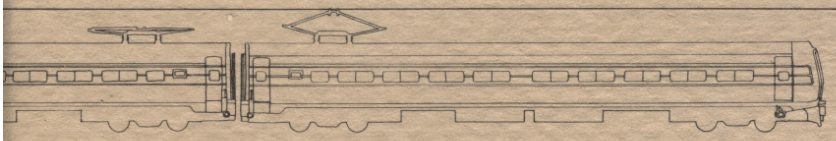
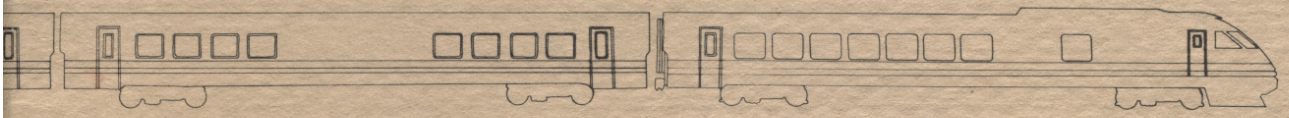
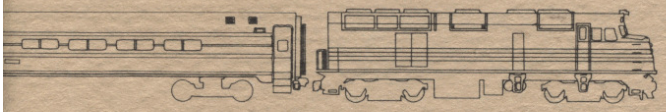
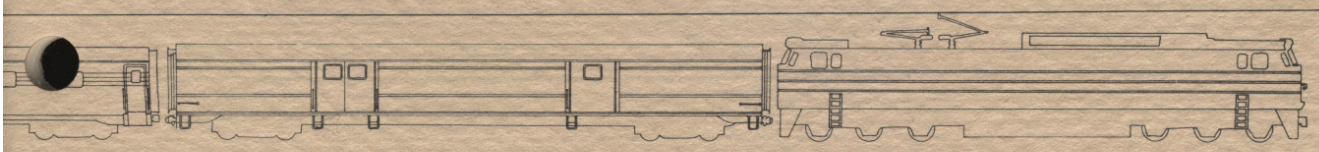
Amtrak







1978 Annual Report



INTERCITY RAIL PASSENGER ROUTES

National Railroad Passenger Corporation

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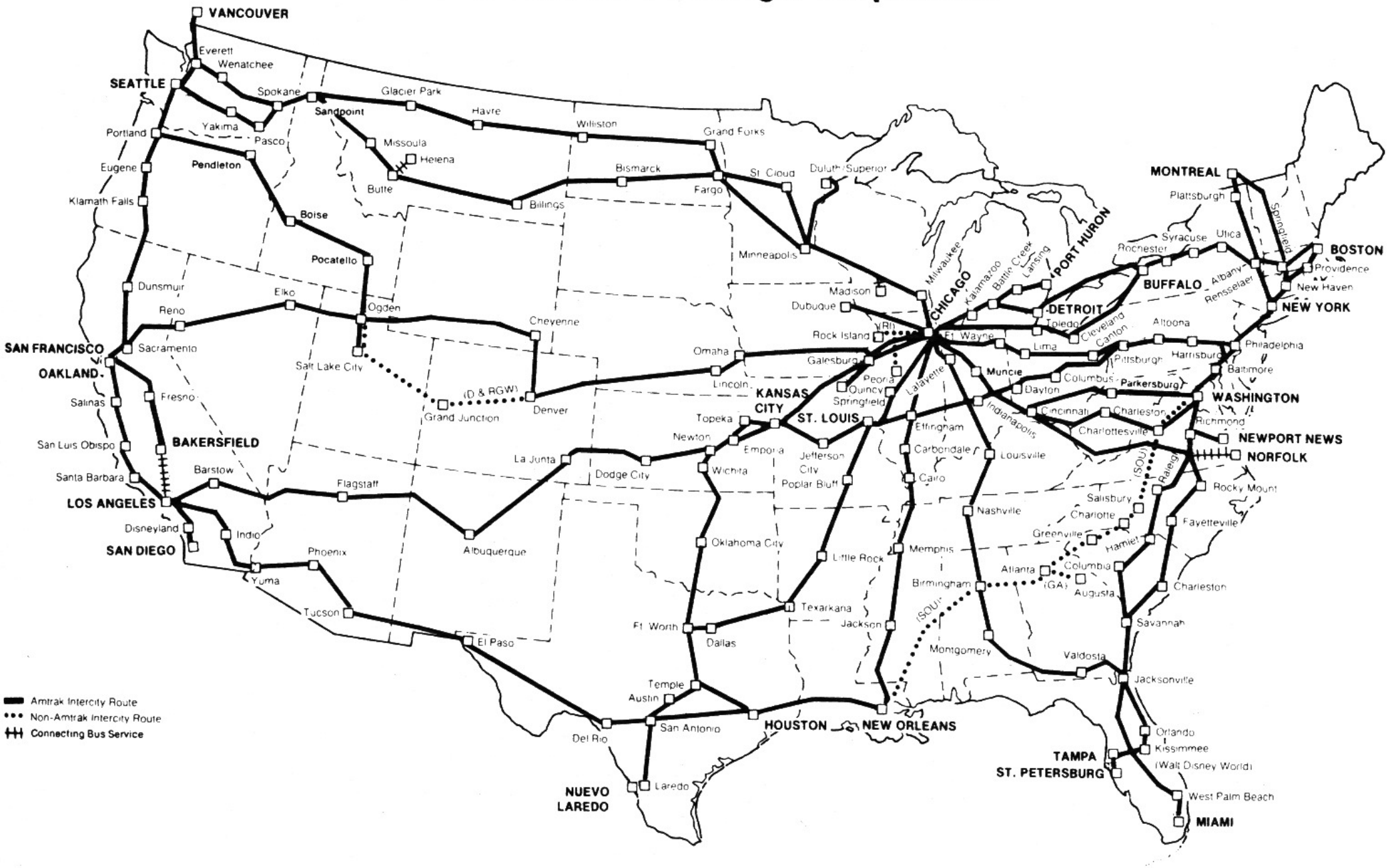


1978 AMTRAK ANNUAL REPORT

Submitted on February 15, 1979,
to the President of the United States,
the President of the Senate,
and the Speaker of the House of Representatives,
pursuant to Sections 308 and 805
of the Rail Passenger Service Act,
Public Law 91-518,
as amended.

PRESIDENT'S REPORT

This past year marked the beginning of the most significant public debate on America's rail passenger service since 1970, when the original Amtrak legislation was under consideration. A number of the questions asked during 1978 will be answered during the year ahead. Some of these decisions should resolve questions of basic national transportation policy. The consequences will reach far into the future.

The decision-making process this year will be shaped by the legislation for route restructuring enacted in 1978, the resultant final report of the Department of Transportation and Congressional consideration of that report as well as the Mission Statement issued by Amtrak's Board of Directors on December 13, 1978. The Mission Statement, which was the product of months of work by an essentially reconstituted Amtrak Board, proposes that a new relationship be structured between Amtrak and the federal government—and particularly with the Congress—that will guarantee a specific level and quality of intercity rail passenger service.

These two approaches—the route restructuring report and the changed institutional approach embodied in the Board's Mission Statement—stand side by side. They are not necessarily in conflict, but the Amtrak approach could result in different service patterns or levels. Whether or not the revised system goes into effect according to the Department of Transportation's Final Report, which was announced on January 31, 1979, it is Amtrak's belief that the institutional changes proposed in the Mission Statement should also be developed and enacted.

Perhaps the most salient element in this annual report on Amtrak's operating results in 1978 is that we were forced to operate for the entire year without a single new Superliner-equipped long-distance train in service. Revenue operations with this new higher-efficiency equipment, the first modern Amtrak cars specifically designed for the long-distance routes, were originally scheduled to begin in the summer of 1977. Because of delays and labor disputes at Pullman Standard, inauguration of service with the first full train set is now tentatively anticipated for the fall of 1979.

The Superliner delay has had important consequences for the entire Amtrak system. These are reflected in almost every element of this report—on revenues, costs, ridership growth and quality of service.

A further consequence has been the forced reassignment of Amfleet equipment to routes for which it was not designed. The Amfleet cars were acquired for high-density corridor-type service, particularly in the Northeast, but as older conventional cars have become increasingly unreliable an increasing number of long-distance trains have been changed to Amfleet operation. This has added costs and somewhat decreased revenue or ridership per car relative to the original expectations.

This report would not be complete without placing heavy stress on the long-term equipment situation as well. The most serious need is for a new generation of single-level cars that can operate from Chicago to the East where tunnel and overhead wires prevent the use of the higher bi-level Superliner cars. Such new longer-distance equipment is also necessary if full value is to be gained from the expensive track and right-of-way improvements now being made in the Northeast Corridor and on Conrail routes. Despite reiterated requests, funding has not been approved and essential progress is not being made.

All of these negative considerations—continuing equipment shortages and failures, reductions in seat-miles operated and delays in equipment delivery—contributed to Amtrak's slight drop in ridership during 1978 compared to 1977. Another strongly negative factor, which should not be minimized, has been the government's highly publicized route structure reexamination, leading to public expectations that service was going to be eliminated.

Despite these downward pressures on Amtrak business, revenues were up for the year and passenger counts declined by only 1.5 per cent. Still, 18.9 million trips were made via Amtrak in 1978, which gave us the second best annual ridership count in our history.

During the year, improvements to the system continued to be made and they are detailed in the appropriate sections of this report. Highlights of major significance include:

- Reaching agreement on operating the Southern Crescent service between Washington and New Orleans via Atlanta.
- Extension of service beyond Buffalo into the resort-oriented Niagara Falls market as part of a statewide program with the New York Department of Transportation.
- New stations opened for service in Miami; St. Paul-Minneapolis; Rochester, New York; and Canton, Ohio. A number of other stations of historical importance were saved and refurbished.
- Extensive improvements to maintenance and train-servicing facilities were phased into operation at Beech Grove, Indiana; at several locations in Chicago and in Rensselaer, New York.
- Heavy track work in the Northeast Corridor, including completion of the first significant track mileage using concrete ties.
- Start of a conversion program for a selected fleet of conventional equipment, which is being changed from steam heat (with associated condensation and freezing problems) to electrical heating and cooling.

Given the additional initiatives that are underway as this annual report is being prepared, and given the many different possible outcomes that could result, next year's annual report should prove to be very interesting reading. It is tempting to speculate on the shape of this nation's rail passenger service a year from now, but it would be much more constructive now to focus on what we know and what we—at least here at Amtrak—intend.

We do expect, at year's end 1979, to be operating, over a

national route structure, trains that are better equipped and better maintained than those operating today. We expect to be operating in the Northeast Corridor on better and smoother track, with better schedule reliability. We will have had another work season by then and we will have some of the rebuilt Metroliners in service. We expect these things because they are within our direct control, and that is what we are going to do.

We also expect that we—working with our railroad partners—are going to see real improvement in our on-time performance. We are going to keep seeking schedule improvements wherever track has been upgraded. We are going to seek *cooperative* solutions to all of the problems we may encounter.

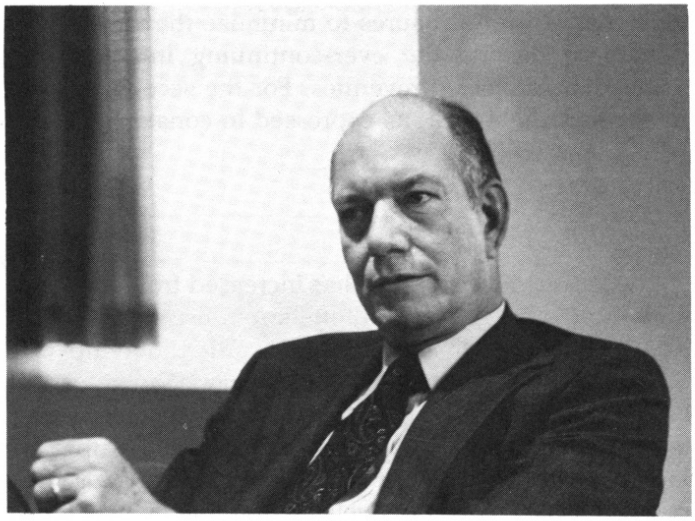
By the end of the year, we are going to have better control over costs—making sure we are getting from our suppliers what we and the public are paying for and making sure that what we are buying is what we really need. We are going to be looking very closely at management costs and efficiency—which is to say, management productivity. We are also going to be very cognizant, with the limited funding we will have for physical improvements, of capital productivity.

I have stressed these aspects of productivity first because I have found that, in general, whenever the word "productivity" is used, the problem seems to be invariably defined as "labor productivity." This one-eyed approach has pejorative connotations that can block cooperative efforts to make improvements. I think we can make a great deal of progress with labor, but we won't make any at all until we really get started in working out specific, concrete, real-world problems on a case-by-case basis. There is no shortage of general agreement among managers, employees and labor leaders that change is essential. We know that change is possible. Beyond that, we also know that change can be achieved that is fair to everyone; that change can make all of our problems and daily work more challenging, interesting and rewarding. And we can see that our problems are mutual and that there will be no really important solutions that are not mutual solutions.

I don't expect that any of this will be easy or achieved quickly. Some of the issues are historically embedded, involving work rules and the basis of pay. But this will be the year when we are going to begin to make a real attempt at improvement, and my own feeling is that the time and climate is right for this effort. I even have a feeling that labor is already ahead of management on some of these issues.

Finally, I would like to stress again the need for the creation of a newly-structured relationship with the federal government. If there is one single thing we need, it is continuity in funding and stability in routes and services.

This year will see the development, in specific detail, of the "contract" concept advocated in the Amtrak Board's Mission Statement. The Board's expressed intention is that Amtrak arrive at a contractual relationship with Congress that would codify an agreement between Amtrak and Congress on the operation of a mandated basic system for an agreed-upon grant of funds.



Alan S. Boyd

A similar approach has been adopted in several other countries with extensive rail passenger services—many of which are operated for social as well as economic reasons—and it has provided the necessary stability and clarity of national purpose in the continuation of specific services. These arrangements have also clarified the role of management in providing and improving such services within cost constraints. In short, this approach seeks to preserve business procedures and values, including a businesslike goal-orientation, within the context of government funding support.

From all that has happened since Amtrak began almost eight years ago, and particularly during the past year, I do not believe it is an exaggeration to say that this report marks the end of an era. Change is as necessary as it is inevitable. Amtrak has an important role to play in shaping, as well as implementing, the changes to come. Because we believe Amtrak also has an important and continuing role as part of this nation's total transportation system, we are pledging our maximum effort to see that the best possible choices are made, while we continue to improve our operations and the quality of services during 1979.

Alan S. Boyd

President and Chief Executive Officer

FINANCE

Financial activities in 1978 were characterized by stringent cost control measures to minimize the subsidy requirement despite the ever-continuing inflation and lower-than-projected revenues. For the second consecutive year, the deficit, as expressed in constant dollars, was decreased.

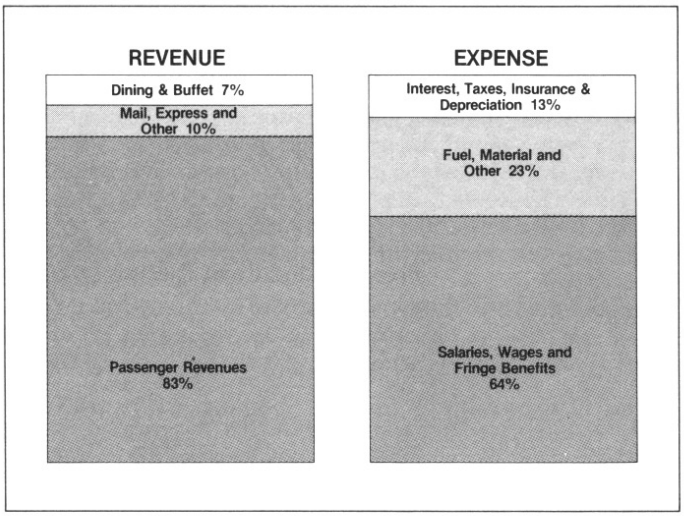
Revenue

The annual revenue level has increased from $163 million in calendar 1972 to $313 million in fiscal 1978 for an average yearly increase of 12 per cent. Ridership was down slightly from the preceding year because of frequency reductions required for budgetary reasons earlier in the year and schedule disruptions caused by upgrading construction work in the Northeast Corridor. Decreased airline fares, as well as equipment problems, also had an impact. Revenues were up slightly from the previous year, the light decrease in ridership being offset by fare increases.

Expenses

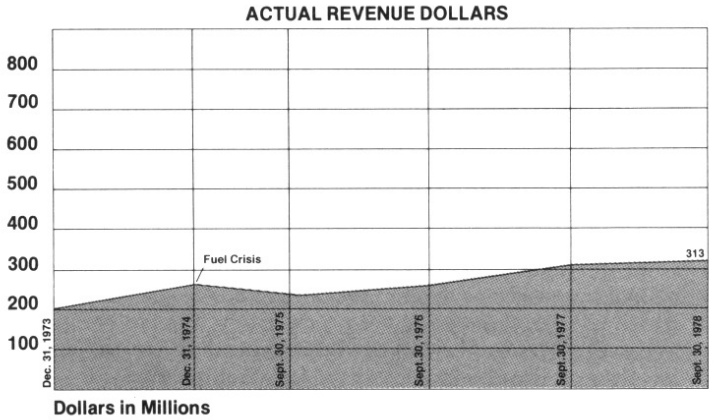
In 1978, total expenses amounted to $895 million. Of this amount approximately 64 per cent was required for pay and fringe benefits to Amtrak and railroad personnel. The remaining 36 per cent was attributable to fuel, materials, taxes, interest, depreciation and other miscellaneous expenses.

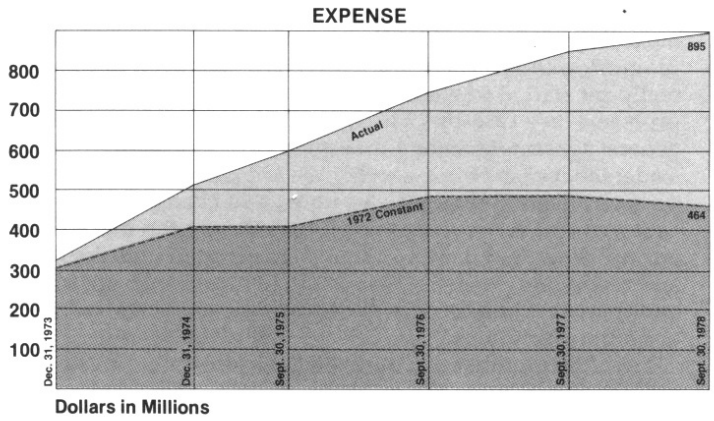
Because of strong efforts to control costs, the year-to-year increase in total costs was held to 5.7 per cent. This is considerably less than the 10.9 per cent rate of inflation experienced by the railroad industry generally.

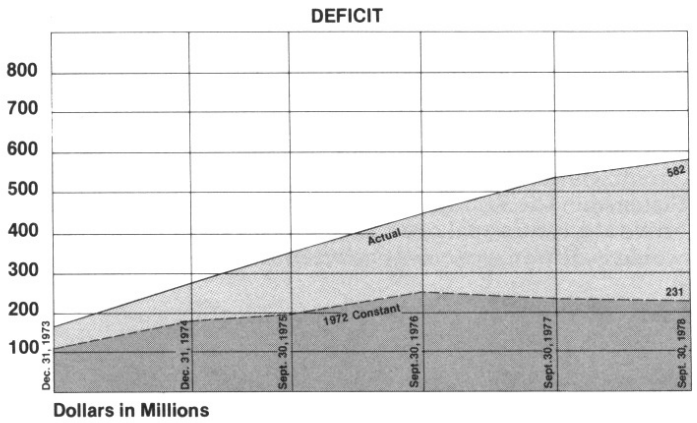


Operating Deficit

The operating deficit increased from $537 million to $582 million. This reflects the impact of inflation on costs that was not covered by increased revenue.

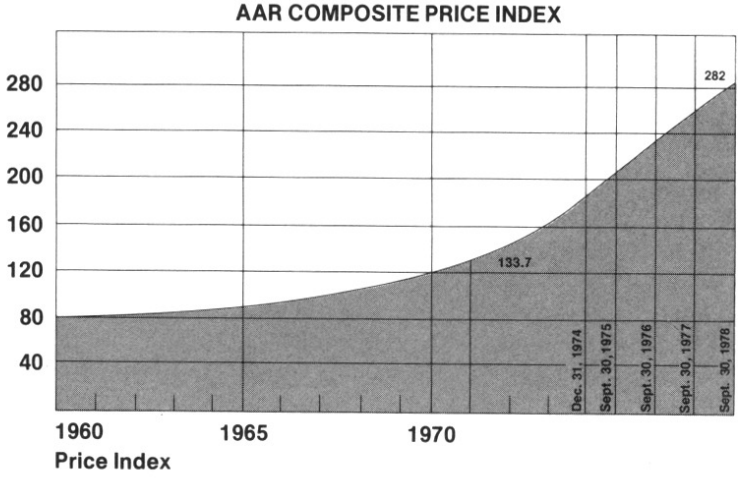






Inflation

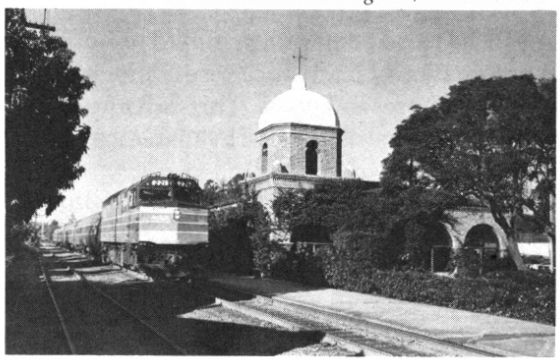
Wage and price increases continue to be of great concern. As noted above, the Association of American Railroads' Index of Prices and Wage Rates reports a 10.9 per cent year-to-year increase impacting the railroad industry's costs.



Capital Funding

During 1978, Amtrak received an appropriation of $130 million from the federal government for capital improvements, including $22 million specifically earmarked for acquisition of AEM-7 electric locomotives for service in the Northeast Corridor. This appropriation raises the federal capital provision to Amtrak to a total of $1.3 billion. In addition, the Railroad Revitalization and Regulatory Reform Act of 1976 provided $1.89 billion for acquisition and improvement of the Northeast Corridor and acquisition of certain other off-corridor properties conveyed from Conrail. The Northeast Corridor Improvement Project is administered by the Secretary of Transportation. As of September 30, 1978, approximately $311 million of project funds had been expended for fixed property improvements in the Corridor.

Modern equipment and good scenery can mean more business for Amtrak. (Below) The San Diegan *stops at San Juan Capistrano's preserved old station. (Right) A Northeast Corridor train does station work at Kingston, Rhode Island.*



(Left) The San Francisco Zephyr *begins its climb into the Sierras after leaving Reno, Nevada. This section of the train's route is among the most scenic in the country. (Above) Turboliners serve New York State from New York City to Buffalo/Niagara Falls, via Albany-Rensselaer.*

MARKETING

Ridership, in fiscal year 1978, dropped from 19,207,000 passengers to 18,917,000 for a decrease of 1.5 per cent. Passenger miles were also down, from 4,333,200,000 to 4,028,900,000 for a decrease of seven per cent.

Fares

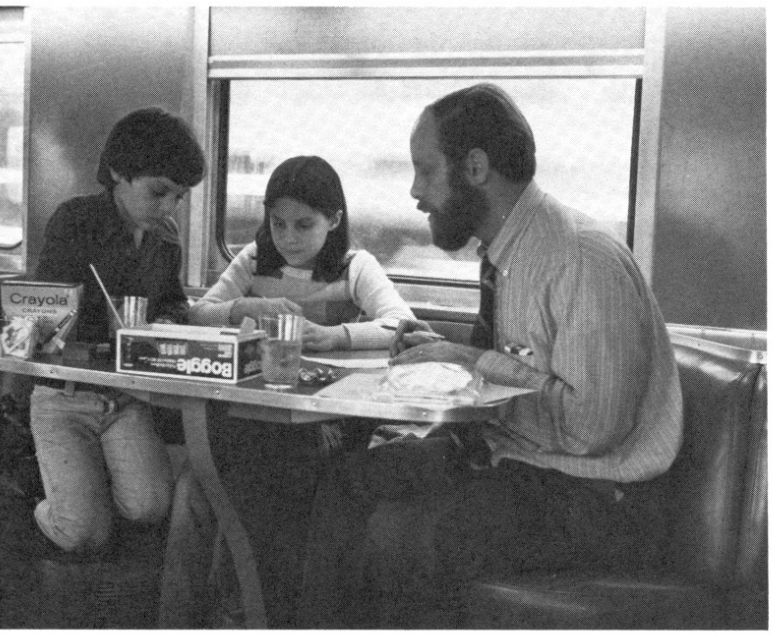
Fare increases of 3.5 per cent went into effect on October 30, 1977, and 2.5 per cent on April 30. Additionally, there was a five per cent peak-season charge in effect between June 15 and September 5.

Reduced Night Owl fares were tested between January 31 and May 25. These fares offered a return trip for only $1 extra when travel originated at selected cities late at night or very early in the morning.

In May, a Family U.S.A. Rail Pass was introduced. An accompanying spouse can purchase a pass for half of the rate the head of the family pays. Each child's pass then costs only $50.

One of the key promotions of the year was the Kellogg Kiddie Ride. Introduced in January 1978, the plan offered free travel for a a child under 12 if he was accompanied by an adult paying full fare. The ticket purchase had to be accompanied with a special coupon and three box tops from selected Kellogg cereals.

Results indicate the promotion was successful in inducing families to travel together by train.



The Family U.S.A. Rail Pass and the Kellogg Kiddie Ride promotion have introduced many families to the pleasures of train travel.

ARTS

Reservations volume climbed in 1978 compared to 1977. Calls offered the system were up 2.7 per cent with 20,025,125 calls in 1978 compared to 19,499,439 in 1977.

Stations equipped with Automated Reservations and Ticketing System (ARTS) ticket printers issued 92 per cent of their tickets using the machines. An all-time record was broken on November 23, 1977, when over 54,000 tickets were issued through ARTS in a single day. August was another record setter when over one million tickets were issued through ARTS. Revenue produced by ARTS ticket printers averaged 63 per cent of the year's gross ticket sales.

A new sales program offering Hertz car rental service to Amtrak passengers was initiated. The ARTS system is able to provide information and rental rates to ticket clerks and reservations agents.

ARTS machine-printed tickets were redesigned to increase legibility, highlight certain information and improve overall appearance. The manual ticket was also redesigned to improve its legibility and prevent counterfeiting. A form for credit card charges was incorporated into both new ticket designs. The machine ticket is already in use while the manual one will go into use in early 1979.

ARTS has also been programmed to notify car controllers automatically if advance reservations increase or decrease from preset levels. This advanced information permits better distribution of available cars to satisfy peak ridership.

Tours; Express, Mail

During fiscal year 1978, Amtrak's national tour program generated nearly $4.5 million in rail revenue through an increase in package tours, tour operator override commissions and introduction of Amtrak's "Destination America . . . and all that's in between" tour book.

Travel agencies contributed $42 million in business for 14 per cent of total company revenue. This figure was reached primarily through incentive promotion programs aimed at agents.

Rail express business continued to grow. Package express revenue increased by over nine per cent over 1977. A major innovation, with the cooperation of the Purolator Corporation, now enables Amtrak to offer "door-to-door" delivery service for small shipments in most of the major cities served.

International travel jumped 26 per cent over 1977. Mar-

Sales personnel from the entire country attended the annual sales meeting in Washington in late February.

keting programs with Scandinavian, KLM Royal Dutch, Aer Lingus and Laker airlines were the major contributors to this upward trend. Several international travel operators, including Thomas Cook Ltd. of England, Deutsches Reiseburo of Germany and the Norweigan State Railways, showed outstanding growth in selling American rail travel.

Mail revenue for the year was down slightly from 1977, from $10.6 million to $10.1 million. This decrease occurred because of changes in certain route frequencies and the September railroad strike. New business achieved late in the year will offset this drop in next year's figures.

Government/Military

The greatest increase in riders and revenues in government accounts came in recreational travel. Military furlough revenues, for example, increased by a half million dollars.

Increased rail ridership by federal employees has been made a topic of inquiry by a Congressional subcommittee. As a result, some federal agencies have issued directives to their employees that Amtrak service must be used instead of air when it can meet their travel requirements.

Interline

Amtrak's interline program makes arrangements with other carriers to serve as extensions of rail travel. Bus carriers are primary interline partners, although other modes have been used on occasion. During 1978, interline agreements were made with 12 new carriers, increasing the number of cities served by such connections from 322 to 503.

Marketing Services

Marketing services provides support to the company and the marketing department in three areas: advertising, sales promotion and merchandising.

During the year, Amtrak introduced a new advertising campaign called "We've been working on the railroad." The campaign takes the well-known American folk song and updates it to include Amtrak's progress in making rail travel worthwhile again. Amtrak employees were used in the print ads and radio and television commercials.

Advertising has continued to be concentrated in the five high-potential "hub" markets and 27 "feeder" markets which account for 85 per cent of the system's revenue. Special promotions were used to reach an additional 95 markets.

The sales promotion effort supported the advertising program with special materials including posters, brochures, counter cards, new menus, timetables and special fare programs.

Merchandising and special events took on a new character this year to concentrate on programs that had broad appeal and would, at the same time, project a progressive rail image, build a larger sales base and capitalize on events of national or local importance.

The sweepstakes concept was utilized to reach large numbers of people with promotions offering rail trips as prizes. One major merchandising effort saw the successful implementation of an A&P supermarket sweepstakes that reached many new potential customers through the grocery chain's television and print coverage.

Amtrak's special "route blitz" program focused on three separate areas during the year. These included:

- The "Return of the Champ" which centered on the reinstatement of the popular New York-to-Florida train. The program included a sweepstakes, heavy advertising and promotional support plus special rail travel discounts.
- A "Twentieth Century Week" blitz which followed the route of the Lake Shore Limited with a tie-in to the hit Broadway musical, "On The Twentieth Century." Included were special discount theater tickets for Amtrak

riders, incentive programs for employees and special events on the train during the week.

- Route of the Southwest Limited. This most successful effort was a program that tied into the national celebration of Mickey Mouse's 50th birthday. Mickey traveled from Los Angeles to New York, via Washington, over Amtrak in mid-November 1978. A special sweepstakes was held prior to the event along with advertising and special sales promotion all along the route. Mickey's proposed journey received considerable press exposure in the months before the actual trip.

While it is too early to detail revenue gains from that particular promotion, the Champ blitz did result in a five per cent gain in ridership, while the Lake Shore campaign realized a $50,000 increase in business during the week of the promotion.

Service Requirements

The Marketing department's requirements group develops and provides the company with the projected service, facility and equipment needs.

The major project during the year required coordinating the company's response to the Department of Transportation's proposed regulations regarding transportation and employment of handicapped persons. Three months were spent developing Amtrak's financial requirements to accomplish what the new regulations proposed.

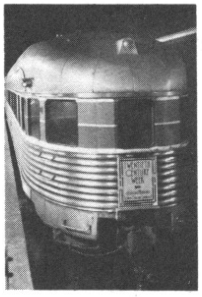
Another major project was the development of policies for station handling and on-board service needs for train service in the Northeast Corridor after completion of the Improvement Project.

Other planning activities included setting requirements for a head-end-powered low-level train, Metroliner refurbishments, experimental Amfleet coach sleepers, development of 70 baggage cars to operate with Superliners, participation in the SPV-2000 interior design, and development and implementation of Amfleet equipment as substitutes in Metroliner service.

During the year, numerous on-board service and facility surveys were also undertaken. Based on the public's reaction, national menu offerings were reduced in scope but upgraded in quality. Revenues subsequently increased by nearly three million dollars despite Amtrak's ridership drop.

Consolidated club service menus, a revised hot sandwich program and more attention to specialized passenger requirements, such as low-fat, salt-free or kosher meals, have also been implemented.

Several promotions during the year were quite successful. (Below) Mickey Mouse rode Amtrak from Los Angeles to New York in mid-November 1978. Publicity and promotions preceded the actual trip. (Right) Stars of "On The Twentieth Century" cross the original red carpet on their way to the train.



(Right) The Kellogg Kiddie Ride program attracted many first-time riders who were introduced to Amtrak through Kellogg advertising.

OPERATIONS

What was formerly the National Operations department has had responsibility for all day-to-day operations outside the Northeast Corridor plus total responsibility for on-board services throughout the Amtrak system. On October 1, 1978, National Operations was combined with Corridor operations and renamed the Operations department. The four regional vice presidents and eight divisions were eliminated leaving nine divisions after boundary realignment, each under a division manager.

Expanded Service

During the year, Amtrak put the following trains into service:

- Chesapeake, between Washington-Philadelphia in cooperation with the states of Maryland and Pennsylvania,
- Beacon Hill, between Boston-New Haven, and
- San Diegan, between Los Angeles-San Diego. This is the sixth train on this route, a 403(b) service in cooperation with the California Department of Transportation.

Realignment of Service

With the concurrence of the states involved, the former Clamdigger, local service between Providence and New Haven, was rescheduled to provide early morning service from New Haven into Boston. Return to New Haven is after business hours. Six communities not previously served are now stops for this train.

Amfleet Expansion

During late 1977 and 1978, all-electric sleeping cars, which had been converted at Amtrak's Beech Grove shops to operate with head-end power, were added to existing Amfleet-equipped overnight trains. These included the Cardinal, between Washington and Chicago; the Panama Limited, between Chicago and New Orleans; the Pioneer, between Salt Lake City and Seattle; and the Inter-American, three times a week between Chicago and Laredo.

Amfleet economy sleeping service, consisting of rooms similar to those on Superliners, was introduced on the Shenandoah, between Washington and Cincinnati. The Montrealer, between Washington and Montreal; the Niagara Rainbow, between Detroit and New York; the North Star, between Chicago and Duluth; and the National Limited, between New York and Kansas City, were all converted from conventional, steam-heated equipment to Amfleet, with all-electric, first-class sleeper service on all of these trains except the Niagara Rainbow. The North Star, a through Chicago-Duluth train, combines the service formerly provided by the North Coast Hiawatha, between Chicago and Minneapolis, and the Arrowhead, between Minneapolis and Duluth.

The Chesapeake's *"inaugural," with ceremonial stops at all stations, occurred on April 30, the day before official service began.*

California Governor Jerry Brown was the principal speaker at ceremonies for the sixth daily San Diegan *on February 14.*

Mechanical Department—Maintenance

The Maintenance of Equipment organization has responsibility for all car and locomotive running maintenance, programmed inspections, and repair and overhaul shop facilities. Special attention was focused on improving equipment performance during winter and summer months. For example, train servicing facilities in yards were upgraded for winter operation and an air conditioning task force was formed and traveled to each

major conventional car maintenance facility to advise on proper maintenance techniques.

Also, the Mechanical department instituted an in-depth monthly inspection program for all dining cars. The aim of this program is to bring the dining car fleet to a prescribed level of cleanliness standards and to insure that all vital systems, such as refrigeration and galley steam, are in good working order.

Amtrak-owned maintenance facilities were encouraged to do as much in-house work as possible to minimize subcontracting and the resultant costs. Therefore, in-house repair capabilities have been established in a number of areas. These include roller bearing reclamation, cab signal equipment calibration and repair, traction motor rewinding and overhaul, printed circuit board cleaning and repair, overhaul of tread brake units, disc brake repair, fire extinguisher recharging and testing, conversion of five E8 locomotives to steam generator cars, manufacturing cab signal system test equipment for distribution to locomotive shops, and changeout of diesel engines.

Facilities lacking complete in-house repair capability are now having work performed, where practical, by another Amtrak facility instead of contracting to have it done by outside companies or other railroads. One specific example is the New Haven shop where wheels, trucks, steam generators and air brake components from E8 locomotives and Turboliners, based at other locations, are being repaired and overhauled.

In addition, locomotive maintenance work performed at Conrail's Harmon shop has been transferred to Amtrak's Rensselaer shop.

Preparations are being made to vacate Chicago's 21st Street yard because this leased facility will be returned to the Santa Fe within the next two and one-half years. During the past year, Amfleet trains maintained at this yard have been reassigned to Chicago's 12th Street yard. All facilities were upgraded, as needed, to handle Amfleet trains by installation of 480 volt yard power and toilet dumping equipment.

At Sunnyside yard, New York, several improvements were made to improve efficiency. Work included rehabilitation of the cafeteria and locker rooms, new yard lighting, additional 480 volt standby outlets, repair to existing 220 volt standby outlets, installation of additional outlets and reconstruction of water facilities to meet Food and Drug Administration standards. Permanent derail devices have been installed on all yard tracks, complete with built-in blue warning flags to protect employees.

At Penn Coach yard, Philadelphia, the main car repair building has been enclosed to provide an all-weather facility. New lighting was installed and the shop's capability further enhanced by purchase of new hydraulic jacks and installation of a higher-capacity air compressor. Improved procedures for air conditioning servicing helped reduce Amfleet air conditioning failures from about 14 per cent in 1977 to only three per cent in 1978.

To support the Northeast Corridor Improvement Project and the assigned work trains, a small freight car repair facility was established in Wilmington. Supplementing this facility are five highway trucks that have the capability of doing minor car repairs and light maintenance in the field.

The passenger car maintenance data collection and record system has been greatly improved by introduction of a computerized program called the Unit Car Status System (UCSS). The UCSS provides readouts on train consists, history of equipment movements, an equipment failure record, shop component failure trends, a monitoring of excessive shop time and an equipment maintenance history.

Stations

By the end of fiscal 1978, Amtrak was serving 543 stations, of which 300 were Amtrak operated. This compares to 524 stations at the end of 1977, of which 284 were Amtrak operated. Ticketing was available at 382 stations.

New Station Construction

During fiscal year 1978, new stations were opened at Miami; Canton, Ohio; St. Paul, Minnesota; Rochester, New York; and a temporary facility at Dearborn, Michigan. Construction of facilities began at Schenectady, Niagara Falls and Buffalo (Exchange Street), New York, although Amtrak didn't begin serving these stations until October 29, 1978. Experimental station stops were added at Denmark, South Carolina, and Henderson, North Carolina. Plans were begun for a new station, funded by the state of New York, in the Buffalo suburb of Cheektowaga.

Station Improvements

Amtrak approved plans and capital funding for joint station rehabilitation projects in Dallas; Wichita, Kansas; Kirkwood, Missouri; Ann Arbor, Michigan; Johnstown, Pennsylvania; and Champaign and Bloomington, Illinois. In cooperation with local authorities, stations at

Visitors enjoy an open house after Canton, Ohio, ceremonies.

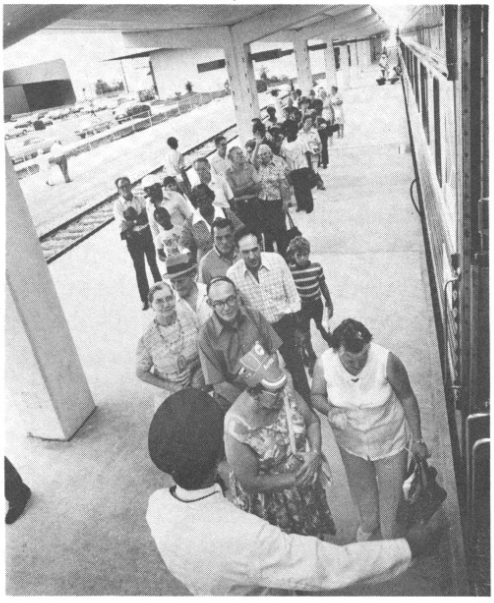
Four new stations were opened by Amtrak in 1978. Although all are "standard" models, designed by company personnel, they differ in size.

Canton's station was dedicated on June 30.

Potential passengers mingle in Rochester, New York, station after official grand opening.

Rochester's station, which can accommodate 150 persons, was opened on July 12.

(Above) St. Paul's station is identical to Miami's. (Below) Miamians queue up to tour display cars.



(Above) Orren Beatty, president, National Association of Railroad Passengers, speaks at St. Paul dedication. (Below) Miami's interior is ultra modern and well designed.

Jackson, Michigan's, station was renovated with state, local and Amtrak funds. A handsome mural, capturing old and new railroading, highlights interior decor.

Mystic, Connecticut; New Brunswick, New Jersey; Lancaster, Pennsylvania; and Aberdeen, Maryland, were upgraded.

Extensive renovations were made at North Philadelphia where deteriorated shelters were removed and the station upgraded and painted. Repairs were made at the Harrisburg, Pennsylvania, station. Negotiations continue on a proposal to have the local redevelopment authority assume control of this landmark and convert it for use as a multimodal transportation center.

Future Plans

Amtrak is planning construction of new stations, subject to availability of funds and the outcome of the Department of Transportation's restructuring report, in Memphis, Tennessee, and Tampa, Florida.

Station rehabilitation projects are also planned for Newark, New Jersey; Alexandria, Virginia; Jackson, Mississippi; Fayetteville, North Carolina; Portland, Oregon; and Penn Station, New York.

Containerized Mail

To speed loading and unloading time at stations, Amtrak, in cooperation with the U.S. Postal Service, is transporting mail in wheeled containers between St. Paul-Seattle, Chicago-Portland-Seattle, New York-Los Angeles, New York-St. Louis-Dallas, Chicago-Dallas, Chicago-Denver, Boston-New York-Washington, Boston-Springfield-Chicago, Los Angeles-Portland-Seattle, New York-Kansas City and New York-Chicago.

When additional containers become available, other routes will be added.

On-Board Services

During the past year, On-Board Services department has emphasized increased controls and cost reductions while maintaining and improving its performance.

Development of a computerized bid system for crews will provide substantial savings in expenses because of more cost-effective crew utilization.

Increased emphasis on food service car maintenance is currently underway to reduce car breakdowns and the accompanying passenger inconvenience.

On-going evaluation of on-board support functions has resulted in a number of improved controls. Most notable are revised commissary operating procedures and addition of computerized revenue accounting and stocking systems.

Increased attention was placed on development of working procedures and training programs for on-board employees. As part of this effort a new comprehensive training program for on-board services supervisors began in August. Included are instructions in safety, first aid, sanitation, accounting and customer service as well as a detailed review of company policies and procedures.

Contracts

During 1978, Second Amendment-type operating agreements between Amtrak and three additional railroads were signed. These were with the Union Pacific, Missouri Pacific and Central Vermont, bringing the total to 11 carriers now under these types of agreements.

An examination of operating costs and incentives paid to the eight carriers that signed Second Amendment agreements during fiscal years 1976 and 1977 shows that incentives paid in fiscal year 1978 were $4 million less than the previous year. Operating costs decreased $6.8 million over the same period. During this time, too, there was a decrease of four per cent in train miles operated by Amtrak.

Negotiations are in progress with Conrail to cover their operations over the Northeast Corridor. Agreement has been reached between Amtrak and Conrail on the support services purchased from Conrail by Amtrak. Negotiations are beginning to resolve the freight operating agreement that sets the amount to be paid Amtrak for operation of Conrail freight trains in the Corridor.

Others remaining to be negotiated with Conrail for Corridor operation are the freight maintenance of equipment agreement, the commuter operating agreement and the commuter maintenance of equipment agreement.

Operating Performance

During fiscal year 1978, 62.1 per cent of all Amtrak trains operated on time. Short-distance trains operated 65.2 per cent on time, while long-distance trains operated 52.5 per cent on time.

Of the long-distance routes, Seattle-Salt Lake City had the highest on-time record (87.3 per cent), while New York-Chicago and Washington-Chicago, both via Pittsburgh, had the poorest (12.2 and 11.7 per cent respectively). For short-haul routes, Oakland-Bakersfield had the highest on-time record (95.2 per cent), while New York-Montreal had the poorest (23.4 per cent).

A railroad-by-railroad comparison shows that top performers were Central Vermont; Richmond, Fredericksburg and Potomac; Seaboard Coast Line and Union Pacific, all with on-time performances above 83 per cent. Poorest performers were Conrail and the Delaware and Hudson with on-time performance of 43.4 and 28.1 per cent respectively. Slow orders, passenger-related delays and maintenance of way work caused most of the delays.

PER CENT ON TIME

Railroad	FY 1976	FY 1977	FY 1978
Santa Fe	87.7	78.2	66.4
Boston and Maine*	65.3	72.2	84.0
Burlington Northern*	87.2	77.7	72.1
Canadian National	73.5	87.7	78.5
Central Vermont*	(A)	(A)	85.3
Chessie System	61.9	73.2	71.6
Conrail	53.2	40.4	43.4
Delaware and Hudson*	80.1	48.0	28.1
Grand Trunk Western*	89.8	91.0	79.7
Illinois Central Gulf	59.6	60.1	52.8
Louisville and Nashville*	78.4	47.6	61.8
Milwaukee Road*	85.8	77.6	82.4
Missouri-Kansas-Texas	97.2	88.4	66.0
Missouri Pacific*	80.0	51.7	62.4
Norfolk and Western*	91.8	76.9	72.5(B)
Northeast Corridor	76.0	68.0	64.6
R, F & P*	91.1	77.2	91.4
Seaboard Coast Line*	93.9	80.8	88.9
Southern Pacific*	82.8	72.9	79.5
Union Pacific*	94.7	91.3	91.0
Amtrak System Average	74.4	62.0	62.1

* Railroads with incentive contracts

(A) Central Vermont records initiated May 1978.

(B) No trains operated on N&W August-September 1978 because of BRAC strike.

CAUSES OF DELAY

Delay	Per Cent of Total Delay
Slow Orders	25.6
Passenger Related Delays	12.8
Maintenance of Way	10.2
Signal Failure	9.0
Passenger Train Interference	8.0
Freight Train Interference	6.9
Servicing in Stations	6.8
Equipment Malfunctions	6.6
Miscellaneous	5.9
Running Time	2.9
SDP4OF/E60CP Speed Restrictions	2.2
Waiting for Connections	1.2
Weather Related Delays	1.1
Freight Derailments	0.6
Employee Failure	0.2

Northeast Corridor Operations

During the year, 34 Metroliners were taken out of service because of the Metroliner upgrading program. This necessitated substitution of Amfleet cars pulled by electric locomotives. By the close of the year, 12 daily trains were being operated this way.

Other Facilities

The Massachusetts Bay Transit Authority began work on its South Cove tunnel project, reducing the number of tracks between Back Bay and South Stations from six to two. As this work and Boston's companion Southwest Corridor project continue, Amtrak service to Back Bay will be cut off from mid-1979 to early 1984. During that time, Amtrak trains will operate over Conrail's upgraded Dorchester branch between Readville and South Station.

Police and Security

Amtrak's Police and Security department investigated more than 22,000 criminal cases, resulting in over 2,900 arrests for various railroad-related felonies and misdemeanors. Thefts amounted to losses of $562,000, while recoveries and materials secured were valued at $312,000.

The most persistent railroad security problem continues to be trespassers. In fiscal year 1978, 79,600 vagrants and other trespassers were evicted from the property. Vandalism, in the form of switch tampering, shooting or stoning of trains and placement of obstructions on tracks, is the primary life and safety concern. Some 3,017 vandalism incidents of this type occurred this past year, of which 1,988 were committed by juveniles. A safety education project has been launched in 438 schools, involving over 95,000 school-age youngsters.

Task force investigations concentrated on white collar crime and vendor frauds, while police operations concerned themselves with on-board, station and yard protection of passengers and employees.

In September, the Police and Security department was reorganized with Northeast Corridor and National Operations police forces consolidated into one operation. The new organization consists of three divisions—a uniformed division, an investigative staff and a security support staff.

Safety

The consolidation and streamlining of the corporate and Northeast Corridor Safety departments was accomplished in August. All operating divisions now have resident rules and safety officers who are responsible for all safety-related functions on their respective divisions.

Amtrak's first "Book of Operating Rules," effective April 1979, is now being written. This new book of rules will govern the movement of trains on Amtrak-owned property.

Amtrak is about to purchase a stripped-down recreational vehicle that will be converted into a mobile classroom, safety display and educational center. The vehicle will be leased to the Federal Railroad Administration on a daily basis to provide formal training to employees in the track, communications and signaling, electric traction, and bridges and building departments on the Corridor during the working season. During winter months, the vehicle will be used at other Amtrak locations for training purposes.

During 1978, the Safety department also began evaluating every division facility and work operation to develop a specific safety program for each.

Locomotives

Because of Amtrak's decision to phase down its SDP40F locomotive fleet and increase ownership of four-axle F40PH-class locomotives, the SDP40F overhaul program was reduced to just emergency repairs and wreck damage. During the year, 38 SDP40Fs were converted to F40PHs. In addition, 10 new F40PH locomotives were delivered. Amtrak's diesel locomotive fleet at the end of the year consisted of:

	OWNED	ACTIVE*	STORED
F40PH	94	94	0
P30CH	25	10	0
SDP40F	96	95	1
E8/9	79	53	26
F7	2	0	2
FL9	12	7	5
TOTAL	308	259	34

*Includes locomotives awaiting or undergoing heavy repair. (Stored locomotives are those damaged or worn out beyond economical repair and are thus candidates for retirement.) Fifteen P30CHs were leased to Southern Pacific. Amtrak also operates 35 GG1 and 26 E60CP electric locomotives.

Cars

No new cars were acquired or delivered during fiscal 1978. However, the year's heavy repair program anticipated delivery of new Superliner cars—the first of which was delivered in October 1978—that would replace conventional cars on some western routes. Heavy car shop production for the year consisted of:

Beech Grove	212
Contract Shops	148
Total	360

The program of converting conventional, steam-heated passenger cars to all-electric cars began during the year. Twenty-five sleeping cars were converted permitting sleeping accommodations to be added to overnight Amfleet trains. Plans progressed for conversion of the Lake Shore Limited and Broadway Limited cars to electric heat and air conditioning during fiscal year 1979. Work will be performed in the Beech Grove shops.

Facilities

Beech Grove:

Phase I of the three-phase modernization program of Beech Grove shop was completed. Immediate benefits include:

- Improvements to the new wheel and axle shop which increased wheel production.
- Lower heat loss in the buildings with subsequent reduction in fuel usage.
- Electrical power distribution improvements which provide better lighting and reduce fire hazards.
- The training center was completed and apprentice training for electricians and carmen begun.

Phase II and III are currently underway with completion of Phase II expected in spring 1979.

Chicago:

During 1978, the first phase of Chicago's 12th Street yard upgrading was completed, resulting in the opening of a new indoor locomotive fueling and servicing building at 16th Street. Up to eight locomotives can now be fueled and watered simultaneously in a dry and warm environment. The existing enginehouse was modernized with a new heating and lighting system. The first seven passenger car servicing tracks were placed in service in September 1978. The tracks have improved vehicular access and train service utilities.

Completion of Phase II of Chicago's enginehouse addition was on schedule with an early 1979 occupancy. The new three-track, 66,000-square-foot facility will permit consolidation of scattered locomotive inspection and repair operations in Chicago.

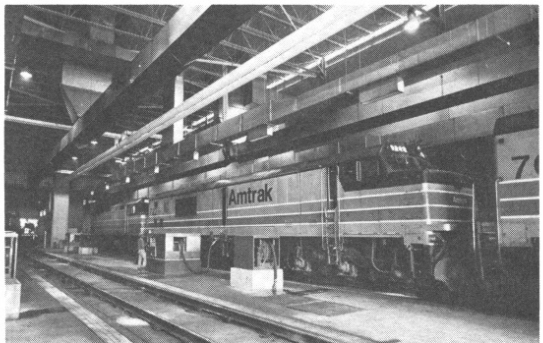
In August, ground was broken for a new three-track passenger car shop. This building will accommodate nine passenger cars and provide facilities for employees and administrative offices. Yard operations will be directed from a centrally located control tower on top of the building. While construction of new maintenance buildings proceeds, Amtrak maintenance of way employees have been upgrading existing tracks and building new ones. Over three miles of such yard tracks have now been completed.

Rensselaer:

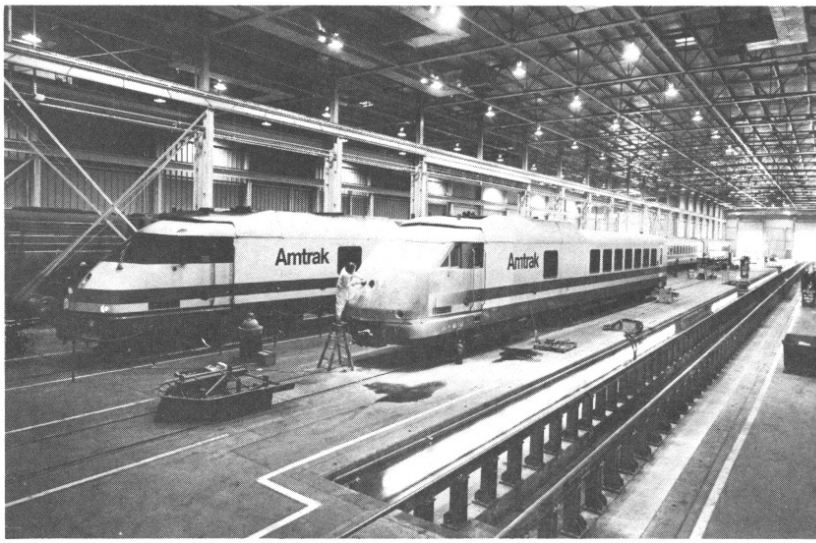
The Mechanical department officially opened its new 131,000-square-foot maintenance facility in December. It moved maintenance work of Empire Service Turboliners out of the open air, with its accompanying snow and cold, into the modern heated building. The new facility enabled the transfer of a portion of locomotive maintenance from Harmon, New York (Conrail), and New Haven, Connecticut (Amtrak), to Rensselaer. In addition, all Amfleet and conventional car maintenance was transferred to Rensselaer from Buffalo. Eventually, Rensselaer will be the only Amtrak equipment maintenance facility in the Northeast, outside the Northeast Corridor.

Other:

Additional improvements were completed at the New Orleans and Los Angeles locomotive maintenance facilities.



(Left) A new coach yard went into operation in Chicago. (Lower left) Fueling and watering in Chicago is now done indoors away from winter weather. (Below) Turboliners receive maintenance in Rensselaer's new enclosed facility.



ENGINEERING

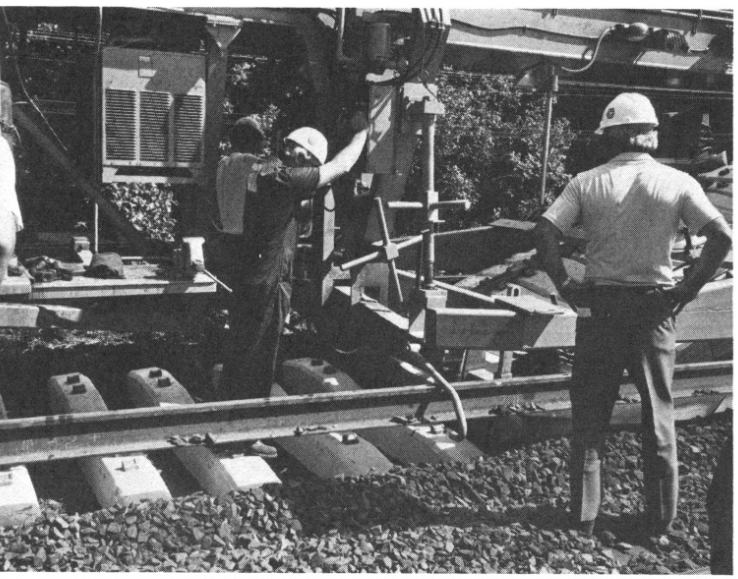
Fiscal 1978 was the first year of almost complete combined operations for the Northeast Corridor Improvement Project and routine Corridor maintenance of way. Most programs for restoration and renewal started early in April.

Northeast Corridor

On the Northeast Corridor, during 1978, a total of 551 track miles were surfaced, 78 miles of continuous welded rail laid, 328,000 wood ties inserted, 42 miles of shoulder ballast cleaned and 55 track miles cleaned by undercutting. In the interlocking program, 8,500 ties were replaced, 3,300 timbers installed and 26 turnouts rehabilitated.

Track Laying System

The concrete tie installation program began in the Northeast Corridor on June 26 at Wood River Junction, Rhode Island. This track-laying system is new to the United States and consists of 15 types of machines combining 12 operations. Most impressive of the machines is the track laying machine, or TLM, some 221 feet long and weighing over 100 tons. In one operation, the TLM takes out old rail and ties, plows away the ballast and lays down new ties and continuous welded rail. In full operation, the team of machines stretches over several miles of track. By the end of calendar year 1978, approximately 45 miles of concrete ties were installed.



Concrete ties slide down the track laying machine's chute to be laid in precise order on the smooth road bed.

Bridge Program

Fifty bridges were rehabilitated in the Northeast Corridor.

The Woonasquatucket River bridge at Providence was a major challenge. Reconstruction of this bridge is now almost 40 per cent complete. Completion is scheduled for January 1980.

Maintenance of Way Equipment

Amtrak now owns a track geometry car for inspecting and measuring track in the Northeast Corridor. Amtrak also acquired 20 diesel road switcher locomotives, 60 hopper cars, 150 ballast cars, 210 gondolas, 62 side dump cars, seven crane carrier cars, 95 concrete tie cars and seven boxcars for the rail welding plant.

Clean-Up Program

Sixty-two miles of right-of-way in the Northeast Corridor have been cleaned.

Non-Corridor Activity

Brushless Car Washer

Amtrak's first installation of its new-style car washer was completed at Rensselaer maintenance facility. Debugging and "fine-tuning," currently in progress, will facilitate installation of the same system in Chicago and Ivy City, Washington, D.C. The multi-shroud washer system received its patent in December 1978. Amtrak has received inquiries from the Japanese and Australian governments about its innovative washer and recycling system.

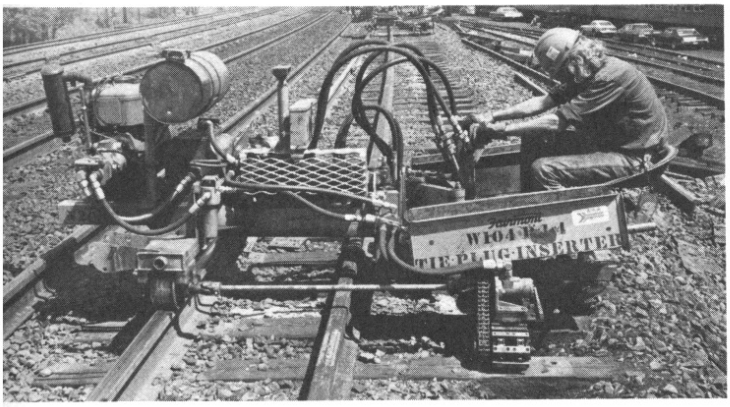
Right of Way Improvements

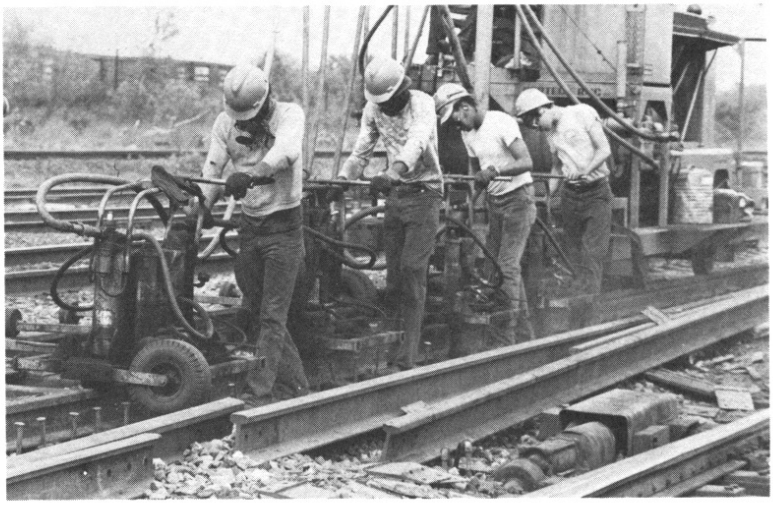
In fiscal year 1977, Phase I of the Michigan Rehabilitation resulted in installation of 80,000 crossties between Kalamazoo and Niles, a distance of 46 miles. At the end of calendar year 1977, the operating speed over this segment had been increased from 60 to 79 miles per hour.

In 1978, Phase II of the project increased the operating speed from 60 to 79 miles per hour from Niles to Michigan City, Indiana, a further distance of 41.5 miles. To accomplish this, 61,500 crossties were installed and 42 road crossings rehabilitated. Additional improvements are planned to maintain the higher speed.

Agreements with the State of Michigan and the federal

Work on the Northeast Corridor continues at an accelerated pace during the work season. Teams of men and machines replace track, lay ballast and do the myriad jobs that are needed to upgrade the track to 120-mile-per-hour speeds in the early 1980s.





government have been completed to install automatic safety warning devices on nine road crossings in Van Buren County, Michigan.

Pollution Control Program

Amtrak is continuing to bring its facilities into compliance with existing pollution control regulations in a systematic fashion. In addition, new Amtrak facilities are being designed and built in accordance with these pollution control regulations. During 1978 the following were accomplished:

- The Rensselaer Turbo shop water pollution control system was placed in full operation.
- Construction was started on a water pollution control system for Chicago's 12th Street yard. It will become operational in early 1979.
- A 2.5 million-gallon fuel tank at Chicago's 12th Street yard was lined to stop leaking that was polluting the Chicago river.
- A water pollution control system was designed for the Washington Terminal Company's locomotive shop. Construction will be completed in 1979.
- Extensive work was done to upgrade the coal-fired boilers at Beech Grove car shop to control particulate emissions. If necessary, an emission control system will be added to the boilers in 1979.

Fuel Tender Tests

Amtrak's fuel tender completed its final road tests in August and operational economic feasibility reports of these tests were completed in October. Decisions on the tender's use, full service tests, further design and production are now pending. The tender would permit longer runs between refueling points.

Amtrak's prototype fuel tender was converted from a diesel locomotive. Fuel tanks are located inside the body shell.

OPERATIONS SUPPORT

Material Control

Development of the computerized inventory control system continued in fiscal 1978 with establishment of new remote terminals at Cornwell Heights, Pennsylvania; Albany-Rensselaer and Oakland. Chicago's 21st Street was upgraded from a remote terminal site to a regional site to allow computerized interface with Chicago's procurement system. Amtrak's automated network now consists of seven regional and 17 remote sites.

This system, in addition to daily processing of transaction papers, now has the capability of automatically transmitting edit reports on a daily basis back to the point of input for more timely research and correction.

This fiscal year's nationwide physical inventory was expanded to include all inventory as opposed to fiscal 1977's count of only high-dollar items. Even though it was more comprehensive than last year, this year's inventory was accomplished by smooth processing of input data and the cooperative efforts of the Accounting and Systems departments.

Further cost reduction efforts include Material Control's institution of national blanket purchase orders totaling $5.9 million. These orders were established for items experiencing heavy systemwide use. The orders also serve to reduce unit costs and allow the individual locations to draw from a previously-ordered quantity.

Material Control also decided that certain major items were to be purchased at corporate headquarters in an effort to consolidate purchase of these items and thus avoid duplication in ordering.

Amtrak benefits from the federal government's excess property program. One acquisition is a switch locomotive that now works the Beech Grove shops.

Scrap Sales Activity

Material Control-Scrap Sales expanded its mailing list of prospective buyers to over 1,200 parties with a special listing by commodities. This increased exposure resulted in sales yielding over $1.4 million. Material sold included passenger cars, maintenance of way scrap, yard and backshop scrap metal, waste oil and surplus repair parts.

Type	Quantity	Revenue
Cars	163	$ 598,294
M/W scrap	1174 gross tons	62,070
Scrap metal	5442 gross tons	384,698
Other		359,663
		$1,404,725

Excess Property Program

Procurement's utilization of the federal government's excess property program benefited Amtrak significantly. During the year, 576 orders for forklifts, trucks, railroad cranes, rail cars, automobiles, generators, welders, wardrobe lockers, office furniture, and a wheel boring and turning machine went to GSA. These items cost $3 million when originally purchased by the government. If Amtrak had purchased these items new at today's market prices, they would have cost over $6 million. Total cost to Amtrak of material received under the program was only $120,000, about four per cent of the original cost.

Minority Business Progress

Amtrak's commitment to assure minority business participation is highlighted by the fact that Amtrak is the only railroad consistently meeting the industry's goal of 15 per cent minority participation.

From the inception of the Minority Business Program in April 1976, minority participation has risen steadily from 2.3 per cent to 20.8 per cent in September 1978. For the period covering February 1 to September 1, Amtrak averaged 24.6 per cent monthly minority participation against the goal of 15 per cent. Beech Grove is a good example of why this figure is high. Construction packages there were reduced to more manageable smaller solicitations resulting in minority firms capturing $973,000, or 43 per cent of dollars contracted there.

Rolling Stock Acquisition

A contract was awarded to the General Electric Company for upgrading 34 Metroliners. The purpose of this program is to improve their reliability while reducing

Amfleet equipment, pulled by electric locomotives, has replaced Metroliners on some runs while the cars are being upgraded by General Electric.

maintenance costs. The upgrading will also permit operation on both the existing catenary and the new catenary power system (25 kV, 60 Hz) that will be installed in the Northeast Corridor during the next few years.

Modifications include most of those that were incorporated into the four Metroliners already improved a few years ago under the Federal Railroad Administration's research and development contract. Also included are a number of other improvements developed by Amtrak maintenance personnel. Most important of these will be the relocation of dynamic brake resistors to the roof of the car as well as installation on the roof of the air intake for a new electrical equipment clean air cooling system. Major portions of the program include complete car rewiring, refurbishing of car interiors, rebuilding trucks and rehabilitating most of the Metroliner subsystems.

During this year, Amtrak contracted with the Electro-Motive Division of General Motors for the design and manufacture of 15 high-speed lightweight electric locomotives, called the AEM-7, for operation in the Northeast Corridor. EMD is the United States licensee for Swedish ASEA electric locomotive technology. The locomotive design is based on specifications developed after testing ASEA's Rc4a demonstrator locomotive. Amtrak personnel are providing maintenance, performance and operational review inputs into the locomotive design.

Quality Assurance

The main responsibility of the department is to make certain that the manufacturer builds his product in accordance with Amtrak's specifications. Quality assurance inspectors pay strict attention to safety matters, both passenger and vehicle-related. They insure compliance with all FRA and AAR regulations and make certain that workmanship is of the highest grade. Inspectors are also the final acceptance authorities for Amtrak. No payment is made to any vendor unless his product has been declared acceptable.

Programs presently under surveillance by resident inspectors include:

- Bilevel passenger car program at Pullman Standard.
- NECIP freight car programs at several builders.
- Amfleet passenger car retrofit program at the Budd Company.
- SPD40F conversion to F40PHs, and construction of new F40PH locomotives at General Motors.
- Metroliner refurbishment at General Electric.

Not all locomotives are red, blue and silver anymore. Amtrak now owns 20 bright orange units for freight and work train use in the Northeast Corridor.

- Conventional car overhaul at the Santa Fe shops, Topeka.
- LRC program at MLW, Montreal.
- FL9 locomotive overhaul at Morrison Knudsen.

Another basic responsibility of the department is to establish a list of vendors who are qualified to satisfy Amtrak's requirements. This original survey will take approximately one year to complete.

Real Estate

Amtrak consolidated its real estate holdings through the formal recording of 128 deeds, giving it title to those properties conveyed by the various bankrupt railroads controlled by Penn Central throughout the Northeastern United States. This included 366 of the 456 miles of the Northeast Corridor from Washington to Boston, the Philadelphia-Harrisburg line, the New Haven-Springfield line, the Michigan City-Kalamazoo line and 33 stations and yard properties.

Negotiations were concluded for station sites and/or terminal agreements in Miami; St. Louis; El Paso; Schenectady, Rochester and Buffalo, New York; Canton, Ohio; and Providence, Rhode Island, to bring them more fully under Amtrak control.

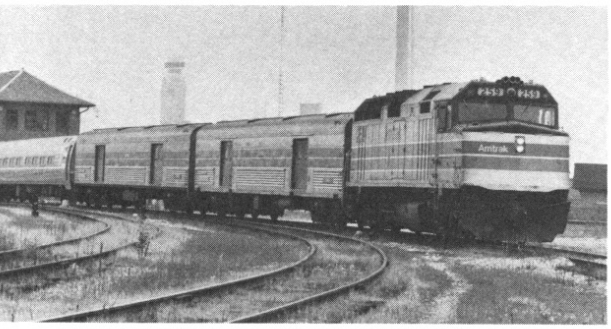
Amtrak converted from a manual to a mechanized accounting system to expedite rent billings. There is now also a standardized lease form to simplify negotiations and assure uniform treatment of all tenants.

Over $500,000 in additional income was derived from renegotiating existing agreements and negotiating new ones. Some $11.6 million was earned from real estate during the year.

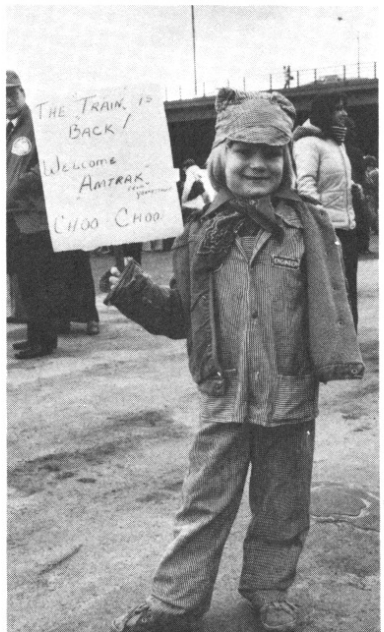
Cost Avoidance

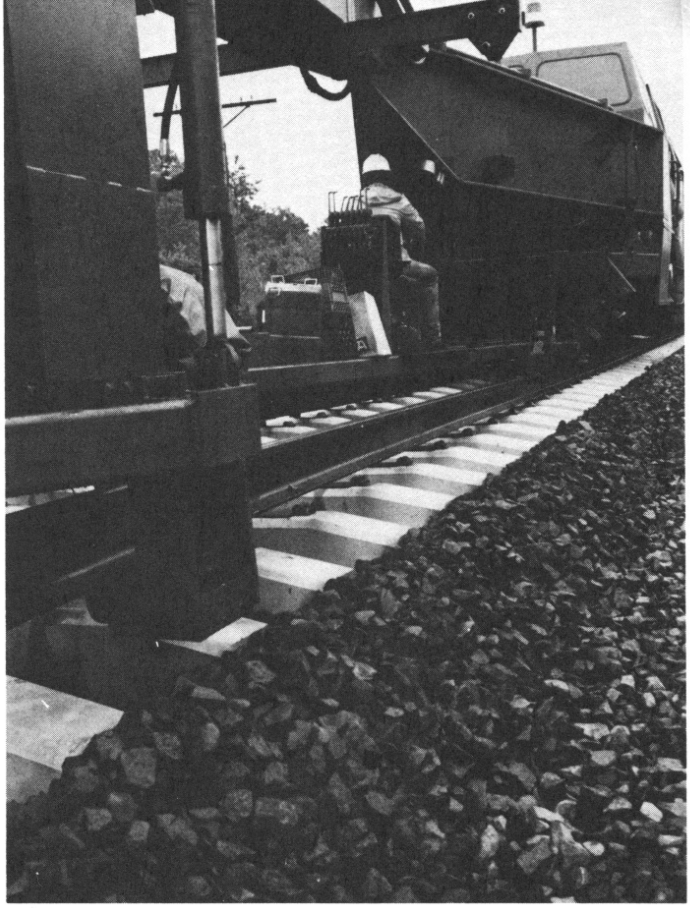
The Procurement department's cost avoidance for the fiscal year totaled $3.8 million or 1.2 per cent of the total dollars committed during the year. This figure exceeded the department's 1978 operating costs of $3.5 million by $227,000, thus contributing to the company's operating cost reduction. The department has established a cost avoidance goal of five per cent to further reduce costs.

(Below) The first Amfleet-equipped National Limited *leaves Indianapolis, on August 13, headed for St. Louis and Kansas City. (Right) The* Niagara Rainbow *arrives at its namesake city, on October 29, first day of service to the resort town.*



(Right) The eastbound Saint Clair *tears through a huge ceremonial ribbon on July 31 to open service to Dearborn, Michigan. (Far Right) A young potential customer greets Amtrak's arrival in Niagara Falls.*





The track laying machine leaves a neat row of concrete ties in its wake as it proceeds along the track replacing ties and rails.

LABOR RELATIONS/PERSONNEL

Labor Relations

The National Mediation Board, on March 7, 1978, certified the American Railway Supervisors' Association as the duly designated bargaining representative of 83 subordinate officials in Amtrak's Maintenance of Way and Structures department. An agreement covering wages and working conditions of these employees was negotiated with representatives of the union and became effective on August 1.

On October 21, the Police Benevolent Association Long Island Railroad Police, Inc., was certified by the National Mediation Board as the duly designated bargaining representative of approximately 255 Amtrak police officers. A new agreement is being negotiated under the auspices of the board.

Negotiation of Agreements

A large percentage of the work required in the rehabilitation and rebuilding of the Northeast Corridor to meet the schedule set by Congress is to be performed by outside contractors. Amtrak's labor agreements obligate it to negotiate an accommodation with the unions involved to permit this.

In 1978 Amtrak reached agreements with the various unions allowing outside contractors to operate and maintain the Track Laying Machine and undercutters used in the Track Laying System, or TLS.

Agreements were also negotiated to permit outside contractors to perform certain work in connection with the bridge, right-of-way clean up and station programs included in the Northeast Corridor Improvement Project. Similar agreements were concluded for demolition work, ditching, construction of a concrete tie loading facility, rehabilitation of wood ties and other work related to the project.

Continued effort during 1978 to induce the railroads to establish interdivisional train and crew assignments resulted in an Interdivisional Agreement being reached with the United Transportation Union and Brotherhood of Locomotive Engineers to provide substantial reductions in manning requirements on the Norfolk & Western between Petersburg, Virginia, and Kenova, West Virginia.

At Amtrak's request, an agreement was made between the Santa Fe, Missouri Pacific and the United Transportation Union to establish interdivisional and intraseniority district train and engine crew assignments on the Inter-American, between Fort Worth and San Antonio, Texas. This agreement permits crews in this service to bridge the Missouri-Kansas-Texas railroad between Temple and Taylor, Texas.

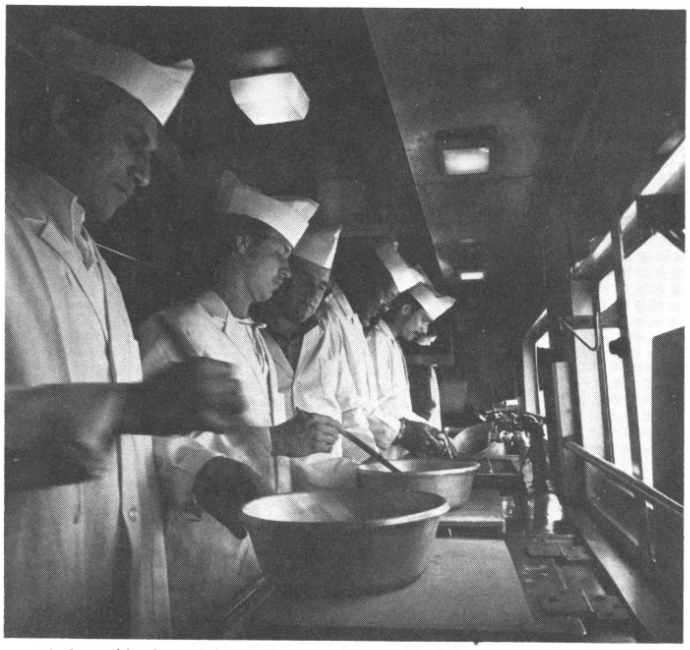
Negotiations resulted in reduced crew costs on the Illinois Central Gulf between Chicago-Champaign-Centralia, Illinois, and Memphis, Tennessee, as well as in reducing overtime payments and the number of yard crews employed by Amtrak in the Chicago Switching District.

Amtrak completed assumption of all on-board service employees on May 1 through agreement with the Delaware & Hudson to take over several employees of that company who had been working between Albany, New York, and Montreal on the Adirondack. All on-board service personnel on Amtrak trains are now employees of the company.

On March 31, Amtrak assumed certain maintenance of equipment functions previously performed by employees of the Burlington Northern at the former Minneapolis passenger station. This was in conjunction with inauguration of Amtrak's new facility in St. Paul.

Affirmative Action

Amtrak has recommitted itself to non-discrimination and affirmative action in its employment. An Office of Affirmative Action Programs has been established within the Labor Relations and Personnel department. It has expanded resources and a staff dedicated to responding to employee complaints as well as revising, strengthening, implementing and monitoring the company's Affirmative Action Plan. The previous system of complaint investigation by part-time volunteers is now being handled by full-time professionals.



A class of food specialist trainees undergoes training on a conventional diner parked in the Chicago yards.

Training

During 1978, training was directed toward improving management skills and customer service as well as developing human resources. Amtrak trained over 11,570 employees utilizing more than 32,000 man-days to do the job. This represents an increase of 15 per cent in employees trained compared to last year. Amtrak's first annual Executive Program was initiated at the University of Virginia for 25 key executives. Amtrak also trained an additional 175 middle managers in management skills courses.

Four hundred first-line supervisors participated in a five-day course in principles of supervision. More than 1,300 conductors from various railroads were either newly-trained for Amtrak service or retrained for assignment to Amfleet and other new equipment. During the year, 700 employees were enrolled in Supervisory Management, a correspondence course designed for those wanting to prepare themselves for future management positions. Also by year end, over 100 secretaries had completed a new three-day Secretarial Administrative Development program. All supervisory-management courses were modified to include Equal Employment Opportunity and Affirmative Action training.

The Technical Training Center at Beech Grove became fully operational in mid-year and conducted training for 2,520 craft employees in both electrical and mechanical skills. Apprenticeship programs were initiated for carmen and electricians, while two more apprenticeship programs are currently under development for machinists and sheet metal workers. The Amtrak training cars toured the system to train over 1,400 maintenance personnel in steam generator maintenance, air conditioning and electrical systems.

The new-hire program for on-board service personnel was completely modernized and implemented for the 1978 summer season. Emphasis was on courtesy and customer relations. In addition, over 200 stewards and lead service attendants underwent first aid training.

Over 1,800 employees along the Northeast Corridor were trained in maintenance of track, communications and signals, electric traction, and as block operators. As the Northeast Corridor Improvement Project progresses, maintenance of way training is being accelerated.

Amtrak's first class of 12 management trainees completed its nine-month program in April and the trainees were assigned to permanent engineering positions. A new class of 10 management trainees started in June. Six were hired from 1978 college graduating classes while four were selected from within Amtrak. Management trainees work in all departments of the company for a period of time during their program to understand better Amtrak's entire business.

Employee Development Programs

Programs to identify promising employees and to enhance their future development were instituted during the year. Under the Development Program for Management Employees, each management employee is assessed by his or her immediate supervisor in terms of potential for growth within the company. A series of executive committees reviews these assessments, confirms training and promotional recommendations and provides for a computerized talent bank. This reservoir of talent is meant to ensure that qualified employees are given first consideration for management openings.

Contract employees who want to be considered for promotion to management positions are assessed by their immediate supervisor in terms of readiness through the Employee Development Program for Agreement-Covered Employees. The supervisor then counsels the employee and establishes a personalized development program for the individual, incorporating Amtrak training courses and outside study. Amtrak's Personnel department makes use of the supervisor's assessment to help departments fill entry-level management positions with qualified employees from within the company. The

program is being tested at corporate headquarters before systemwide implementation.

Employee Assistance Programs

Amtrak recognizes alcoholism as a disease which affects work performance, health and family life. In 1976, Amtrak established its first formal nationwide system of education and counseling to identify alcoholic employees and offer them or their families a practical program for recovery.

During the year, the original Program for Alcoholic Recovery (PAR) was expanded to cover drug abuse and related personal problems and renamed the Amtrak Employee Assistance Program. The new program was reviewed and endorsed by a labor-management conference attended by officials from labor organizations representing Amtrak employees.

The AEAP staff is trained in evaluation, occupational guidance and motivation but performs no clinical therapy. Staff members perceive needs of their clients and arrange for treatment, if necessary, through appropriate community service organizations. After treatment, counselors follow up to ensure continued recovery. Counselors are located in Washington, New York, Miami, Beech Grove and Oakland.

Employee Benefits

Amtrak has provided management employees with a Summary Plan Description booklet for participants in Amtrak's Retirement Income Plan. The booklet provides these employees with eligibility requirements, the vesting percentage schedule and information on benefit levels and early retirement.

As a benefit to collective bargaining employees, Amtrak has made arrangements with a number of private insurance companies for supplemental life insurance plans, health and disability insurance policies and individual retirement accounts. Amtrak is facilitating this program for employees through payroll deductions.

Employment

With continued emphasis on more efficient operations and cost-cutting measures, employment at Amtrak was reduced from 21,179 to 19,928.

(Left) While Beech Grove's General Manager Walter Barrick helps dedicate the technical training center, his remarks are recorded on video tape. (Lower Left) Books still are the main fount of information for trainees. (Below) Modern audio-visual devices supplement books in apprentice training.

LAW

Liability Claims

The Law department has continued to progress in its programmed assumption of internal management of liability claims and lawsuits brought against the company. The final stage of transition from an outside firm used to monitor Amtrak's entire caseload was completed in early March. The department now has responsibility for administration and supervision of all claims and claim litigation.

In fulfilling this responsibility, the department has issued a set of guidelines and policy determinations concerning conduct of lawsuits, billing procedures and employment of local counsel with special emphasis on using minority law firms. It also adopted internal reporting techniques to provide more timely and accurate claims management information.

The department also established a second project to identify factors that contribute to incidents that result in claims and lawsuits against the company. Items such as the need for additions and/or modifications to grade crossing warning devices, equipment maintenance and modifications, and operational suggestions are brought to the attention of the responsible Amtrak department. The department, in turn, requests action from either the operating railroads or, where appropriate, from municipalities or states. This prevention program is a valuable byproduct of internal management and should reduce accidents and company liability.

In a continuing effort to improve its claims management program, as well as equitable handling of employee and passenger claims, the department conducts periodic educational and training seminars. Members of Amtrak's claims division, claims representatives of operating railroads and various medical and technical people participate.

The importance of these activities is emphasized by the number of claims and lawsuits brought against the company. Although Amtrak disposed of 5,681 Federal Employers' Liability Act claims during the 1978 fiscal year, 6,086 employee claims were pending as of September 30. Amtrak disposed of 2,316 third-party claims and 4,094 such claims were pending at the end of the fiscal year. Similarly, while 360 litigation claims were resolved during the year, 774 were pending on September 30. Some 180 of these result from grade crossing accidents, with 65 involving wrongful deaths; 237 were filed under the Federal Employers' Liability Act, while 357 were third-party actions.

Penn Central Settlement

A number of claims against the Penn Central Transportation Company, which were described in last year's annual report, and claims by Penn Central against Amtrak, were settled for $40 million which Penn Central agreed to pay Amtrak. Of this, $15 million is payable in three annual cash installments of decreasing amounts to be completed about October 1980. The first cash installment has been received. The balance of $25 million has been delivered in notes that will be paid out of money to be recovered in the valuation proceedings pending in the Special Court of the United States. The company expects sufficient assets will be available for payment of those notes. However, the date of payment will not be determined until the Special Court proceedings have ended.

Highway Bridges

As the owner and operator of tracks and facilities in the Northeast Corridor, Amtrak is subject to state laws that impose upon it responsibility for maintaining and repairing highway bridges that span the tracks. Many

A Northeast Corridor train, consisting of Amfleet equipment pulled by an E60CP locomotive, enters Philadelphia on its way from New York to Washington.

of those laws date back to the early days of railroading and, in some cases, involve bridges that were built to accommodate strictly local traffic that was much lighter and slower than vehicles used today. The bridges have deteriorated over the years. Costs of repairing and maintaining the bridges have never been included in Amtrak's budget and now represent a substantial potential drain on its resources. Since the bridges are used primarily by highway vehicles, efforts are under way to get highway funds for their repair. Amtrak is, however, repairing the more seriously deteriorated ones as a matter of safety until funds become available from more appropriate sources.

Texas & Pacific Case

As reported last year, Amtrak is contesting a 1976 Interstate Commerce Commission decision that established terms and conditions of compensation and service for operation of Amtrak trains by the Texas and Pacific Railway. Two similar ICC decisions, involving Amtrak's use of terminal facilities at Washington, D.C., and St. Louis have been consolidated with the case on appeal.

Amtrak continues to believe that the ICC's terms and conditions would result in an unacceptably low quality of service with substantially increased costs. Since last year, both the Department of Justice, representing the Department of Transportation, and the Office of Rail Public Counsel have filed briefs supporting Amtrak's position.

In a related activity, Amtrak and the Department of Transportation succeeded in persuading Congress to amend Section 402(a) of the Rail Passenger Service Act to limit compensation that the ICC can award in future cases.

Arbitration

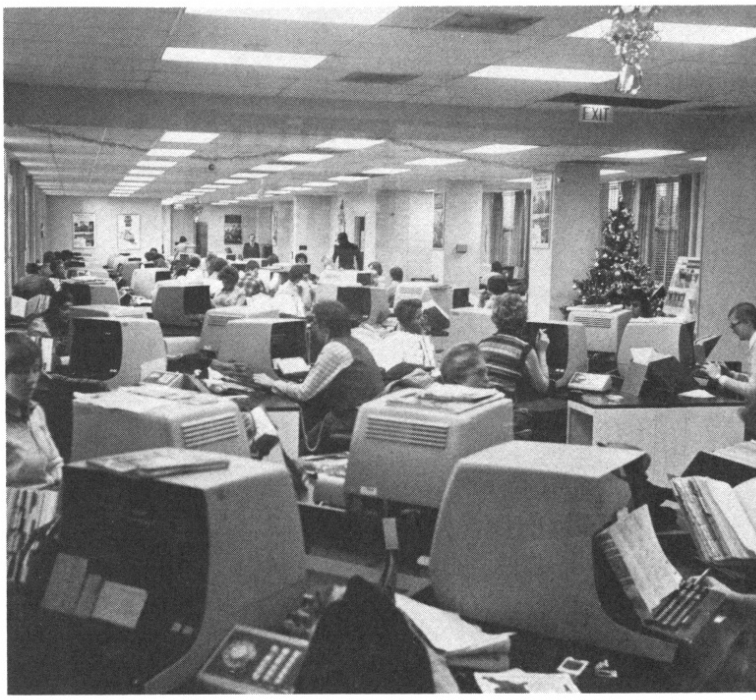
Under Section 403(b) of the Rail Passenger Service Act, the California Department of Transportation (Caltrans) requested that Amtrak initiate an overnight service between Sacramento and Los Angeles, California, over the Southern Pacific. SP has refused to operate the service unless Amtrak first complies with several costly conditions. Amtrak and Caltrans have initiated an arbitration proceeding asking that Southern Pacific be required to operate the service. Amtrak views this arbitration as a test of conditions a railroad might place on Amtrak's efforts to provide more service for the public.

COMPUTER SERVICES

In keeping with its responsibilities, the Computer Services department continued its efforts to:

- Improve performance and reliability on systems currently in use,
- Introduce standards, methods and disciplines needed to control the development of new user systems,
- Reduce the need for costly outside technical and consulting services, and
- Encourage more departmental participation and earlier definition and stabilization of requirements for new or substantially modified systems.

Progress during the year can be noted, to varying degrees, in each area. Least satisfying was the reliability record of the overburdened reservations and ticketing system. Best progress was in the 60 per cent reduction in outside technical and consulting fees. This was a key factor in holding the department's costs for this past year to slightly below those of the previous fiscal year.



Amtrak's reservations system received over 20 million calls last year, an increase of nearly three per cent over 1977.

CORPORATE PLANNING

The Corporate Planning department is charged with implementing Amtrak's new Mission Statement which was adopted by the Board of Directors in December 1979. The primary means of doing this will include developing a business plan appropriate to this new mission, establishing improved performance goals and measurement systems, and rationalizing Amtrak's funding arrangements through the contractual funding proposed in the Mission Statement.

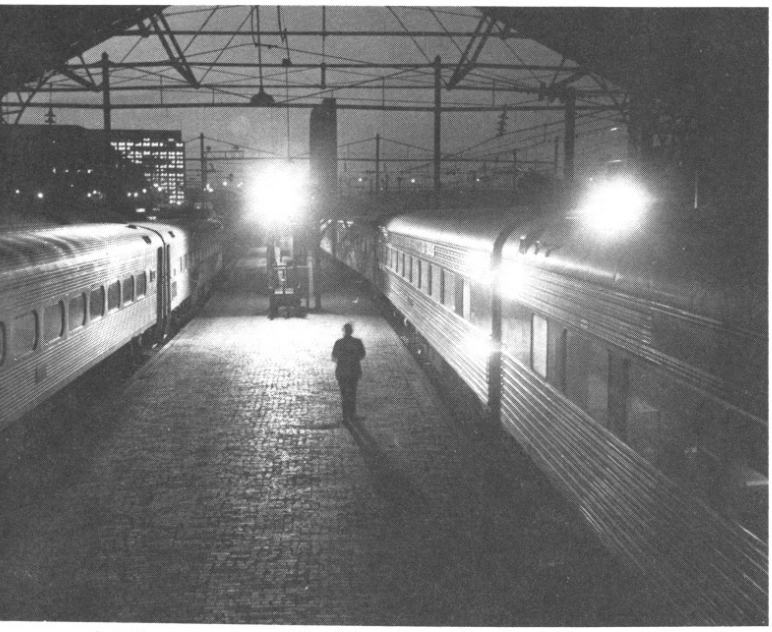
Amtrak's 1978 planning effort concentrated principally on development of capital improvement programs and support to the Department of Transportation's projects, including redesigning of the intercity rail passenger route structure and redirecting the Northeast Corridor Improvement Project. The company did not publish a five year plan as has been customary in the past because the DOT studies were expected to propose significant alterations to Amtrak's route map and program priorities.

DOT Route Restructuring

Extensive staff support was provided to the DOT staff and consultants responsible for recommending a new route structure for Amtrak. The corporate planning staff coordinated their participation and developed estimates of Amtrak's cost of operating the various route systems DOT wished to consider.

This work was supported by a computer-based cost simulation model, developed with the assistance of the Temple, Barker and Sloane transportation consulting firm.

The model encompasses mathematical and financial formulas that estimate projected operating expenses in relation to proposed changes in the passenger system. The immediate objective for developing the model was to aid in cost analysis concerning the route and service network. This purpose was met as the model has been useful in providing preliminary cost estimates for the DOT study of Amtrak's route system. Additionally, the model will be useful, after it is refined and tested over a more extensive period, for setting budget guidelines and analyzing comparative cost levels and operating efficiencies of individual operations, facilities and contracts.



A station supervisor at Harrisburg, Pennsylvania, checks over the Broadway Limited *as it prepares to depart for points west. At left is a* Silverliner, *used in Harrisburg-Philadelphia service.*

Future Corridor Equipment

Planning coordinated the joint Amtrak/DOT policy study regarding the type and quantity of passenger train equipment that will be required to operate on the Northeast Corridor when the Improvement Project is completed. This effort resulted in agreement to upgrade 34 Metroliners and to purchase up to 70 new AEM-7 lightweight locomotives.

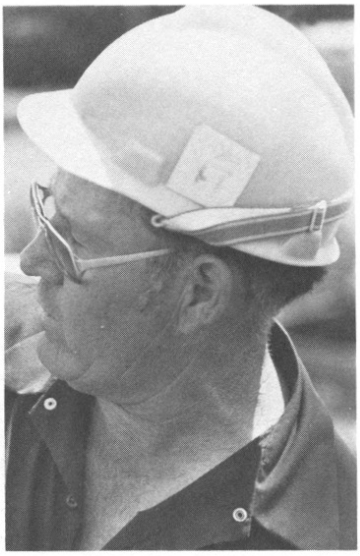
Equipment Maintenance Study

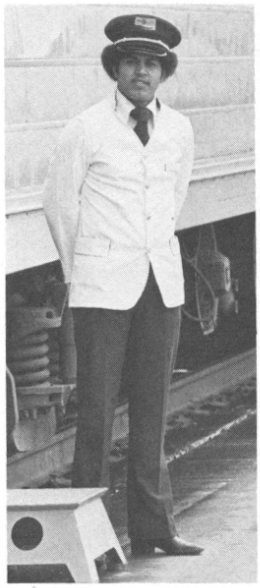
The consulting firm of Peat, Marwick, Mitchell & Co. completed a one-year study of Amtrak's equipment maintenance system in January 1978. The study, sponsored jointly by Amtrak and FRA, identified potential equipment utilization and maintenance improvements and broadly outlined a recommended improvement program. The main recommendation was to extend certain especially-effective maintenance practices presently used for Amfleet equipment, such as centralization of preventive maintenance for the entire fleet at a key location.

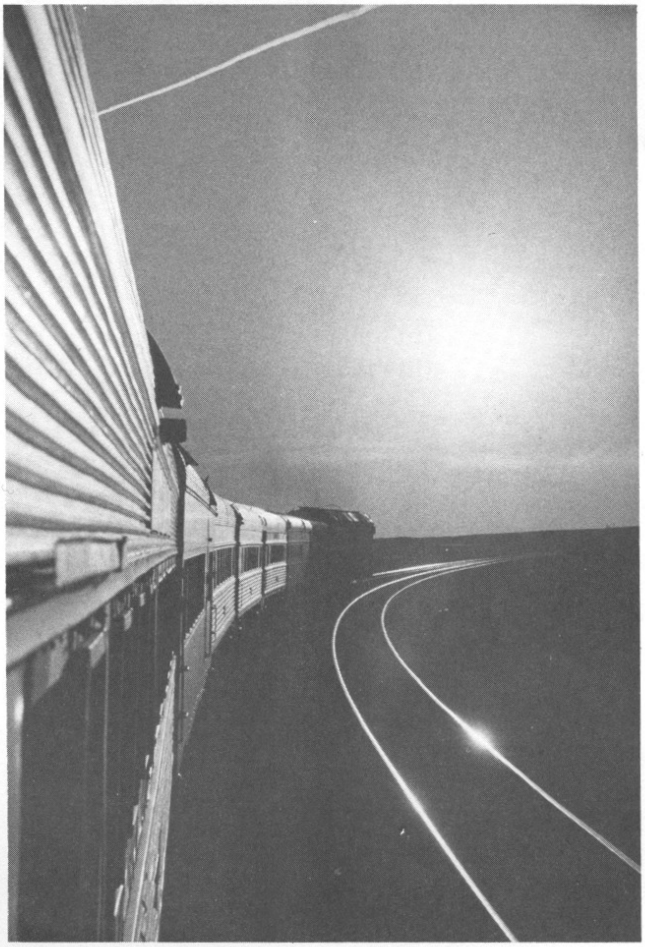
Passenger Handling

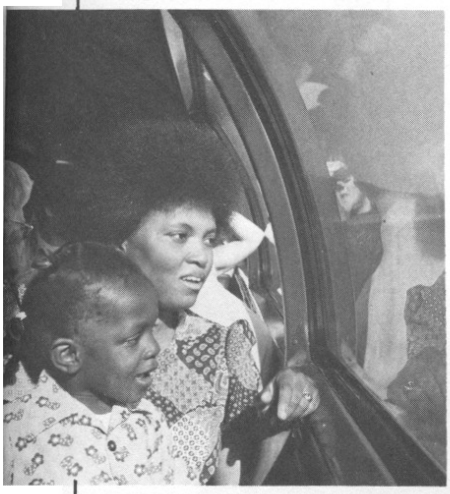
A task force has been established to define the requirements for passenger service in the 1980s. The principal immediate objective of this study will be to ensure that when the Northeast Corridor Improvement Project is completed, the expected greatly-increased numbers of Northeast Corridor passengers—in the mid 1980s and beyond—will be able to enter and exit the system with ease and without undue costs or delays.

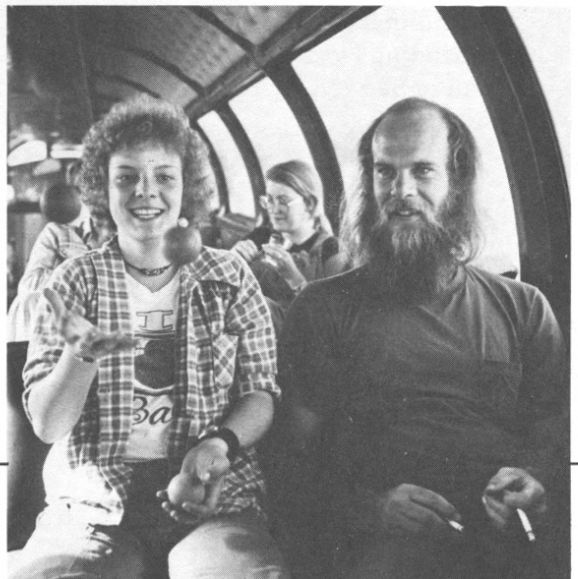
Amtrak is in business of providing good train service. To do so it needs people—people to run the trains, people to do the many jobs that support the operation and, of course, the most important people of all, the ones who buy the tickets and ride. Trains without people? Unthinkable.











Operating Statistics

	FY 1976	FY 1977	FY 1978
General			
System Route Miles ..... (In thousands)	26	26	26
Stations Served	495	524	543
Train Miles Operated .....(In millions)	30.98	32.97	32.37
On-Time Performance			
Systemwide	74%	62%	62%
Short-Distance	76%	66%	65%
Long-Distance	69%	48%	52%
Ridership			
Passengers .....(In millions)	18.2	19.2	18.9
Passenger Miles .....(In millions)	4,155	4,333	4,029
Revenue Cars			
Owned and Leased, 9/30	2,125	2,048	1,897
Operating fleet, 9/30	1,981	1,806	1,678
Out of Service, Daily Average	15.6%	17%	16.5%
Back Shop, Daily Average	8.7%	7.3%	7.5%
Total Average Out of Service	24.3%	24.3%	24.0%
Average Age ..... (In years)	20.3	20.4	20.5
Heavy Repair	543	369	360
New Deliveries	324	53	0
Locomotive Units			
Operating Fleet	352	330	320
Out of Service, Daily Average	13.7%	19.5%	18.8%
Average Age ..... (In years)	10.2	9.9	7.3
Number Rebuilt/Converted	27	26	38
New Deliveries	51	0	10
Turboliners			
Operating Fleet	11	13	13
Out of Service, Daily Average	8.3%	10.8%	11.2%
Average Age ..... (In years)	0.9	1.7	2.7
New Deliveries	5	2	0
Metroliners			
Operating Fleet	61	61	61
Out of Service, Daily Average	27.6%	28.4%	42.1%*
Average Age ..... (In years)	10.0	11.0	12.0
Heavy Repair/Upgraded	2	5	0

*Includes Metroliners undergoing upgrade program at Erie, Pennsylvania.

National Railroad Passenger Corporation

Balance Sheet

September 30, 1978 and 1977

Assets

	1978	1977
	(Thousands of dollars)	
Current assets:		
Cash	$ 5,639	$ 5,508
Accounts receivable—		
Conrail and other railroads (Note 7)	38,403	23,312
Other	44,886	22,321
Materials and supplies, at average cost	64,601	59,863
Prepayments and deposits	1,067	1,152
	154,596	112,156
Property and equipment (Notes 1, 3, 4 and 6):		
Passenger cars and locomotives	858,510	770,208
Northeast Corridor	310,569	150,379
Other	51,707	43,596
	1,220,786	964,183
Less-Accumulated depreciation and amortization	(85,843)	(63,166)
	1,134,943	901,017
Other assets:		
Long-term budget advances to railroads	8,459	7,902
Other	2,277	2,617
	10,736	10,519
Total assets	$1,300,275	$1,023,692

Liabilities and Capitalization

	1978	1977
	(Thousands of dollars)	
Current liabilities:		
Due to banks—		
Notes (Note 9)	$ 29,000	$ 20,060
Other	14,969	12,067
Current portion of long-term debt (Notes 4 and 6)	17,758	17,527
Accounts payable	43,728	49,360
Railroad accounts payable	20,967	15,556
Accrued expenses	89,184	55,047
	215,606	169,617
Long-term debt (less current portion) (Notes 3, 4 and 6):		
Notes payable, 5.8% to 8.6%	472,184	492,628
Equipment obligations	102,537	120,009
Mortgage notes payable	289,387	132,194
	864,108	744,831
Commitments and contingencies (Notes 1, 4, 6, 7 and 8)		
Capitalization (Note 2):		
Preferred stock, $100 par value; 10,000 shares authorized	—	—
Common stock, $10 par value, 10,000,000 shares authorized, 9,385,694 shares outstanding	93,857	93,857
	93,857	93,857
Federal capital grants	397,627	240,658
Railroad capital payments	102,263	102,263
Accumulated operating losses before Federal operating grants	(2,487,131)	(1,905,479)
Less-Federal operating grants	2,113,945	1,577,945
	(373,186)	(327,534)
Total capitalization	220,561	109,244
Total liabilities and capitalization	$1,300,275	$1,023,692

The accompanying notes are an integral part of this balance sheet.

National Railroad Passenger Corporation

Statement of Operating Loss Before Federal Operating Grants

For the years ended September 30, 1978 and 1977

	1978	1977
	(Thousands of dollars)	
Operating revenues (Note 1)	$ 313,002	$ 311,272
Operating expenses (Notes 1, 3, 4, 5 and 7)		
Maintenance of way and structures	53,054	45,053
Maintenance of equipment	235,591	216,207
Traffic	43,332	42,203
Transportation	289,188	266,340
Dining and buffet service	62,069	60,886
General	54,202	67,558
Taxes on payroll and property	89,164	81,557
Facilities and equipment rents	3,532	4,440
Total operating expenses	830,132	784,244
General and administrative expense	26,466	22,942
Interest expense	38,102	39,281
Capitalized interest on advances for equipment in production (Note 1)	(4,441)	(4,114)
Total expenses	890,259	842,353
Operating loss before Federal operating grants and Northeast Corridor interest	(577,257)	(531,081)
Northeast Corridor interest (Note 6)	4,395	5,592
Operating loss before Federal operating grants (Note 2)	$(581,652)	$(536,673)

Statement of Accumulated Operating Losses and Federal Operating Grants

For the years ended September 30, 1978 and 1977

	Accumulated operating losses before Federal operating grants	Federal operating grants (Note 2)	Net
Balance October 1, 1976	$(1,368,806)	$1,095,345	$(273,461)
Operating loss and Federal operating grants for the year ended September 30, 1977	(536,673)	482,600	(54,073)
Balance September 30, 1977	(1,905,479)	1,577,945	(327,534)
Operating loss and Federal operating grants for the year ended September 30, 1978	(581,652)	536,000	(45,652)
Balance September 30, 1978	$(2,487,131)	$2,113,945	$(373,186)

The accompanying notes are an integral part of these statements.

National Railroad Passenger Corporation
Statement of Changes in Financial Position
For the years ended September 30, 1978 and 1977

	1978	1977
	(Thousands of dollars)	
Uses of funds:		
Operating loss before Federal operating grants	$581,652	$536,673
Depreciation and amortization (Note 3)	(39,183)	(32,458)
Total cash used for operations	542,469	504,215
Northeast Corridor Improvement Project (Note 6)	160,190	64,013
Other purchases and refurbishments of property	112,920	144,112
Payment of equipment obligations (Note 4)	41,901	6,752
Payment of notes payable, 5.8% to 8.6% (Note 3)	20,444	40,672
Increase in accounts receivable	37,656	13,866
Increase in materials and supplies	4,738	16,824
Increase in long-term advances to railroads	558	1,092
Reduction in railroad capital payment	—	659
Total uses of funds	920,876	792,205
Sources of funds:		
Federal grants (Note 2)	692,969	708,734
Note due to bank (Note 9)	8,940	20,060
Mortgage notes payable (Note 6)	157,193	56,625
Increase (decrease) in accounts payable, accrued expenses and other liabilities	37,051	(3,644)
Equipment obligations	24,429	—
Decrease in other assets	425	1,294
Total sources of funds	921,007	783,069
Increase (decrease) in cash	$ 131	$ (9,136)

The accompanying notes are an integral part of this statement.

National Railroad Passenger Corporation

Notes to Financial Statements

September 30, 1978 and 1977

(1) Summary of Significant Accounting Policies

Adjustments of Railroad Reimbursements—

Amounts due the contracting railroads are recorded based on reported and estimated expenses, which are subject to audit and adjustment by the railroads and the Corporation. The Corporation's continuing program for auditing monthly costs reported by railroads has resulted in numerous adjustments proposed and settled or under current negotiations.

At September 30, 1978 and 1977 accrued estimated recoveries for proposed adjustments were $50,525,000 and $26,810,000, respectively, [including approximately $41,080,000 and $19,000,000, respectively, withheld from amounts billed by Consolidated Rail Corporation (Conrail) under interim operating agreements (See Note 7)].

Transportation Revenue—

Passenger fares are recorded as operating revenue when the transportation is furnished. Estimated unused tickets are reflected in the financial statements as deferred ticket revenue at selling price ($1,256,000 in 1978 and $1,886,000 in 1977).

Capitalized Interest on Advances for Equipment in Production—

The Corporation's policy is to capitalize interest on advances for equipment in production and facilities under construction to properly reflect the total cost thereof. The rates used to calculate interest correspond to the rates paid for capital funds.

Improvement Projects—

In order to better reflect the investment in railway operating property, the Corporation has obtained approval from the Interstate Commerce Commission for capitalization of the cost of improvements to the Northeast Corridor (See Note 6).

Casualty Losses—

Provision is made for the uninsured portion of the estimated liability for unsettled casualty and accident claims.

(2) Federal Funding—

Funds are provided to the Corporation through Federal grants to offset operating losses and for capital acquisitions and improvements. These grants are reflected in the financial statements as they are released to the Corporation by the Department of Transportation. Such releases are based primarily on projected cash flow of the Corporation. Federal grants released to the Corporation in 1978 and 1977 were:

	1978	1977
	(In Thousands)	
For operating losses	$536,000	$482,600
For capital acquisitions and improvements	156,969	226,134
	$692,969	$708,734

Fiscal 1979 Federal operating and capital grant funds appropriated, but not requisitioned, were $510,000,000 and $126,000,000, respectively, at September 30, 1978.

(3) Property and Equipment and Related Debt—

At September 30, 1978, the Corporation had authority to borrow or enter into lease obligations for equipment and other capital purposes for up to $875,000,000 with such obligations being guaranteed by the United States Government. In October, 1978, the Corporation received $25,000,000 in capital grant funds which reduced this authorization. Based upon this authorization, substantial commitments have been made for capital equipment. The Corporation's interest in rolling stock has been

assigned to the United States Government as security in connection with the guaranty of debt. Notes payable have been classified as long-term debt in the accompanying financial statements, based on a commitment from the Federal Financing Bank to refinance the obligations for periods extending at least until October 1, 1979. See Note 6 for information concerning the mortgage notes payable.

Property and equipment are stated at cost and are depreciated using the composite straight-line method over their estimated useful lives. Upon disposition, the net cost of property retired or replaced is charged to accumulated depreciation and no gain or loss is recognized. Depreciation expense was $39,183,000 in 1978 and $32,458,000 in 1977. Certain major items of property acquired through capital lease agreements are recorded as assets and are depreciated over their estimated useful lives. See Note 4 for further description of capital lease arrangements.

(4) Leasing Arrangements and Equipment Obligations—

The Corporation leases rolling stock and other equipment and property under operating and capital lease arrangements.

Capital Leases—

The Corporation leases certain major items of property (primarily rolling stock) under capital leasing arrangements. Substantially all such leases are for 15-year periods beginning in 1973 through 1976. At September 30, 1978, the gross amount of assets recorded under capital leases was $103,377,000, and the future minimum lease payments under capital leases were as follows:

Year Ending September 30	Amounts (In Thousands)
1979	$ 10,668
1980	10,592
1981	10,358
1982	9,795
1983	9,784
Later Years	72,358
	123,555
Less amount representing interest	37,238
Present value of minimum lease payments at September 30, 1978	$ 86,317

The present value of minimum lease payments is reflected in the balance sheet as current and non-current equipment obligations of $5,431,000 and $80,886,000, respectively. Also included in the current and non-current equipment obligations are liabilities for equipment held under a conditional sales agreement ($1,531,000 current and $21,651,000 non-current).

Operating Leases—

At September 30, 1978, the Corporation was obligated for the following minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year.

Year Ending September 30	Amounts (In Thousands)
1979	$ 9,061
1980	8,640
1981	7,137
1982	5,043
1983	3,979
Later Years	17,855
	$51,715

Rent expense for the years ended September 30, 1978 and 1977 was $21,347,000 and $19,540,000, respectively.

(5) Pension Plan—

The Corporation has a fully funded defined benefit noncontributory retirement plan covering nonunion employees. Provisions for pension costs were $1,949,000 in 1978 and $1,725,000 in 1977.

(6) Northeast Corridor—

In 1976, in connection with the United States Railway Association's Final System Plan, the Corporation acquired the properties of the Northeast Corridor from Conrail for $86,366,000 payable in eight annual installments of $10,796,000 and secured by a mortgage on the properties. During each year beginning October 1, Conrail has the right to offset freight service payments due the Corporation in an amount up to two annual installments on the mortgage note, plus interest. Interest on this note is from 7½% to 10% depending upon triple A industrial bond rates and is to be funded from the appropriation described below. The purchase price is subject to adjustment

by a special court but the Federal Government would fund any additional cost. As of September 30, 1978, the mortgage note payable to Conrail had been reduced to $32,387,000.

The Railroad Revitalization and Regulatory Reform Act of 1976, as amended, authorized an appropriation of $120,000,000 for the Corporation to acquire the properties of the Northeast Corridor. The Corporation has issued a mortgage note payable in 2975 to the Federal Government equal to the amounts to be expended for the acquisition and improvement of the properties acquired pursuant to the above Act. Interest is payable only in the event of prepayment or acceleration of the principal. In addition, a total of $1,770,000,000 has been authorized to be appropriated for the improvement of the properties.

As of September 30, 1978, the Corporation had capitalized $224,203,000 for improvements to the Northeast Corridor including $95,175,000 expended by others on behalf of the Corporation. These costs are subject to audit by the United States Government. In the opinion of management, adjustments, if any, resulting from any audits will not be significant.

A substantial portion of the amounts capitalized by the Corporation would have been expensed as replacements in kind under retirement-replacement-betterment accounting as prescribed by the Interstate Commerce Commission (See Note 1).

(7) Interim Operating Agreements in the Northeast Corridor—

In connection with the acquisition of the Northeast Corridor properties, the Corporation entered into certain interim operating, maintenance and management agreements and arrangements with Conrail. These arrangements are subject to negotiation of permanent agreements retroactive to April 1, 1976. Certain of the negotiations have been completed and the remaining are in progress. At September 30, 1978 and 1977, the Corporation had billed Conrail approximately $214,005,000, and $123,297,000, respectively, and Conrail had billed the Corporation approximately $249,211,000 and $134,539,000, respectively, for services rendered under the interim agreements. At September 30, 1978 and 1977, the Corporation had withheld payment of approximately $41,080,000 and $19,000,000, respectively, for proposed adjustments (See Note 1) from the billings from Conrail.

Based on the negotiation progress to date, it is the opinion of management that completion of the permanent agreements will not increase the costs recorded under the interim agreements and that some recovery of such costs is possible.

(8) Pending Litigation—

In the normal course of business, the Corporation is involved in various matters involving litigation and arbitration. This is more fully described in the Legal section of the accompanying Annual Report. It is the opinion of management that the disposition of these matters will not materially affect the Corporation's financial statements.

(9) Line of Credit—

At September 30, 1978, the Corporation had a line of credit agreement with a commercial bank, expiring in March 1979, to borrow up to $50,000,000 at an interest rate of ¼ of 1% below the prime commercial loan rate of the bank on unsecured 90-day loans to its most responsible corporate borrowers. The amount due under this line of credit was $29,000,000 at September 30, 1978, and was paid in full on October 2, 1978. The borrowings were secured by an interest in Federal operating grants.

ARTHUR ANDERSEN & CO.

1666 K STREET, N. W.
WASHINGTON, D. C. 20006
WRITER'S DIRECT DIAL NUMBER

(202) 862-3100

To the Board of Directors

National Railroad Passenger Corporation:

We have examined the balance sheet of NATIONAL RAILROAD PASSENGER CORPORATION (incorporated pursuant to the Rail Passenger Service Act and the laws of the District of Columbia) as of September 30, 1978 and 1977, and the related statements of operating loss before Federal operating grants, accumulated operating losses and Federal operating grants and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 7, the Corporation has entered into interim agreements and arrangements with Consolidated Rail Corporation covering operations, maintenance and management of the Northeast Corridor. These arrangements are subject to negotiation of permanent agreements retroactive to April 1, 1976. Based on the negotiation progress to date, it is the opinion of management that completion of the permanent agreements will not increase the costs recorded under the interim agreements and that some recovery of such costs is possible. However, the outcome of these matters is uncertain at this time.

In our opinion, subject to the effect of the matter discussed in the preceding paragraph, the statements referred to above present fairly the financial position of National Railroad Passenger Corporation as of September 30, 1978 and 1977, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

December 8, 1978.

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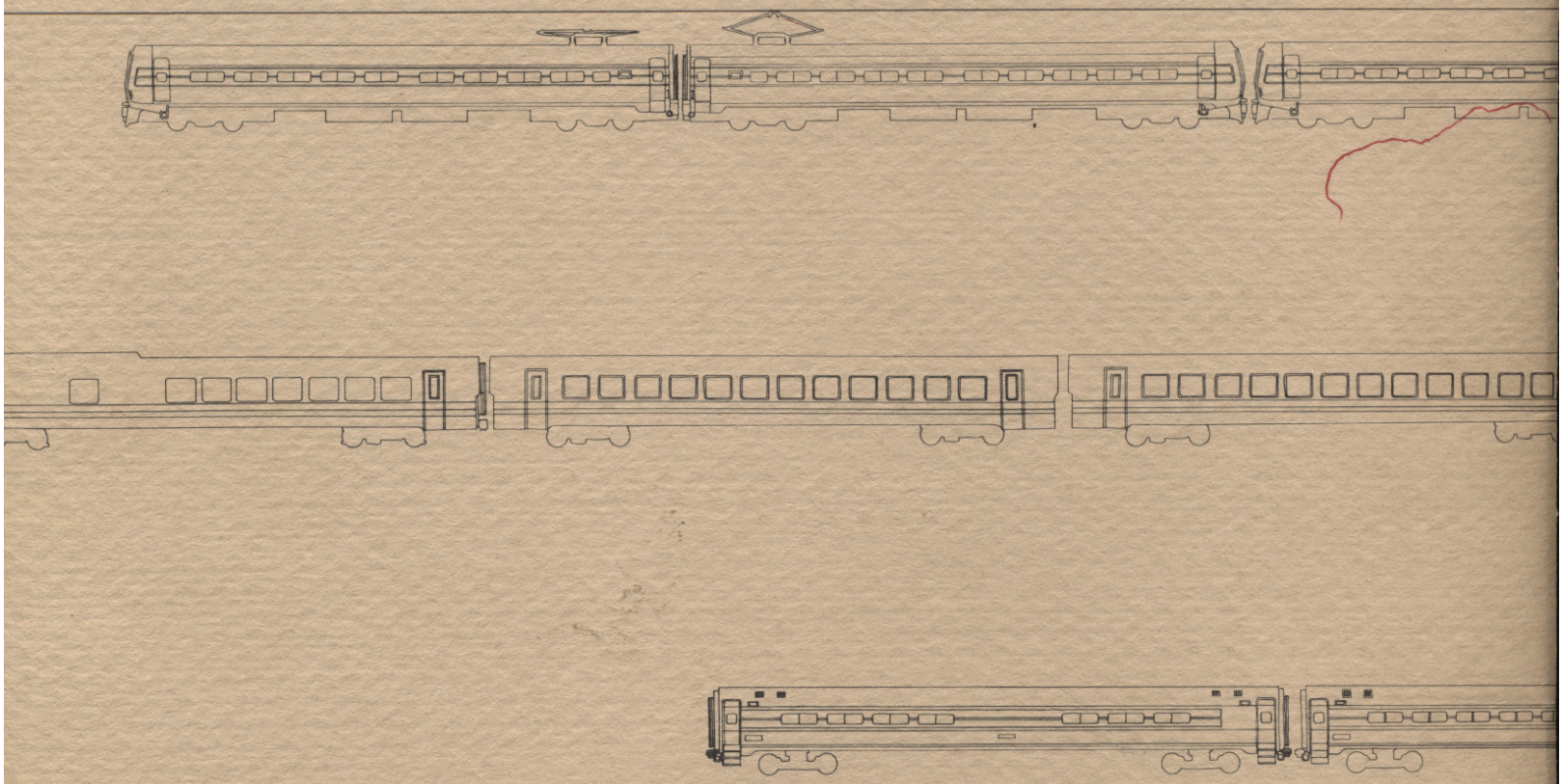
T. Page Sharp ..... *Assistant Secretary*

(As of February 15, 1979)



National Railroad Passenger Corporation, 400 North Capitol Street, NW, Washington, D.C. 20001