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Amtrak's Route Accounting System: Fatally Flawed, Deceptive, Misleading

January 2020

Executive Summary

Amtrak is deceiving Congress through its accounting systems.

Other victims of its deceit are the Secretary of Transportation, its own Board of Directors, its management team and – most importantly – the American people. Amtrak's route accounting system (APT) produces false information that misrepresents the real costs of Amtrak's operations. Worse, it grossly exaggerates the actual taxpayer cost of individual routes and the savings that would result from their elimination.

The upcoming reauthorization of the FAST Act makes the need for accurate and relevant information especially urgent because Amtrak is proposing a radical restructuring of the national passenger rail system based entirely on false and misleading data.

Since Amtrak began operations, it has added, combined and eliminated routes; increased and reduced frequencies; expanded and contracted train capacity; upgraded and downgraded on-board service. It has made these changes based on faulty information derived from APT and its predecessor system RPS. As a result, the changes did not produce the outcomes desired.

Congress established Amtrak as a publicly funded instrumentality of the Federal Government to provide the nation with a useful and beneficial transportation service that the private sector was no longer able or willing to provide. When Secretary of Transportation John Volpe designated the basic passenger rail network, his goal was to concentrate limited resources to ensure that the national passenger rail network made an optimum contribution to the Nation's total transportation system.

Today, we confront important issues and must make critical decisions. How should Amtrak meet the mobility needs of the traveling public? What parts of the nation should it serve? Should Amtrak add a route or eliminate one? Add or reduce capacity? Increase or reduce service frequency? How much should a State pay if it wants more service than Amtrak provides? These policy decisions have long term consequences.

These decisions should be made by the people's elected representatives in Congress, not by its unelected and unaccountable Board of Directors or management cadre. Because Amtrak is a publicly funded organization, profit is neither the appropriate goal nor a useful metric in making these decisions. They require cost/benefit analyses, which depend on the accurate determination of actual costs. APT in its current form does not provide this information.

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APT's Fatal Flaws

Discussion

1. APT reports only Fully Allocated Costs that misrepresent the underlying economics and distort policy decisions.

The Volpe National Transportation Systems Center (Volpe) explains that Fully Allocated Costs are not actual costs but accounting estimates of how much revenue each of Amtrak's business lines, routes and trains would have to earn in order for Amtrak to cover all of its costs. Conceptually, Fully Allocated Costs are simply *revenue targets* established by accounting formulas. They do not indicate how much total revenues and costs would rise or fall with the addition or elimination of a route or a train because they include large allocations of costs for fixed overhead and shared facilities that would not vary with changes in service.

To make correct decisions about the value delivered by various levels of passenger train service, Congress and the public require information about Avoidable Costs – information that Amtrak's Finance Department has long worked to suppress.

In the late 1990s, Amtrak's Marketing Department developed the Market Based Network Analysis methodology (MBNA) that showed how changes in routes and frequencies would interact with each other to change the revenues and costs of the total system. Amtrak's Finance Department gained control of the program and killed it.

Later, Volpe developed an Avoidable Cost methodology for APT but Amtrak's Finance Department, disregarding Congressional mandates, refused to implement it and ultimately abandoned it entirely. Today, Amtrak refuses to provide FRA with the information on avoidable costs that FRA requires for its quarterly performance reports.

Both the Federal Railroad Administration (FRA) and Amtrak have ignored the Congressional mandate to engage an independent entity to create a methodology for evaluating Amtrak's various routes and services.

2. APT excludes significant operating costs in calculating route financial performance.

According to Volpe, Capital Consumption is an operating cost. APT, however, does not include this cost in its route financial performance reports – even though APT calculates it. By concealing this cost from Congress and the public, Amtrak is able to propagate its false narrative that its Northeast Corridor is "profitable." Few see beyond this topline claim to notice the three-word qualifier that Amtrak executives typically add – usually with a wink and a nod – "above the rail." This concept is nonsense and clearly deceptive. Without rails, trains do not move or

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perform a mobility function. Amtrak's treatment of track access costs, however, exempts only its Northeast Corridor; Amtrak treats the track access payments for all other routes as an operating cost.

How much does this accounting alchemy understate the NEC's operating costs? Amtrak won't say. Its Fiscal Year 2020 Grant Request, however, provides a clue. In it, Amtrak stated that the National Network routes (Long Distance and State Supported) will impose $280 million in capital costs on the NEC in 2020. National Network trains account for 14% of either train- or ton-miles on the NEC. Mathematically it follows that the "capital consumption" of Amtrak's NEC operations are be $1.72 billion. When this cost is charged against the $568.4 million in "adjusted operating earnings" that APT reported for the NEC in 2019, the true *operating loss of the NEC* could be in the vicinity of $1.1 to $1.2 *billion a year*. That's billion with a B.

3. APT relies on inaccurate data.

Amtrak's business practices do not allow collection of detailed data on its costs. For example, Amtrak is unaware of the actual cost of fuel and power used by each of its trains and routes. Moreover, errors in coding expenses in its general ledger system have been a problem that causes expenses to be misallocated. Other data inputs to APT also contains errors. For example, Amtrak treats the two sections of the Empire Builder (Chicago to Portland and Seattle) and the Lake Shore Limited (Chicago to New York and Boston) as two separate trains even though they run as a single train for more than 80% of their respective routes. The result is a significant overstatement of train miles, one of the statistics APT uses to allocate various costs.

Revenue inputs also include errors. For example, Amtrak credits all of the revenue generated by the portion of the train that operates on both the Sunset Limited and the Texas Eagle entirely to the Eagle even though the majority of miles is on the Sunset. As a consequence, APT incorrectly reports the financial performance of the Sunset as being the lowest in the system.

APT calculates costs in multiple phases, so small errors at the beginning compound to larger errors at the end. In technology parlance, APT's problem is known as GIGO – Garbage In, Garbage Out.

4. APT does not have accurate cost data.

In 2013, Amtrak could only trace 20% of its costs to specific trains and routes; it had to "allocate" (guess) at the other 80%. By 2016, Amtrak had reduced this percentage to less than 50%, but only for each of its large *business lines*, not necessarily for each of its individual trains and routes. This improvement resulted primarily from better use of the cost data already available in its general ledger accounting system rather than from improvements in Amtrak's business practices or cost data collection.

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Because the percentage of its total costs that Amtrak must indirectly "allocate" is high, the probability that the costs for a particular activity are misstated is also high, making Amtrak's calculation of route costs less credible and reliable. Because APT relies on some 50,000 to 60,000 manually developed rules to make those "allocations," the costs it reports are subject not only to human error but also to outright manipulation designed to produce predetermined outcomes.

5. APT does not include revenue generated by passengers connecting with other routes.

The number of passengers that use more than one train to complete their journey typically exceeds two million a year with revenue that exceeds $200 million. Amtrak collects this data but does not include it in the route performance reports that APT produces. As a result, these reports understate the amount of revenue the system would lose or gain if a route or frequency were eliminated or added. Volpe marked this issue as a problem that needed further work. Since Amtrak discarded Volpe's work, there has been no progress in resolving this outstanding issue.

6. APT lacks credibility and acceptance.

Amtrak cites Volpe's involvement in APT's development to enhance its credibility. The reports Volpe submitted to Congress, however, reveal that its involvement was ultimately quite limited.

Volpe joined the project after Amtrak had already begun work. Volpe concentrated on developing a methodology for Avoidable Costs while Amtrak continued work on its methodology for Fully Allocated Costs. Volpe's work was constrained by the accounting structure that Amtrak Finance had already established that was more suitable to its Fully Allocated Costs. Volpe's work was also compromised by Amtrak's business practices, which limited its ability to obtain detailed information on costs. Ultimately, Amtrak discarded Volpe's Avoidable Cost methodology. From the public record, a reasonable person could conclude that Amtrak's Financial Department designed APT and that Volpe's involvement was limited mainly to documenting Amtrak's methodology.

Amtrak claims that APT's accuracy is ensured because it, FRA, Volpe and State partners "devote significant resources to this objective." In testimony to Congress on November 13, 2019, Stacey Mortensen, Executive Director of both the San Joaquin Joint Powers Authority and San Joaquin Regional Rail Commission cited significant problems in dealing with Amtrak, its lack of data transparency; resistance to data sharing; inability to determine a fair cost sharing formula; inability to tie costs rationally to actual service, including its preposterous claim that a reduction in service would not necessarily produce a reduction in costs. Government reports show that other State "partners" have similar problems with Amtrak and its costing of services. Most interesting of all is that Amtrak's own managers do not rely on APT to provide them with actionable information, preferring instead to obtain the data they need directly from Amtrak's financial accounting system.

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7. APT gives Amtrak unconstrained pricing power over the States.

PRIIA Section 209 required Amtrak to develop a pricing structure that would ensure that all States pay the same amount for the same service. This pricing scheme replaced the previous program that had allowed individual States to negotiate separate and different compensation agreements with Amtrak. The States and Amtrak settled on the APT. Since Amtrak has complete control over APT and its methodology, APT gives Amtrak the power to charge States for whatever costs Amtrak – at its sole discretion – claims them to be. Since it takes 50,000 – 60,000 allocation rules to determine those costs – each rule developed and overseen by Amtrak accountants – it is easy to understand why external oversight is virtually impossible, why Amtrak is so protective of its "proprietary" information and why Amtrak is so determined to prevent public disclosure of any information about its short- or long-term avoidable costs. APT's Fully Allocated Costing allows Amtrak to conceal how much it marks up actual costs for overhead and joint facilities. If States knew the amount of the markup, it would alter the negotiating balance of power and make it more difficult for Amtrak to offload a large portion of its total costs onto the States.

Final Note

This paper supplements our previous critique of APT, *Amtrak's Route Accounting: Fatally Flawed, Misleading & Wrong*, Rail Passengers Association, August 15, 2018, revised June 2, 2019 available on our website: https://www.railpassengers.org/happening-now/news/releases/amtraks-route-accounting-fatally-flawed-misleading-wrong/