

BEFORE PRESIDENTIAL EMERGENCY BOARD NO. 242

**STATEMENT OF WILLIAM H. CAMPBELL
AMTRAK CHIEF FINANCIAL OFFICER**

I am the Chief Financial Officer of the National Railroad Passenger Corporation (“Amtrak”), a position I have held since May 2007. Prior to joining Amtrak, I was a Director in KPMG LLP’s CFO Advisory Services Practice in Washington, D.C. I have also served as the Chief Financial Officer of the United States Department of Veterans Affairs and the United States Coast Guard. My full biography is attached to this statement as Exhibit 1.

Summary of Position

The purpose of this testimony is to place the parties’ settlement proposals into Amtrak’s budgetary framework and address Amtrak’s financial ability to fund a labor settlement. In doing so, it is important to understand four basic concepts. First, Amtrak is not like other private corporations. Amtrak operates at a loss each year and can only sustain operations with the assistance of federal subsidies. Like a federal agency, Amtrak is unable to retain funds year over year. Second, this unique financial structure, coupled with a Congressional mandate to become a profitable, self-sustaining corporation, led to a near financial disaster and operational shutdown in 2002. This was a financially crippling event from which Amtrak has improved but not fully recovered. Third, despite improved ridership and revenues, Amtrak will remain dependent on federal subsidies for the foreseeable future, and certainly through the term of any labor settlement. Fourth, the money for the Union’s retroactive pay proposal—which exceeds Amtrak’s proposal by \$9,000 per employee—could only come directly from a Congressional appropriation.

Amtrak simply does not have the money to fund the Unions' retroactive pay proposal, nor does it have the ability to generate these funds through additional borrowing.

Amtrak's Unique Financial Structure

In 1970 Congress passed the Rail Passenger Service Act, carving Amtrak out of passenger services operated by the nation's privately owned freight railroads. Amtrak began operations on May 1, 1971 as private corporation, owned by the United States and incorporated under the laws of the District of Columbia, with the goal of becoming a profitable, self-sustaining railroad. This goal was never realized. This is not surprising given that passenger services were not profitable for the freight railroads, and Amtrak was created to relieve the freights of that burden. If Amtrak's finances truly were like a private corporation, it would have been liquidated many years ago. Unlike other private corporations, and more like a Federal agency, Amtrak's operating and capital budgets have been dependent on federal subsidies each year since its inception, and will continue to be so for the foreseeable future, and certainly through the term of the new labor settlements.

Its dependency on federal subsidies prevents Amtrak from retaining funds year over year. Each year, Amtrak's operating costs increase at a higher rate than revenues, meaning that as Amtrak's costs exceed its revenues during the fiscal year, any incremental costs must be absorbed through federal subsidies. Under this operating structure, Amtrak loses approximately \$40 million per month, or over \$1.3 million per day. Even if Amtrak were to lose less each year, and not utilize the full federal appropriations, Amtrak would not net these funds; they would merely offset future appropriations. When compared to other private corporations, such as the nation's Class

I freight railroads, it quickly becomes apparent that Amtrak does not and cannot in the foreseeable future function like a for-profit, private corporation. The Association of American Railroads profiles of the five major U.S. Class I railroads, all of which are profitable corporations, are attached as Exhibits 28 through 32.

Amtrak's Economic Challenges

When the current round of bargaining began in January 2000, Amtrak was still operating under the stringent financial standards of Amtrak Reform and Accountability Act of 1997, which was a Congressional mandate to achieve profitability and self-sufficiency by the end of 2002. From 1997 to 2001, in an effort to achieve the “glidepath” goal of self-sufficiency, Amtrak covered its costs through extensive borrowing by mortgaging its property. For FY 2000 and FY 2001, Amtrak received zero in operating subsidies. In 2000, Amtrak sold or leased back portions of its train fleet to raise cash and in 2001 it mortgaged part of New York City’s Penn Station just to make payroll. During this span, Amtrak increased its debt by \$2.7 billion. By 2002, with nearly all of its assets used as loan collateral, Amtrak had exhausted its ability borrow and nearly shut down in July. The Department of Transportation provided a \$100 million loan under the Railroad Rehabilitation and Improvement Financing program to keep Amtrak running through the Fourth of July weekend, and Congress later passed a \$205 million supplemental appropriation to sustain operations through the end of the 2002 fiscal year.

In the years following this near financial collapse, Amtrak slowly began to stabilize. In 2005, Amtrak began a series of strategic and management initiatives, which included restructuring management, bringing Amtrak equipment to a state of good repair,

performance accountability, and revenue and expense improvements. This resulted in \$61.3 million in cost and revenue improvements in FY 2006 and \$52.8 million in FY 2007. Amtrak also reduced its long-term debt from nearly \$4 billion in 2002 to under \$3.3 billion today. From FY 2004 through FY 2007, Amtrak's total federal funding, including operating grants, capital grants, and debt service, stabilized in the range of \$1.2 to \$1.3 billion.¹

However, Amtrak's basic financial structure has not changed. Amtrak remains dependent on federal subsidies and continues to operate with significant losses. Furthermore, Amtrak is still unable—and has never been able—to retain funds year over year, because any reserve in one year will offset the federal appropriations for the following year. This forces Amtrak to budget much more like a Federal agency than a private corporation.

Amtrak's Current Economic Situation & Projections

With these recent signs of stability, Amtrak operates with cautious optimism, facing significant challenges in the years ahead. At the current rate, it will take Amtrak approximately 20 years to pay off its long-term debt. Through FY 2007, even with ridership at record highs, Amtrak still has not reached its FY 2002 revenue levels. In FY 2007, Amtrak's preliminary net operating loss was \$429 million, meaning Amtrak will have posted net losses of over \$400 million per year for seven of the last eight fiscal years. Furthermore, several substantial capital and strategic needs lie ahead. In fiscal years 2008 through 2012, Amtrak will invest in significant upgrades and improvements, including: equipment overhauls (\$719 million); track and power improvements (\$762.5

¹ Exhibits 2 through 17, attached, are Amtrak financial statements, reports and Congressional submissions covering the period from FY 2001 through FY 2007. They provide a substantial amount of background information on Amtrak's financial situation and history.

million); new bridges, tunnels and improvements to the North East corridor (\$204.5 million); and compliance with the Americans with Disabilities Act (\$780 million).

Amtrak's budgetary projections over the next three years reflect an unfortunate reality: while revenue is expected to rise, costs will rise at an even greater rate, driving Amtrak's projected net operating loss from \$475 million in FY 2008 to over \$570 million in FY 2010.

One of the significant costs producing these losses will be the labor settlement. In FY 2007, labor costs represented approximately 64% of Amtrak's operating budget and the labor cost-to-revenue ratio was .76, meaning that salaries, wages, overtime and employee benefits consumed 76 cents of every dollar of revenue Amtrak received (excluding operating subsidies). A labor settlement beyond what Amtrak has budgeted will either require additional federal subsidies or revisiting the financial problems experienced in 2002.

Labor Settlement Impact

Amtrak's current FY 2008 budget assumes a labor settlement following the pattern of the BLET tentative agreement reached in July of 2007. However, even with no labor settlement, Amtrak's projected net operating loss would be over \$1.1 billion over the next three years. When Amtrak's settlement proposal is added to the budget, the three year net operating loss climbs to over \$1.6 billion. If the PRLBC proposal were added, the three year total soars above \$1.9 billion. The difference between the Amtrak and PRLBC proposals would create a net operating loss of approximately \$295 million

over three years, with a difference of \$192 million in the first year. The primary source of that difference is the PRLBC's demand for retroactive pay at \$13,500 per employee.²

The budgetary impact of any labor settlement will be significant, but the PRLBC's retroactive pay proposal simply is not possible within current funding constraints. If applied to the Unions participating in the PEB, the PRLBC's retroactive pay proposal would cost Amtrak over \$103 million on day one of the contract. If applied as a pattern to all Amtrak unions, the PRLBC's retroactive pay proposal would cost Amtrak over \$156 million. See Exhibit 22. The reality is that while Amtrak can budget for its proposed wage increases and its health and welfare program, there simply is no money available to the pay \$156 million in retroactive pay.

Amtrak is dependent on federal subsidies and has no reserve for an over \$150 million cash transfer. Many private corporations would have the option of taking on new debt to raise the money, but Amtrak already mortgaged or leased back its property to avert a shutdown in 2002. There is nothing left to mortgage. The retroactive pay the Unions are seeking could only come directly from a Congressional appropriation, which is a remote possibility given Amtrak's funding history.

Conclusion

Amtrak today is financially dependent on federal capital, debt, and operating subsidies, as it has been throughout its history. Amtrak's federal budget dependency prevents it from retaining cash reserves year over year. Amtrak has not retained any such funds from January 2000 to the present, nor will it be able to from the present through 2010. Amtrak is able to pay the prospective wage increases and lump sum payments it

² This analysis underestimates the settlement impact, since it focuses only on Amtrak's operating budget, which is only 90% of the total settlement costs. Amtrak's capital budget assumes the other 10% of the costs. Exhibits 18 through 28, attached, demonstrate the full cost of the Amtrak and PRLBC proposals.

has proposed to the Unions, but it simply does not have now, nor will it have in the future, the funds to provide the retroactive pay under the Unions' proposal. The retroactive pay the Unions seek could only be paid if the Congress appropriated those funds and the President approved.

WILLIAM H. CAMPBELL INDEX OF EXHIBITS

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3. Annual Report to Congress 02.17.2005
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30. Association of American Railroads Kansas City Southern Railway Profile 2005
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