as we work to get this major change right.

The Year in Review

Amtrak's ridership remained level but strong in FY 2015, exceeding 30 million for the fifth year in a row, with the NEC and two other services setting records. This sustained demand is testimony to the public demand for passenger rail service in a year marked by difficult weather, on-time performance challenges, and the tragic accident in Northeast Philadelphia which shut the NEC for a week in May. Ticket revenues reached a total of \$2.185 billion, slightly less than the previous year, but enough, when combined with our efforts to control costs, to sustain our financial performance. Amtrak's cost recovery remained above 90% for the second year in a row.

In the Northeast, our NEC continued to play a central role in the region, as Amtrak *Northeast Regional* and *Acela Express* ridership reached 11.7 million, a 0.5% increase over FY 2015, despite major impacts to NEC services associated with the May service suspension. With a third of the region's jobs within 5 miles of an NEC station and job density within a mile of stations 680 times the national average, it is no surprise that Amtrak carries more passengers between New York and Boston than all four of the regular commercial airlines put together, and three times as many as the airlines serving the New York to Washington route. Similarly, about half of the nation's rail commuter trips depend on the NEC infrastructure, with NEC commuter railroads moving almost three quarters of a million commuters every weekday.

To ensure the safety of those trips, Amtrak – alone among all subject railroads – met the 2015 statutory deadline to complete implementation of a full positive train control (PTC) system on the NEC. Although Congress extended the deadline for PTC installation to December, 2018, Amtrak, as planned, put PTC into operation on virtually all portions of the NEC owned or maintained by Amtrak between New York, Washington and Boston.

Elsewhere in the nation, Amtrak provides a range of services tailored to the stakeholders, demographics and the economic needs of the regions we serve. The National Network trains (Long Distance and State Supported services) knit the system and nation together, linking major urban centers and rural regions containing about 40% of America's rural population, many of which lack access to other common carrier transportation options such as commercial bus or air service. Eighteen states have partnered with Amtrak to develop State Supported corridor services, which carry 47% of all Amtrak riders and represent our fastest-growing business line. These trains serve regional needs, connecting major city pairs, often with multiple daily frequencies and reliable, competitive schedules, while also extending the reach of Amtrak's national system through various connections to the Long Distance services.

Taken together, these services provide the economic lifeblood for many communities, and deliver an economic and societal value that greatly exceeds the ridership and ticket revenue results to Amtrak. The total economic impact of intercity services alone – excluding commuter rail - amounted to more than \$9.4 billion in 2014. Amtrak's financial position has significantly improved over the past decade, but there are challenges ahead. The NEC carries a significant proportion of the traffic into and out of the Northeastern metropolises, but deferred investments threaten current performance and severe capacity constraints limit the potential for further growth. Similarly, Amtrak routes through Chicago have suffered heavily in recent years as a high volume of freight traffic on an aging and capacity-constrained infrastructure led first to congestion and then to cascading delays. Amtrak's Blue Ribbon Panel study of the Chicago rail network recently identified key investment needs on Chicago's rail infrastructure, while the Gateway Program in New York and New Jersey has set forth a comprehensive approach for the state of good repair and capacity improvements necessary to support current and future rail traffic into Manhattan. Projects such as these will, if sufficiently funded, provide the national system with sufficient rail capacity in these critical urban hubs for decades to come. These investments are vital, and the rail system needs to develop the capacity to address both today's congestion and tomorrow's growth. Amtrak cannot fund its share of the capital improvements needed to accommodate projected growth at the level of Federal support provided in recent history; some form of dedicated and predictable funding is needed.

The FAST Act of 2015

The recent passage of the "Fixing America's Surface Transportation" (FAST) Act is an important step toward the creation of a truly multimodal national transportation policy. For the first time, intercity passenger rail and Amtrak reauthorization provisions have been included as a title (the Passenger Rail Reform and Investment Act [PRRIA]) in a multimodal transportation bill. While Amtrak still does not have access to a dedicated and predictable multi-year source for capital funding, this historic decision is a critical first step to ensuring that intercity passenger rail now has a place in national transportation policy discussions.

An aspect of Amtrak that will be markedly changed by the FAST Act is the framework for organizing our finances and Federal support, which will have major impacts on our accounting and reporting processes, as well as the structure of our annual grant request to Congress. The format and contents of annual grant requests have varied, but they have historically requested specific operating and capital funding for the entire Amtrak network. The FAST Act, in contrast, requires Amtrak and the Department of Transportation

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to work together to create separate “Northeast Corridor” and “National Network” accounts by December, 2016 for the NEC main line between Boston and Washington, and the combination of the Long Distance routes, State Supported services, and other corporate activities not associated with the NEC, respectively. The Act requires that the respective revenues and Federal grants for these two portions of our system be transparently allocated to these accounts and then used to pay operating and capital expenses associated with these parts of our system. The intent of Congress is that Amtrak request funding explicitly for the NEC and National Network individually and on an aggregated basis, comprising both our operating and capital needs for each portion of our system.

Due to the recent enactment of the FAST Act, it is not yet possible for Amtrak to confidently request our funding in this new structure for this submission. This grant request therefore breaks funding out along the same lines (business lines, operating, and capital) as the FY 2016 request. Table 2, however, contains a “supplemental estimate,” which is a very preliminary breakout of our costs on the lines required by the FAST Act. The supplemental estimate is still tentative, and Amtrak will provide Congress with updated data as soon as possible during this fiscal year to aid the FY 2017 appropriations process.

Amtrak FY 2017 Funding and Reauthorization Request

Amtrak anticipates that the FY 2017 budget will be the first to be organized on an “NEC/National Network” basis, rather than an “operating and capital” basis. To do this, Amtrak will have to restructure its financial systems and create a new budget built around these two portions of our system. Consequently, Amtrak expects to submit a pair of grant request documents for its FY 2017 funding needs – this document, and an update that will provide a definitive explanation of our FY 2017 Federal funding need in the new budget framework. The Federal funding need for FY 2017 is expressed in Table 1, below, on a business line basis, based on the pre-FAST Act requirements. Costs, revenue projections, and Federal funding needs are expressed in the financial reporting structure that is in place today.

submission will provide a definitive statement of Amtrak's FY 2017 financial needs, in the format mandated by Congress.

Table 2. Amtrak FY 2017 FAST Act Supplemental Estimate		
(in millions of dollars)		FY 2017 Amtrak Request
Total National Network	\$	1,205.0
Total Northeast Corridor	\$	612.9
State Supported Commission		2.0
NEC Commission		5.0
FRA Management Oversight		9.1
Total Non-Amtrak Commitments	\$	16.1
Total Federal Request	\$	1,834.0

Plans for the Coming Year

Amtrak is a much different company than it was just a few years ago, focused on the execution of a strategic plan managed with a “balanced scorecard” that allows executives to track, assess, and refine corporate performance. This process created a “closed-loop system,” adaptable to take experience into account. The current version identifies three primary themes: safety and security, customer focus, and financial performance. Every corporate objective, plan and related initiative is designed to further those goals. The safety and security of our passengers and employees is our absolute top priority, and Amtrak is the first railroad, passenger or freight, to complete implementation of PTC on our main line (NEC). We are continuing the process of PTC implementation elsewhere on the system, and will work closely with our partners to ensure that we do all we can to maintain the pace.

Financial excellence, our second goal, has focused efforts to ensure that the company is an effective steward of the resources provided by Federal and state investment. These efforts span the enterprise, with a particular emphasis on improving the effectiveness of the organization and workforce. Improvements in the talent management system have greatly reduced costs over the coming decades, and have brought Amtrak into line with industry best practice, so that we can attract and retain top-quality leaders and managers. Amtrak has created a project management office (PMO) in the Engineering group, and is in the process of creating a company-wide PMO to define standards and coordinate projects throughout the company. The adoption of Lean Enterprise Solutions (LES) is also progressing, and has delivered process and compliance improvements worth millions of dollars in expense and working capital reductions. Work also continues on the documenting and reporting of overtime, with an ultimate goal of focusing on its root causes and working to reduce unnecessary expenses.

To further our customer service focus, Amtrak is moving to make full and effective use of the latest technological solutions to continue to improve the connectivity that helped Amtrak build ridership and improve cost recovery in recent years. For example, work has been ongoing throughout 2015 on a program to extend Amtrak Connect[®] Wi-Fi service to the fleet for use on all National Network trains. Implementation will be completed on all eastern National Network services in 2016. Demand for Wi-Fi has grown significantly, leading to an over-subscription of bandwidth on the Northeast Corridor trains. To address this issue, we are testing the feasibility of a dedicated trackside broadband Wi-Fi network to support

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streaming video and music downloads in real time. We hope to begin planning and construction for this system between Washington, New York and Boston in 2016.

Equipment Procurement Plans

The year 2015 marked the fifteenth anniversary of *Acela Express* service. It is no exaggeration to say that Amtrak's competitive position in the NEC and its nationwide financial performance were revolutionized by *Acela* – and thus by the Federal investment that made their acquisition possible. The contribution of these trains is undeniable, but as the equipment approaches twenty years since it was designed in the early to mid-1990s, it is reaching the end of its commercial life. Demand has outstripped capacity, and the current equipment configuration (which seats approximately 300) is insufficient to accommodate peak demand. New capacity is needed for premium service.

For that reason, Amtrak's Next Generation High-Speed Trainset Project is underway. This project is to procure up to 28 new state-of-the-art high speed trainsets, each with substantially more seats. The larger fleet will support service between New York and Washington on up to a half-hourly basis and expansion of service between New York and Boston to an hourly basis. This project will be the first application of new FRA Tier III safety standards, and the first Amtrak equipment procurement that selects for "performance" standards rather than design specifications. This approach allows procurement of rolling stock built to a proven design, and should expedite both manufacture and entry into service. Amtrak is moving through the procurement process, and expects to issue "notice to proceed" to the selected builder in the first half of 2016. The schedule calls for the first set of prototype equipment to be delivered 36 months after notice to proceed, and the fleet would be in service within five years.

The Urgent Need for Investment in the Nation's Passenger Rail Infrastructure

In the years to come, we expect to see continued demand for capacity and performance growth on the NEC. New trainsets will help, but the current infrastructure remains severely capacity-constrained at its most critical points. The problems of deteriorating infrastructure associated with aging bridges, tunnels and systems are magnified under such conditions. A critical step achieved this past year was the final adoption of the Northeast Corridor Infrastructure and Operations Advisory Commission's "Commuter and Intercity Rail Cost Allocation Policy", effective October 1, 2015, satisfying a major requirement of the Passenger Rail Investment and Improvement Act (PRIIA) Section 212. This Policy requires Amtrak and Commuter Authorities that used shared facilities on the NEC to equitably share operational and capital costs on a fully-allocated basis, with implementation in FY 2016 expected to result in additional commuter rail-sponsored investment in the NEC. This Policy, taken together with the NEC Commission's NEC Five Year Capital Plan, FY 2016-2020 has helped to create new collaboration amongst the major stakeholders of the NEC and a regional consensus for investment.

A prime example of this enhanced regional collaboration was the formation of a new partnership among Amtrak, the States of New York and New Jersey, and the U.S. Department of Transportation to advance the Gateway Program and an agreement in principle to establish a new and jointly-governed entity, the Gateway Development Corporation (GDC), to carry out the Program. Working together with NJ Transit and now supported by the Port Authority of New York and New Jersey, we are set to soon begin the

planning, environmental review and engineering work for a new Hudson River Tunnel and have several other important Gateway planning, design and construction projects underway. Key to maintaining this momentum is adequate Federal funding for this work from the Federal Transit Administration (FTA), the FRA and Amtrak sources, which all the GDC participating agencies believe should account for 50% of the total Program costs.

One possible source of funds for the Gateway Program and many other important projects across the NEC, such as construction of a new Baltimore and Potomac Tunnel in Maryland (as well as other publicly-owned infrastructure) is the new *Federal-State Partnership for State of Good Repair* grant program created by Section 11302 of the FAST Act. Following the NEC Commission's recommendation for the establishment of a new Federal matching program for shared-use NEC infrastructure and the FY 2016 Omnibus Appropriation Act's inclusion of \$19 million in funding for grants to Amtrak to be used for shared infrastructure projects on the NEC, this important grant program could be a source of up to \$140 million for various intercity passenger rail projects, if fully appropriated in FY 2017. Additionally, the FAST Act has also adjusted how the FTA's Fixed Guideway Capital Investment Grant program can be funded, opening the way for New Starts eligibility for the Gateway Program.

Similarly, Section 11301 of the FAST Act creates the new Consolidated Rail Infrastructure and Safety Improvements grant program, which could provide important funds for a number of Amtrak priorities across both our National Network and Northeast Corridor. The report recently issued by Amtrak's Chicago Blue Ribbon Panel identified substantial capital investment opportunities on the rail network shared by passenger and freight trains in Chicago, the most important hub on the national rail network. Rail congestion in Chicago has become a problem of national proportions that has the potential to adversely affect America's economic competitiveness and could cost the nation hundreds of billions of dollars annually in lost economic output. The panel identified priorities (including unfunded projects included in the CREATE program developed by Chicago's rail stakeholders) for investments and improvements to the rail network, and the need for Federal funding to alleviate congestion and produce significant transportation benefits. Full funding of Section 11301 in FY 2017 could create an additional \$190 million in available funds for important projects such as these.

Amtrak's Five Year Plan

As part of this annual funding request, Table 3 lists Amtrak's funding needs for the FY 2017-2020 timeframe. These budget levels reflect the existing funding paradigm, and will require revision over the coming year to ensure funding levels for the accounts required by the FAST Act. For that reason, only total required funding levels are forecast in Table 3. Current breakdowns (using today's accounting framework) are included in the attached budget request justification and five year financial plan, and will be updated this year to reflect the mandated account structure.

Table 3. Provisional Amtrak Funding Needs, FY 2017-2020 (in millions of \$)				
Fiscal Year	2017	2018	2019	2020
Current Projected Need	\$1,834.0	\$1,917.1	\$1,981.7	\$1,935.1
Total Authorized Federal Funding Level	\$1,500	\$1,600	\$1,700	\$1,800

Conclusion

Over the past decade and a half, Amtrak has undergone a remarkable transformation. Ticket revenues have doubled, and operating cost recovery is higher than any other U.S. and most international passenger railroads. Amtrak has made some small but vital capital improvements and targeted investments in bridges and other infrastructure have helped to sustain the NEC. This company has been a good steward of the national intercity passenger rail system – within the limits of its budget.

Federal investment in Amtrak made the economic benefit of intercity passenger rail possible. In the Northeast, the NEC and the intercity and commuter rail services it supports deliver an essential transportation service. Amtrak's National Network links cities and smaller communities in other regions with major urban centers. Those benefits greatly exceed the scale of the annual Federal investment, and I think it's important, in closing, to enumerate on the reach of our system, and the scale of those benefits. Amtrak serves 46 of the 48 contiguous states, and more than 500 stations. Amtrak's business generates a net contribution of \$9.4 billion to the American economy, through the services we offer and the travel and tourism impacts. These benefits take many forms. The Michigan DOT identified more than \$62 million in direct benefits from its three state-supported routes, while an independent study of the impact of our daily *Empire Builder* service to the state of Montana found more than \$5 million in direct spending from visiting passengers, with \$7.6 million in annual benefits to the residents of the state.

One key question remains unanswered: Will Congress provide Amtrak with the funding needed to execute the increasingly essential, vital and challenging missions that Congress has assigned it? If it does, Amtrak can continue to provide Americans with a transportation system that they want, need, and use. If it does not, the challenges of aging infrastructure and equipment and unmet capacity needs will worsen, with serious consequences for the entire rail network and the nation's prosperity. Amtrak needs a dedicated and predictable funding source for the equipment and capital needs of the national intercity passenger rail

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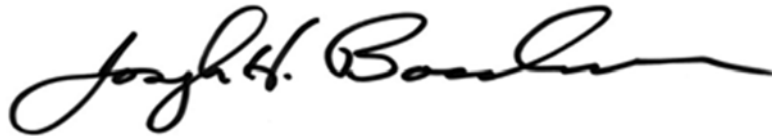
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system. I hope to work with you in the coming year to sustain, fund and improve that system. In the meantime, we will implement the requirements of the FAST Act and continue to provide safe, efficient and responsive service to more than 500 communities that rely on and benefit from their connection to the national rail passenger system.

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