Before the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, Committee on Appropriations
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Opportunities and Challenges Facing Amtrak in FY 2011 and Beyond

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Good morning Madam Chair, ranking member, and members of the subcommittee and thank you for the opportunity to testify about Amtrak's Fiscal Year (FY) 2011 operating and capital budget request. Amtrak has made considerable progress positioning itself to meet the challenges it faces to compete effectively in this new era of intercity passenger rail. The intercity passenger rail system includes the long distance routes, High Speed Rail corridors, state sponsored corridors, and the Northeast Corridor (NEC). Accomplishments include completing a new strategic guidance, a five year financial plan, and a long-range fleet plan. Although FY 2009 saw a decline in ridership and revenue from FY 2008 as the economy continued to struggle, both ridership and ticket revenues came in at the second highest level in company history. The last several months have also seen sustained increases in passengers and revenue.

Before I discuss Amtrak's funding request, let me thank Mr. Carper, Amtrak's Chairman, its Board of Directors, President Boardman, and members of this Subcommittee for the support I have received during the past five months as Amtrak's new Inspector General (IG). Last year's Appropriations Act directed Amtrak management and the OIG to agree upon a set of policies and principles for working together that are consistent with the letter and spirit of the IG Act. On March 17th of this year, Carl Clinefelter, the IG of the Farm Credit Administration and Vice Chairperson of the Council of the Inspectors General on Integrity and Efficiency, reported that the new relationship policy is consistent with the letter and spirit of the IG Act. I want to thank the subcommittee for inserting this very helpful requirement.

Amtrak is requesting $2.6 billion for FY 2011. A total of $592 million is for operating support, $1.8 billion for capital needs--including $446 million for replacing its aging fleet, and $281 million to meet the Americans with Disabilities Act requirements – and the remaining $277 million for debt retirement. This amount, along with last year's American Recovery and Reinvestment Act (Recovery Act) funding of $1.3 billion would be a significant infusion of funds and would help Amtrak move toward its long-term goal of providing efficient, high quality passenger rail service that is cost and trip time competitive with other modes.

Today, I would like to discuss the significant opportunities that Amtrak has to provide increased levels of high quality passenger rail services, as well as important challenges it must address to take advantage of these opportunities.

First, the opportunities. Congress passed the Passenger Rail Investment and Improvement Act (PRIIA) in October 2008. PRIIA recognized that passenger rail services, particularly connecting large cities, can provide significant public benefits, including road and air congestion reductions, environmental benefits, fuel usage reductions, and increased mobility choices for the travelling public.

PRIIA not only reauthorized Amtrak; it fundamentally changed Amtrak's role within the national passenger rail system. PRIIA also contains many provisions aimed at spurring Amtrak to operate more efficiently and to improve services on its existing routes. In addition, the Recovery Act provided $8 billion through PRIIA grant programs to States to assist in improving Amtrak's national network and begin developing new High Speed Rail corridors. Amtrak also received $1.3 billion through the Federal Railroad Administration (FRA) to improve its infrastructure, facilities, and security.

Essentially, rather than relying on Amtrak to lead the development of new intercity passenger rail services alone, PRIIA calls on States, supported with Federal grants from FRA, to share in the development of both new corridor services and High Speed Rail services. While Amtrak is still presumed to be the national operator, PRIIA provides greater flexibility to the States in determining who will plan, develop, and operate these new services.

With States playing a larger role in planning for and funding passenger rail service, Amtrak will become one of many choices States have to provide services, rather than the only practical option. Amtrak can still be the provider of choice in this new competitive environment, but only if it is perceived as an efficient organization that provides quality and cost-effective service.

In fact, Amtrak has many competitive advantages, including its statutory access to host railroads, existing liability regime, and experience in planning, engineering, maintenance, and operations. For example, Amtrak already operates a number of commuter rail routes in key markets and has a nationwide reservation system that can be extended to support new services, allowing significant economies of scale. Amtrak can leverage these advantages to help States plan for these new services and to become the operator of choice for new services.

Now, the challenges. As Amtrak moves into this new era of passenger rail, it faces four inter-related management challenges. Those challenges include:

1. Competing successfully for new State supported corridor and high speed rail services and then delivering high quality cost-effective service.

2. Improving human capital management practices, including strategic workforce planning, and training and development.

3. Managing risks associated with the modernization of Amtrak's information technology systems and infrastructure.

4. Managing risks associated with projects funded through the Recovery Act.

CHALLENGE 1 – COMPETING SUCCESSFULLY FOR NEW STATE SUPPORTED SERVICES AND THEN DELIVERING HIGH QUALITY COST-EFFECTIVE SERVICE

Growth in State supported services, including the development and operation of new high-speed rail corridors, creates new challenges for Amtrak. To retain its dominant position in the market, Amtrak must elevate its customer focus, improve service quality, and become a more nimble and dedicated partner. Competition for routes should also challenge Amtrak to implement significant operating efficiencies that will improve all lines of business.

The strategic direction and additional federal funding that PRIIA authorized, along with appropriations support, has given Amtrak a unique opportunity to expand and enhance its rail passenger operations. However, Amtrak will face challenges to compete successfully in a market place that has increasing levels of both domestic and foreign competition. The competition is evidenced by two recent examples:

- The Virginia Railway Express operating and maintenance service contract was recently awarded to the US-based subsidiary of a French firm. Amtrak had been providing the services since the commuter rail operations began in 1992.

- Caltrans selected a different French firm to renovate all 66 bi-level intercity passenger vehicles from its California car fleet. The renovations will take place in a newly-opened maintenance facility in California. While Amtrak did not compete for this work, it represents the growing marketplace for equipment-related work.

To thrive in this newly competitive environment, Amtrak must significantly improve its operating efficiency. In fact, we believe the very existence of competition will provide the incentive Amtrak needs to focus more attention on operating more efficiently.

Amtrak deserves to be commended for its recent decision to establish a new High Speed Rail department reporting directly to Mr. Boardman. This new department should help the company focus on the planning and development activities required to successfully compete for high speed rail contracts. As it implements this new organization, Amtrak will need to also focus on ensuring that it is positioned to deliver efficient and high quality services. A heightened emphasis on operating more efficiently and controlling costs will be needed to ensure that Amtrak remains the service provider of choice.

Amtrak has taken some commendable steps to improve operating efficiencies in recent years, but more needs to be done. For example, a recent OIG report[1] concluded that, although Amtrak's Engineering department has effectively reduced its operating expenses by 15 percent between 2002 and 2007, the company still spends about $50 million more per year than the average comparable European railroad, and $150 million more per year than the "best" European railroads to maintain and renew its infrastructure assets. Although American and European railroads are not entirely comparable and some of these opportunities are outside Amtrak's direct control, Amtrak can implement many European practices that would reduce costs. For example, we recommended that Amtrak implement better asset management systems and procure more advanced technology/equipment.

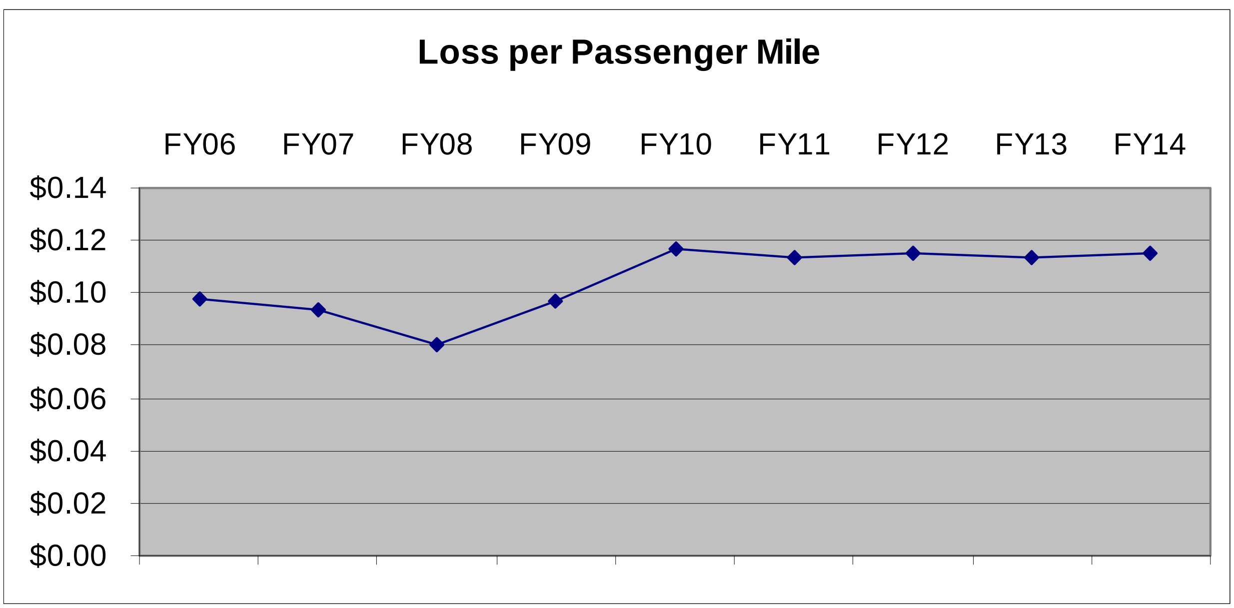
Amtrak is well along in implementing a new asset management system but it will be several years before it is fully operational. Additionally, Amtrak is exploring new technologies along the

[1] "Amtrak's Infrastructure Maintenance Program", September 2009, OIG Report Number E-09-05

Northeast Corridor. The key now is for Amtrak to follow through on these recommendations to ensure that these changes are implemented effectively.

In 2005, we issued a report on Amtrak's Mechanical Maintenance Operations[2]. We estimated that Amtrak had an opportunity to save $100 million per year by adopting a Reliability Centered Maintenance strategy along with other efficiency improvements. Amtrak has made significant progress in this area. For example, implementing Reliability Centered Maintenance for the Acela fleet allowed Amtrak to reduce maintenance costs and to increase available train sets from 14 to 16 per day, generating additional revenues of $16 million during fiscal year 2009 alone. The experience with the Acela fleet is a strong indicator that significant additional benefits can be realized as this practice is expanded throughout Amtrak's conventional fleet. Amtrak needs to ensure that momentum is maintained to apply this important maintenance concept across all Amtrak fleet assets. We are currently conducting a follow-up review on this important program.

We also note that Amtrak's financial projections do not reflect significant improvements in operating efficiency. One key indicator of efficiency that Amtrak uses is loss per passenger mile. The chart below shows the operating loss per passenger mile increasing by approximately 45 percent from FY 2008 to FY 2010, and then remaining relatively constant from FY 2010 to FY 2014. During a period when ridership is expected to grow beyond the levels experienced in FY 2008, we would expect to see the loss per passenger mile return to the levels experienced in FY 2008 or even improve on those levels. Only through a renewed focus on efficiency improvement will Amtrak be able to achieve this.



Projected Core Operating Loss per Passenger Mile

[2] "Amtrak Mechanical Maintenance Operations", October 2005, OIG Report Number E-05-04

CHALLENGE 2 - IMPROVING HUMAN CAPITAL MANAGEMENT PRACTICES, INCLUDING STRATEGIC WORKFORCE PLANNING, AND TRAINING AND DEVELOPMENT

Improved human capital management and strategic workforce planning are critical to ensure that Amtrak has the right people with the right operational and leadership skills to improve services and expand operations efficiently and effectively.

Historically, Amtrak had been operating on budgets that allowed it to maintain the railroad and deliver adequate passenger services, but provided limited resources to invest in long-term planning, including human capital initiatives. It maintains a relatively stable work force, with long-term employees who operate the railroad with reasonable efficiency, instituting improvements as time and resources allow.

Two significant factors will change this environment:

- Amtrak's work force is aging. Over the next five years, 30 percent of its work force, representing thousands of employees, will be eligible to retire. Replacing them will be a daunting task considering Amtrak employs about 20,000 people.

- Amtrak has received a large injection of capital funds to improve its infrastructure, facilities, and security capabilities—this has strained its ability to provide people with the right skill sets to oversee these investments while continuing to run the railroad.

Strengthening human capital practices remains a significant challenge across Amtrak, a challenge which will intensify as workloads increase at the same time that experienced employees in key positions retire or migrate to other business opportunities.

In May 2009, we issued a report that compared Amtrak's human capital management practices to other companies[3]. In preparing the report we interviewed over 125 Amtrak managers and employees, obtained results from benchmarking studies, and visited two other Class I railroads to see how they managed their human capital.

Our report made specific recommendations that covered four critical areas. Amtrak agreed with all major recommendations and has been taking steps to implement them. However, fully implementing these recommendations will require a concerted effort over several years.

Strategic Work Force Planning. We found that Amtrak lacks a strategic workforce planning process to ensure that it has a workforce with the knowledge and skills to meet future needs. We recommended a stronger focus in this area that includes identifying the critical skills and competencies needed to achieve Amtrak's current and future business requirements. The company has made progress by identifying employees who are eligible to retire and preparing talent profiles

[3] "Human Capital Management", May 2009, OIG Report Number E-09-03

for non-agreement covered positions. While this is a good start, the company has not yet identified its mission critical and other key positions or developed a strategic workforce plan.

Total Compensation. Amtrak also lacks a total compensation approach to ensure that pay practices are applied consistently and are aligned to support Amtrak's strategic goals. Total compensation is the complete pay package an employee receives, including money, benefits, and services. Our recommendations focused on the need to define and implement an overall compensation philosophy and strategy. Since our report, the Human Resources Department has conducted a compensation review as part of an effort to develop a new pay structure that will help attract, motivate, and retain highly skilled and talented employees. Amtrak has not yet, however, revised its pay structures.

Recruitment. Successful companies recognize the importance of having a clearly defined recruiting strategy linked to the company's identified work force needs. Recruiting at Amtrak is decentralized and manually driven. While the company has been successful in filling its recruitment needs during the past 2 years, as the economy recovers Amtrak risks losing skilled craftsman and technical expertise faster than it can replace them. Our recommendations focused on how the company could improve the recruitment process to reduce the cost and time to hire while attracting highly qualified candidates. The company is working to deploy an automated system that should help improve recruitment.

Retention. Each time a company loses an employee, it costs money. Amtrak's overall turnover rate has averaged about 10 percent annually, which is lower than most companies. Once employees reach five years of service with Amtrak, the majority tend to stay for the entire career. The problem is that in recent years a high proportion of Amtrak employees leave before completing five years, resulting in an overall workforce that tends to be skewed toward employees approaching retirement age. Amtrak's challenge, therefore, is to retain employees beyond the first 5 years of employment in order to smooth out this imbalance. Our recommendations focused on the need for a corporate retention strategy that aligns with and supports an overall strategic human capital plan.

Amtrak is heavily engaged in implementing the Employee Information Management (EIM) system, a sophisticated human resource management system that provides a basis to more effectively track and guide the career paths for its employees. Amtrak needs to ensure that it also makes timely progress in addressing the strategic Human Capital issues by continuing to implement our recommendations.

We also recently completed a separate and more detailed review focusing specifically on training and employee development. Our October 2009 report[4], found that because Amtrak's training program is largely decentralized, it cannot ensure that training efforts are aligned to meet the company's strategic needs. We also found that Amtrak needs to develop an effective corporate-wide strategy for developing management employees to assume the future leadership roles in the company.

[4] "Training and Employee Development", October 2009, OIG Report Number E-09-06

We made a series of recommendations to improve the effectiveness and efficiency of training and employee development, focusing on developing and implementing a corporate-wide training and employee development strategy. This would ensure that training aligns with the overall corporate strategy and provides employees with the skills needed to assume leadership roles in the future.

Management recently agreed with all of our recommendations and provided a plan to implement them. It is important, however, for management to stay focused on making near-term improvements, because effective training and development practices will be a key component of Amtrak's ability to deliver high quality services.

CHALLENGE # 3 - MANAGING THE RISKS ASSOCIATED WITH AMTRAK'S GOAL OF MODERNIZING ITS INFORMATION TECHNOLOGY SYSTEMS AND INFRASTRUCTURE

Significant IT investments always involve risks, and achieving anticipated benefits depends on managing the risks and implementing business process improvements to streamline and improve internal operations.

Amtrak recognizes that a number of its key information systems and the underlying technological infrastructure are outdated and increasingly prone to failure. Modernizing these information systems also provides a major opportunity for Amtrak to better harness information to make decisions and operate more efficiently. Amtrak is, therefore, taking measures to mitigate the potential for system problems while at the same time leveraging more up-to-date systems technology to drive operational improvements and more effective decision-making.

Amtrak currently has four major technology initiatives under way:

Strategic Asset Management (SAM): SAM is a multi-year program to transform and integrate key operational, financial, supply chain, and human resource processes. SAM is expected to help Amtrak meet managerial accounting requirements mandated by PRIIA and replace legacy financial, procurement, materials management, and operational systems.

eTicketing and Next Generation Reservation (RES-NG): Amtrak's current reservation and ticketing system is critical for sales booking, ticketing, customer service, and train operations. eTicketing is a major program that aims to replace current paper-based ticketing processes with an airline-style electronic ticketing system. This program will also automate the onboard ticket processing and simplify and streamline the revenue recognition and accounting functions.

Amtrak Information Management (AIM): The objective of this program is to make critical business information reliable and easily accessible to Amtrak's managers and executives. It will integrate information from various internal and external sources, and will include sophisticated capabilities such as business intelligence, document management, and train communications.

IT Infrastructure Improvement (ITII): This initiative focuses on upgrading Amtrak's IT infrastructure to improve service levels and lower current costs. Under new outsourcing contracts signed during 2009, IBM is responsible for data center operations and seat management, while AT&T is responsible for data and voice networks. Amtrak is also moving its current data center to two new locations over the next several months.

Because large IT acquisitions involve significant risk, they must be carefully managed. The fact that these programs are taking place concurrently and have a number of inter-dependencies heightens these risks. For example, the AIM program will need to make use of information that is being made available by other programs such as SAM and e-ticketing. Also, many changes to business processes and operational procedures will occur in quick succession, challenging the organizations ability to absorb the changes.

Amtrak is aware of these risks and has taken a number of measures to manage them, including:

- Reorganizing the IT department to foster partnerships and improve communications with business customers.

- Establishing a Project Management Office, separate and distinct from the technology delivery team, to establish standardized, disciplined procedures to guide both project management and technology development.

- Forming an independent Enterprise Architecture team to develop, monitor, and enforce architectural standards.

- Dividing each major project into phases and implementing comprehensive peer reviews for each phase, to ensure that projects meet quality standards before proceeding to the next development phase.

- Instituting progress reports to keep management and the Board informed about the status of each technology project.

To ensure that these projects stay on track, Amtrak will need to closely watch progress and take steps to address emerging problems quickly. We also recently initiated an audit of the largest and most complex of the four programs—the SAM project—to evaluate how well management and control measures are mitigating risks.

CHALLENGE #4 – MANAGING RISKS ASSOCIATED WITH PROJECTS FUNDED THROUGH THE RECOVERY ACT

Recovery Act spending creates many opportunities to improve infrastructure, facilities, and security, but the large amount of funds combined with tight spending deadlines create a challenge to spend money efficiently and effectively and to ensure that projects provide long-term economic benefits.

The Recovery Act included $1.3 billion in capital grants to fund a variety of projects to help Amtrak improve its infrastructure, facilities, and security posture. The Act also required the Secretary of Transportation to take measures to ensure that projects would be completed within two years of enactment (February 17, 2011).

In March, 2009, the Federal Railroad Administration (FRA) provided a $1.3 billion grant to Amtrak. The grant agreement requires Amtrak to complete all projects funded through the Recovery Act no later than February 17, 2011 and to continuously take actions to ensure projects are completed by that date. Amtrak is allowed to request a waiver for projects that cannot be completed by February 17, 2011, but must demonstrate that it has taken "extraordinary" measures to complete the project on time.

Amtrak currently has hundreds of individual projects under way that are funded through the Recovery Act. Examples of important projects include: replacement of the Niantic River Bridge, refurbishments of several other bridges, improved communications, power upgrades, modernization of stations, improvements for customer and workplace safety, and the return to service of dozens of locomotives and passenger cars.

This week we plan to issue a draft report to Amtrak that analyzes project risks associated with key engineering projects funded by the Recovery Act. Of the nine projects (totaling $293 million) that we evaluated, five contained a significant number of high-risk areas that need to be managed effectively to ensure the project's success. These projects included the Niantic River Bridge project and Positive Train Control projects. Of the ten risk categories that we examined, risk associated with acquisition, environment, schedule slippage, and technology were identified by program managers as areas of the highest concern. In general the program managers were quick to recognize the high-risk items and to put forward tactics that they believed would adequately manage the associated risk.

However, neither the program managers nor Amtrak's executives are in a position to mitigate the most significant concern, which is that the grant between the FRA and Amtrak requires Amtrak to take extraordinary measures to ensure that all projects are completed by February 17, 2011. Although the recovery act requires that Amtrak take measures to complete the projects by February 2011, it does not require "extraordinary" measures. The March 19, 2009 FRA grant not only requires that Amtrak take continuing measures to complete projects within two years, but requires Amtrak to identify the extraordinary measures taken to meet the February 17, 2011 completion date when applying for a waiver.

This requirement to take extraordinary measures may have the unintended consequence of encouraging Amtrak to take actions that increase the risk of waste and inefficiency or even to take shortcuts that could increase the risk that the project will not perform as well as expected and will not provide the benefits expected. Although the term has not been defined, we consider extraordinary measures as any action that would significantly reduce productivity, increase the potential for waste or inefficiency, negatively impact the quality of the final products, or significantly impact the smooth operation of the railroad.

Amtrak executives, including the President and the Chief Financial Officer, are committed to ensuring that funds are utilized effectively and represent an appropriate use of taxpayer funds. They are in the process of making decisions about how to balance the need and desire to implement these projects against the need to spend taxpayer funds efficiently and effectively. In fact, when Amtrak awarded contracts, it had taken measures to complete the projects on time–those measures were reflected in a contract completion date that met the requirement.

However, as projects face slippages that threaten the completion date, which is not unusual for large construction projects, Amtrak executives are faced with either taking extraordinary actions to meet the completion date, or cancelling the project and identifying a substitute project that can be completed in time. Extraordinary actions that have been proposed by Amtrak include the addition of second or even third shifts on construction projects and reducing the scope of projects to accomplish less than originally planned. Identifying substitute projects at this point in time also involves risks and might result in spending on lower priority projects that will bring fewer benefits than the originally selected project.

Because the grant agreement is driving these "extraordinary" measures rather than the Law, we are recommending that Amtrak apply to the FRA to amend the grant provisions that require Amtrak to continue to take "extraordinary" measures to complete projects by February 17, 2011 if those measures would significantly increase the risk of waste, inefficiency, reduced project benefits, or disrupt operations.

In closing, let me briefly discuss the OIG's budget request.

We are requesting $22 million as a direct appropriation to the OIG for FY 2011, which is consistent with our authorized funding level. Although it represents a $3 million increase over our 2010 appropriation, I would note that the OIG appropriation has not kept pace with inflation for the prior three years.

The request will provide additional leadership positions to support needed restructuring of our operations as well as positions to strengthen our internal operations. For example, in the past, the Amtrak OIG relied heavily on support from Amtrak management units for Human Resource and procurement activities. While I plan to continue to rely on Amtrak support, it is essential that we have adequate in-house capabilities to ensure that we can operate independently and effectively. Finally, our request funds required upgrades to our IT systems.

We have developed a new strategic plan for the OIG that will help us to focus on the major goals Amtrak is trying to achieve and we have provided that plan to the Subcommittee. This additional FY 2011 funding will help us to implement our new strategy of focusing our attention on the most significant issues Amtrak faces. We expect to identify significant cost savings and program improvements in important areas, including Amtrak's $250 million annual health care expenditures.

We are also working closely with Congress and this Subcommittee to provide timely information that will be helpful in the legislative and oversight process. We hope you agree that your investment in the Amtrak OIG serves to strengthen Amtrak's operations, improve efficiency, prevent and deter fraud and abuse, and provide the transparency needed in an organization that receives large Federal subsidies. To illustrate, in February of this year, Amtrak released a Fleet Strategy outlining a multi-billion dollar plan to replace its aging fleet and to provide additional fleet to handle the growth in demand. At the request of this Subcommittee, we plan to review this important initiative.

Madam Chair, this concludes my testimony and I will be happy to answer any questions.