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~~Commerce~~

Amtrak

Amtrak 1979

AMTRAK ANNUAL REPORT

Submitted on February 15, 1980
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.

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1979

MESSAGE FROM THE PRESIDENT

Since its last Annual Report, Amtrak has acquired a new lease on life, a new route system, a new management, a new spirit of enthusiasm, funding for the acquisition of new equipment, and a new goal, the essence of which is to provide in a professional manner, excellent service to those who become rail passengers. In effect, Amtrak is a new business.

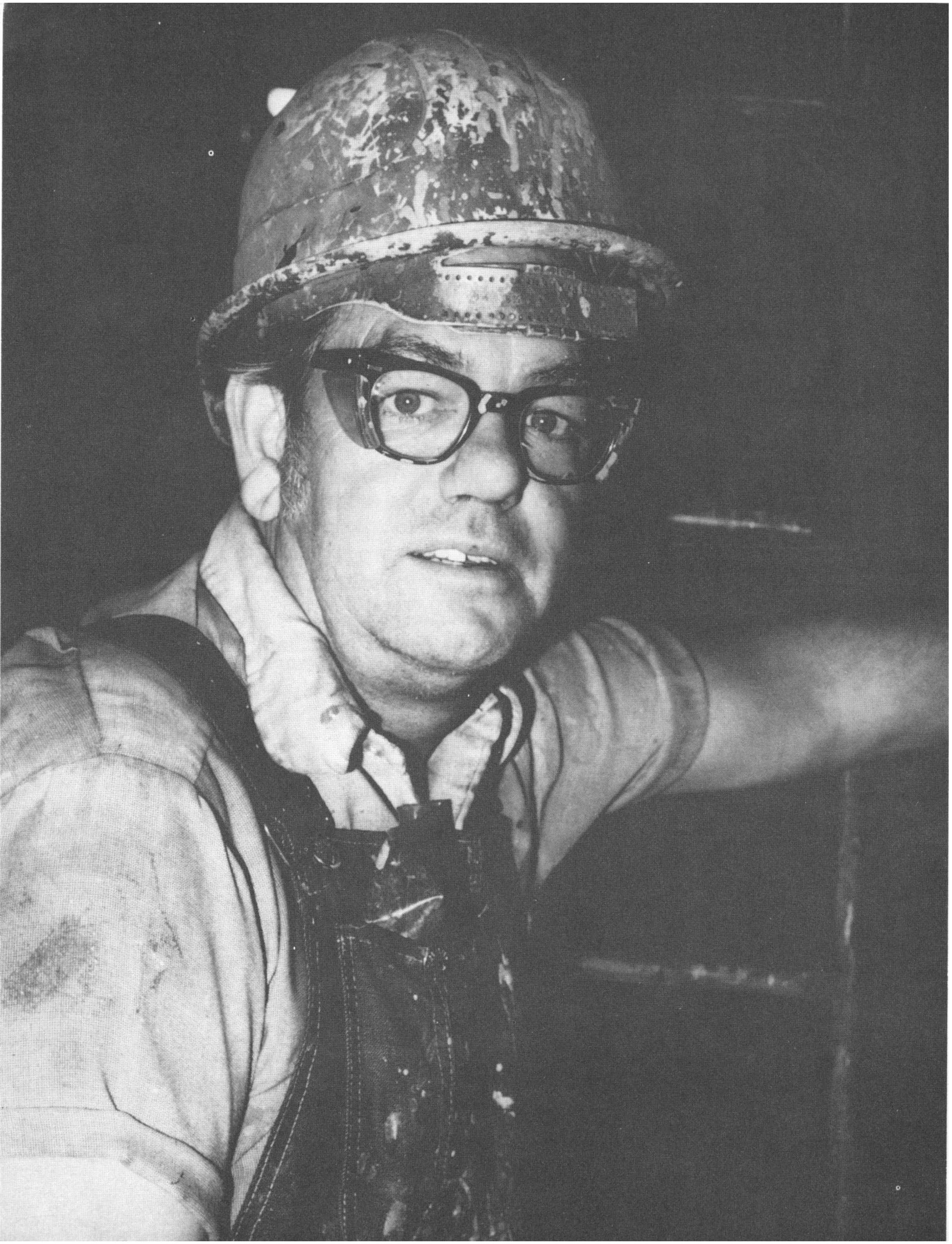
Many of the accomplishments of 1979 are delineated on the following pages. These accomplishments tend to sharpen the focus on other areas of challenge for Amtrak. Among the most important of the challenges is that of developing improved relations with contracting railroads to the end that Amtrak's performance will be improved throughout the system. Encouraging steps have been taken in this direction. Another major challenge is to improve relationships with the bus operators in this country by working in our common interests to provide intermodal transportation to the maximum extent possible.

The development and utilization of our human resources, our most important asset, remains a continuing challenge. A great deal of time and effort will be expended this year attempting to define and institutionalize relationships with the federal and state governments with whom Amtrak does business. In addition, Amtrak will be seeking to discover whether and to what extent it has a role to play in the operation of various commuter services.

Alan S. Boyd

ALAN S. BOYD

P.S. The report that follows is not a traditional one. We have chosen instead to give you the reasons why we are excited about the future and why everyone associated with Amtrak should be optimistic and proud of what it is and where it is going.



WHERE WE CAME FROM

Amtrak's toughest and leanest years have ended. Our beginning was not auspicious. Some people thought we were created in 1971 to die soon thereafter. It seemed a safe bet. We were part of a system that had lost hundreds of millions of dollars each year. We began operation with old equipment. We had a lot of responsibility and almost no authority as we operated on other people's track with other people's employees and often at other people's convenience.

Amtrak lived on a year-to-year basis with Congress, never quite knowing just what route or other demands might be made, never quite knowing how much money would be appropriated.

Long-range planning was virtually impossible. Capital expenditures could not always be made wisely or as part of a plan. As a result, equipment purchased from year-to-year could hardly be designed with a coherent system in mind. Maintenance was a nightmare of variety.

We were left to run, work for, and maintain a patchwork system, which seemed almost beyond raising to levels of minimal efficiency.

Under those conditions, there was little to give anyone hope, either individually or corporately. Too many people just held on from one year to the next not knowing—critics said not caring—about the future of rail passenger service.

Employees—from stations to dining cars to distant offices, from maintenance shops to commissaries—shared the haunting vision of a precarious future.

But in eight tough years, the people of Amtrak, working together, have proved something as they have crossed the threshold into a new railroad age. They proved—with a little timely help from the energy crisis—that Amtrak is a vital part of a balanced American transportation system of the future—a future which begins now.

1979 . . . A SPECIAL AMTRAK YEAR

By almost any measure, 1979 was a watershed year for Amtrak. We carried more passengers than ever before—21.4 million people, up 2.5 million from the year before. Amtrak ran just shy of 5 billion passenger miles, up 22 percent from 1978. For the first time in its history, Amtrak carried more than 2 million passengers a month for the months of June, July, and August.

Revenues reached a record high of $381.3 million, up $34.2 million above the pre-fuel crisis estimate of $347.1 million. Cost control was so improved that it cost Amtrak only $4 million to earn these additional revenues. These excellent results permitted Amtrak to increase its revenue to cost ratio from 38.3 percent in fiscal year '78 to 41.5 percent in fiscal year '79.

Substantial new equipment went into service and many cars and locomotives were renovated and upgraded. The percentage of old, decrepit and unreliable equipment, while still far too high, did decline.

During 1979, we began to build new repair and maintenance facilities and renovate old ones so Amtrak employees worked in safer, more comfortable conditions. Equipment repair was better, quicker and easier. Passengers had a better chance of a pleasant ride.

Air conditioning failures, one of the major causes of enroute failures and passenger complaints, were cut nearly in half during our peak summer season of 1979. On-time departures from Chicago, which had been influenced largely by mechanical problems, steadily grew from a low of 42.1 percent to a high of 90.8 percent.

A total of 61 new or rehabilitated stations were completed in 1979, hopefully providing increased ease and comfort at the beginning and end of rail trips. In the Northeast Corridor, between Washington and Boston, using the most modern technology of concrete ties and continuous welded rails, Amtrak is making great progress in ensuring smoother rides over the busiest section of railroad in the country.

Late in 1979, Amtrak's corporate structure was reorganized and into that new structure came people from a variety of backgrounds. But they shared with those they joined a singular vision of an exciting future for Amtrak.

For Amtrak, 1979 was also the year when many more articulate allies in local and state government made clear to all who would listen that they needed Amtrak now and wanted it in their communities' future.

Those voices were heard in Congress and we gained a substantially improved relationship. That made things happen . . . first, a vastly improved financial arrangement and then a sustainable route network.

As the decade turned, people, money, equipment and enthusiasm flowed together, creating a vibrant Amtrak mood, an exciting anticipation of the decade to come.

Amtrak employees can be optimistic about a more secure future with a passenger-pleasing railroad, getting better each month, each year.

A NEW CHARTER FROM CONGRESS

During the last 35 years, other forms of transportation have made greater demands, had stronger advocates and thus received more help.

From the end of World War II to the end of 1978, federal obligations for highways reached $102.8 billion, for air $30.6 billion, for domestic waterways $13.3 billion, for mass transit another $13.3 billion, for ocean shipping $7.4 billion, and only $5.9 billion for rail of which only $2.5 billion went to Amtrak.

The result of that disparity in support was brought to the attention of Congress in April, 1979, by Alan S. Boyd, President of Amtrak:

> "We cannot provide safe, modern, fast, convenient and reliable service—as directed by Congress—with locomotives built in the 1930s, passenger cars built in the 1940s and 1950s, trackage and roadbeds whose major characteristic is 'deferred maintenance,' stations which are falling apart, schedules which serve major markets less than daily or in the middle of the night . . . or both, routings which are circuitous, and a fleet which can never be responsive to peak demand."

The response of Congress to those hearings and to the obvious need for a totally modern American rail system at a time of energy crises was strong and clear. Congress provided Amtrak with financial continuity it had previously lacked . . . a two-year operating budget and a three-year capital commitment.

In a billion dollar commitment, the Administration made Amtrak's future bright as it guaranteed tomorrow's riders a modern fleet of comfortable cars and powerful locomotives.

> President Carter said, "Trains have always been a truly American way to travel and I am determined to improve America's railway system. I want to demonstrate that trains represent the future and not the past in transportation in America."

A NEW ROUTE SYSTEM

Amtrak can, for the first time, operate as a businesslike permanent corporation able to consider longer-range solutions to all its problems.

As it gave Amtrak the means, Congress also set standards and goals for a productive future. There was a clear standard set for both short and long-haul trains in terms of passenger miles with assurance that those routes would continue if they met the standard. "Use it or lose it" replaced more arbitrary measures.

In specific measures aimed at improving train performance and Amtrak's relationship with the operating railroads, Congress set two important goals. One was the attainment of a 55 mph average system-wide speed goal and the other was a 50 percent improvement in on-time performance. Congress further directed Amtrak to cut operating costs and improve revenues so that by 1985, revenues would represent 50 percent of operating expense. Already in 1979, we achieved a 3 percent improvement toward that goal.

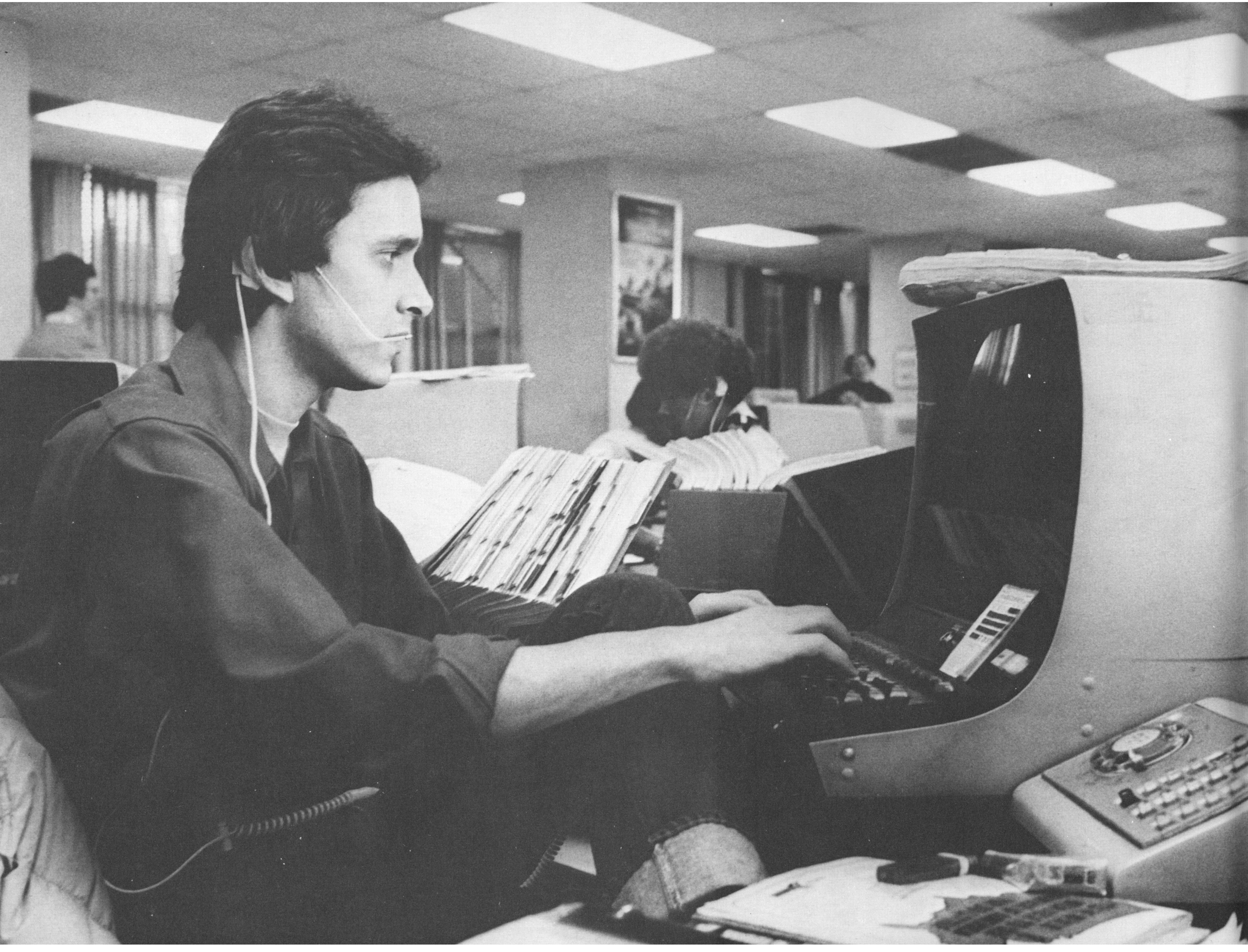
Congress in 1979 gave Amtrak more than simple guidelines and standards, as important as they are. It gave Amtrak a transfusion of hope and confidence.

Capital, budgets and goals have lent balance to Amtrak in a special way. But Congress also dealt with the complicated, emotional question of routes. In addition to the basic route system recommended by the Department of Transportation, Congress, responding to the energy crisis, gave the Amtrak Board of Directors the authority to make cost and ridership projections and to determine which additional routes should be added to the system. In so doing, they established general criteria based on average ridership and cost.

Amtrak was also given the flexibility to determine the level and quality of service, adding train frequencies where demand justified it.

The end result is a route system where some trains with high costs, low ridership and circuitous routings were dropped. Other trains, linking promising markets, were added.

For the first time in its difficult life, Amtrak has a chance now of prospering and growing from a secure base. Amtrak can claim its permanent and ever more crucial role in our national transportation system.



ARTS AND MORE

Since 1973, Amtrak's Automated Reservation and Ticketing System (ARTS) has been a revolutionary and innovative system bringing justifiable pride to those who designed and operated it. A number of its features were special but, in recent years, neither its reliability nor its capacity measured up to what was needed. During the energy crisis skyrocketing demand overwhelmed it.

Computer response which should be about two or three seconds had often grown to 15 seconds, a figure which may seem small, but which caused delays which seemed endless and required many additional personnel to handle the same amount of business. At busy times, like Friday afternoons, strained beyond its capacity, the computer would shut down. The results were predictable and inevitable: unanswered phones in the reservation centers, long lines at terminal ticket windows, unhappy passengers, and employees under intolerable pressure.

In 1980, a new and proven system will be in place at the new Amtrak computer center in Philadelphia. ARTS will be phased out as quickly as possible over the next two years. The new computer system has ten times the capacity of ARTS and will bring back a two- or three-second response time. It will provide many other management and passenger service uses, once again improving on ARTS as it supplies train status, departure and arrival time, schedule, fare and reservation information, and even tickets by mail.

Since capacity will be so increased, down-time will be minimal. To further enhance reliability, the computer center will be able to draw power from two different substations and there will be a substantial back-up system.

As Amtrak replaces 2,000 computer terminals—which deliver more for less cost—life should be easier for Amtrak passengers and employees. Clearly, Amtrak's computer capability, like its new locomotives and passenger cars, belongs to the eighties and beyond.

NEW MANAGEMENT

In an industry accustomed to think first of hardware and equipment, of new cars and locomotives, of tracks and roadbeds, management changes of a structural sort may attract little attention and emotion.

That's unfortunate. For Amtrak set out in 1979 not only to modernize the way it managed itself, but to add new people from varied backgrounds to those already working well. Their freshness added a new dimension to our vision.

A key feature of the new structure is to join responsibility and accountability in a clear and unambiguous way, not only in headquarters, but in the field. To do that, three group vice presidents were established. One group involves the direct operation of the railroad, that is the operations, mechanical, engineering and material management departments. The second group directs passenger services and communications including public affairs and government affairs. The third group provides for administration and finance, including labor relations, personnel and computer services departments. The departments of law, marketing and planning report directly to the President.

The reorganization was largely inspired by the creation of a new passenger services department, bringing together important service functions which had been spread among several different departments at different levels.

The concept is to give the needs of the passenger a voice at the top policy levels, but the most important aspect is to bring together these functions in the field under single management, assuring responsiveness and consistency of service.

The reorganization encourages more productive and satisfied employees, increased performance levels, improved passenger service. Amtrak's future now rests more clearly than before with its management and employees. Now, the quality of performance will help define the limits of our success. The better we are, the farther we will go, traveling more miles to more places with more satisfied people.


Amtrak
Superliner
4044
Coach

NEW EQUIPMENT

Given our present system of routes and frequencies, and known demand projections, Amtrak will by 1985 have a fleet of at least 2,000 cars built or rebuilt since the creation of Amtrak, hauled by a modern fleet of locomotives. Should frequencies or routes dramatically expand due to gasoline prices or availability, an even larger fleet would have to be provided. Amtrak's current planning considers such contingencies.

While half of Amtrak's equipment presently is old and outdated, 1979 was a year of great change and progress. By then, Amtrak had purchased or had on order $524 million worth of cars. America's most modern passenger rail car had come on line when Amtrak put in service 51 Superliners, a bi-level long-distance car with acoustical insulation to reduce noise and an air suspension system for smooth riding, the first in a planned fleet of 284 Superliners, including coaches, sleepers, diners and lounges.

The best of our conventional fleet is being totally rebuilt and changed to head-end power at our Beech Grove Heavy Maintenance Facility. The six train sets for the *Broadway* and *Lake Shore Ltds.* are being turned into mint condition passenger cars with those from the *Lake Shore* already in service, and the *Broadway* scheduled to change in mid-1980.

In addition, more electrified diners and sleepers will be produced for other routes.

Thirty-four Metroliners have been completely rebuilt and most of these are already in service in the Washington-New York corridor.

Congress specifically authorized Amtrak to proceed in ordering a new generation of single-level, long-distance cars —an order that could eventually reach 800 to 1,000. Specifications are being drawn up now and the order will be placed in 1980.

Finally, a new fleet of self-powered diesel cars, the SPV 2000, compatible with locomotive hauled Amfleet, will be put into service between Hartford and Springfield. This car is particularly suited to intrastate 403(b) type service which is expected to dramatically expand in the eighties.

Modern cars deserve modern electric locomotives and Amtrak is getting them, too. Forty-seven light-weight electric locomotives especially designed for high-speed corridor operation will, in coming years, replace locomotives which are almost four decades old. These locomotives are the first purchased by Amtrak which were designed specifically to haul passenger equipment. With the renovation and upgrading of others, Amtrak is rapidly increasing its number of first-rate locomotives.

The important point is that when all of the equipment that went into service in 1979 is in service for a full year, we will save, on an annual basis, many millions of dollars in maintenance.

STATE SUPPORTED SERVICE

1979 was an important year for Amtrak's association with state and local officials. Common interests came into focus as never before. Some areas feared rail service being cut off. Airline deregulation threatened other cities with a loss of their traditional means of intercity travel. Some states, willing to use their own funds for intrastate or commuter service, wanted Amtrak strong and in a position to extend, expand, or continue service. For all of these reasons, local and state officials became Amtrak's advocates and Amtrak became theirs.

The end result of this alliance was a special Congressional authorization of $23 million for the exclusive use of state-supported services.

Formerly, Amtrak and the various states in the program (currently New York, California, Illinois, Minnesota, Michigan and Pennsylvania) shared costs on a 50/50 basis, using regular Amtrak operating money.

The new program increased the Federal share to 80 percent the first year, 65 percent the second year, and 50 percent thereafter as an incentive to more states joining the program. Funds would also be available for capital purposes on a 50/50 basis.

As a result, eight new states indicated an interest in initiating such service, and all of the six states already participating applied for additional routes.

NORTHEAST CORRIDOR

Major Amtrak efforts were made in 1979 to improve corridor traffic in every dimension possible . . . from on-time performance to comfort within the cars and on the rails. It has not been easy, but by most measures the program, only in its third full work season, has been a success.

The continuing problem is how to maintain acceptable service while literally rebuilding the railroad. This has led to the temporary lengthening of some corridor schedules so the work can proceed as expeditiously as possible.

Amtrak has the only concrete tie/welded rail machinery at work in the United States. The Track Laying System (TLS), in one operation, takes out old rail and wood ties, plows away the ballast and then lays new concrete and wood ties and continuous welded rail, a system which is providing a smoother, faster ride for passengers.

That system rehabilitated 121 miles of track in 1979, including the installation of 296,000 concrete ties and 74 miles of continuous welded rail. In addition, work gangs installed 173,000 new wood ties, cleaned 55 miles of ballast, and undercut an additional 30 miles of track. Sixteen highway grade crossings were renewed, 320 miles of rail grinding was completed and 112 miles of track surfaced for high speed operation.

In the interlocking program, 10,500 ties were replaced, 20,500 lineal feet of switch timbers were installed and 21 turnouts were either renewed or rehabilitated.

The success of the Northeast Corridor Improvement Project is important to the future of Amtrak and its possible expansion into other corridors. The principle of increased speeds and frequencies, improved stations, signalling and track conditions will give a viable alternative to travel by the private automobile as proven by the fact that gasoline consumption per capita in the first six months of 1979 in NEC project states was 23 percent below the national average.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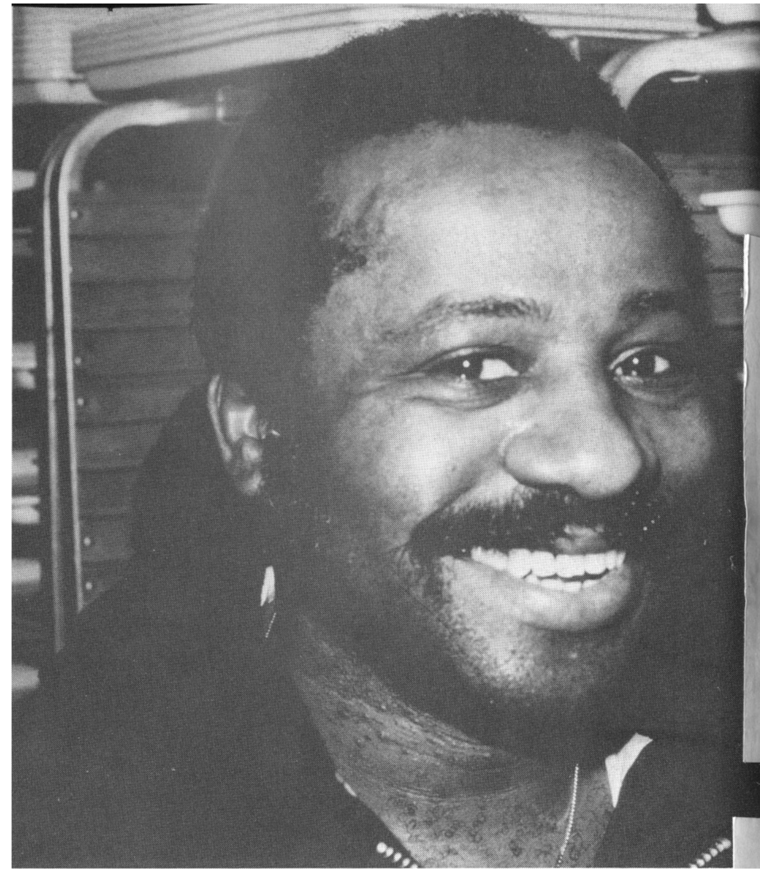
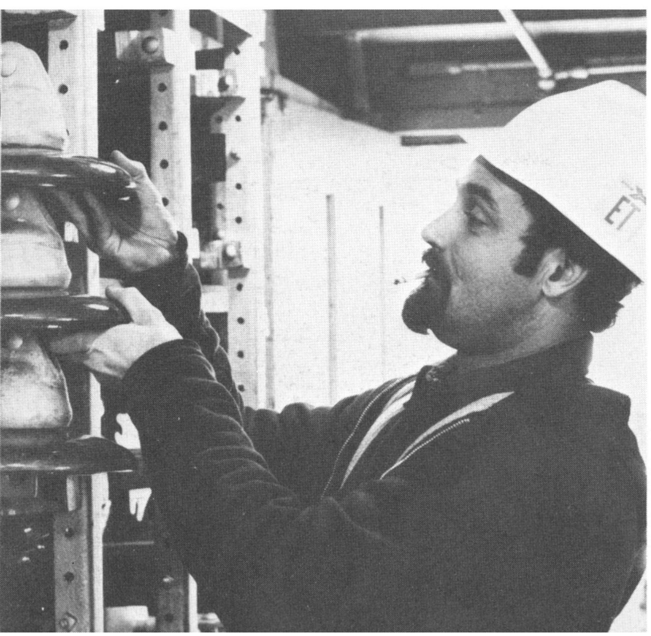
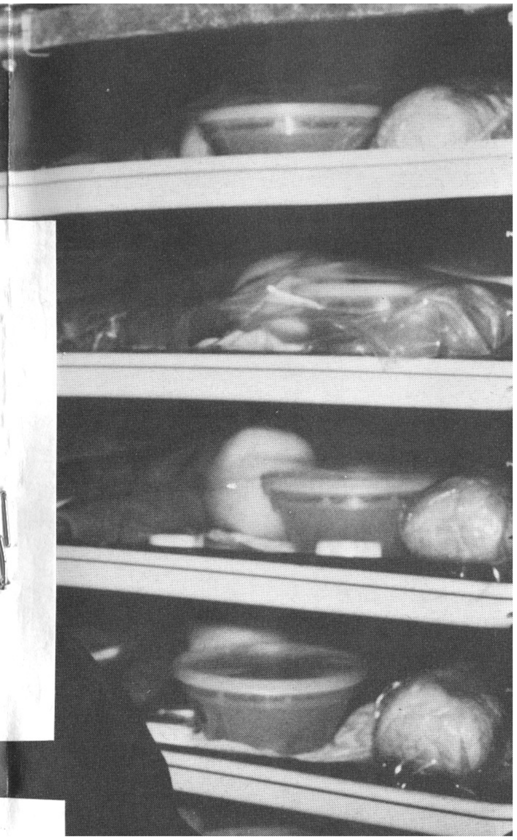
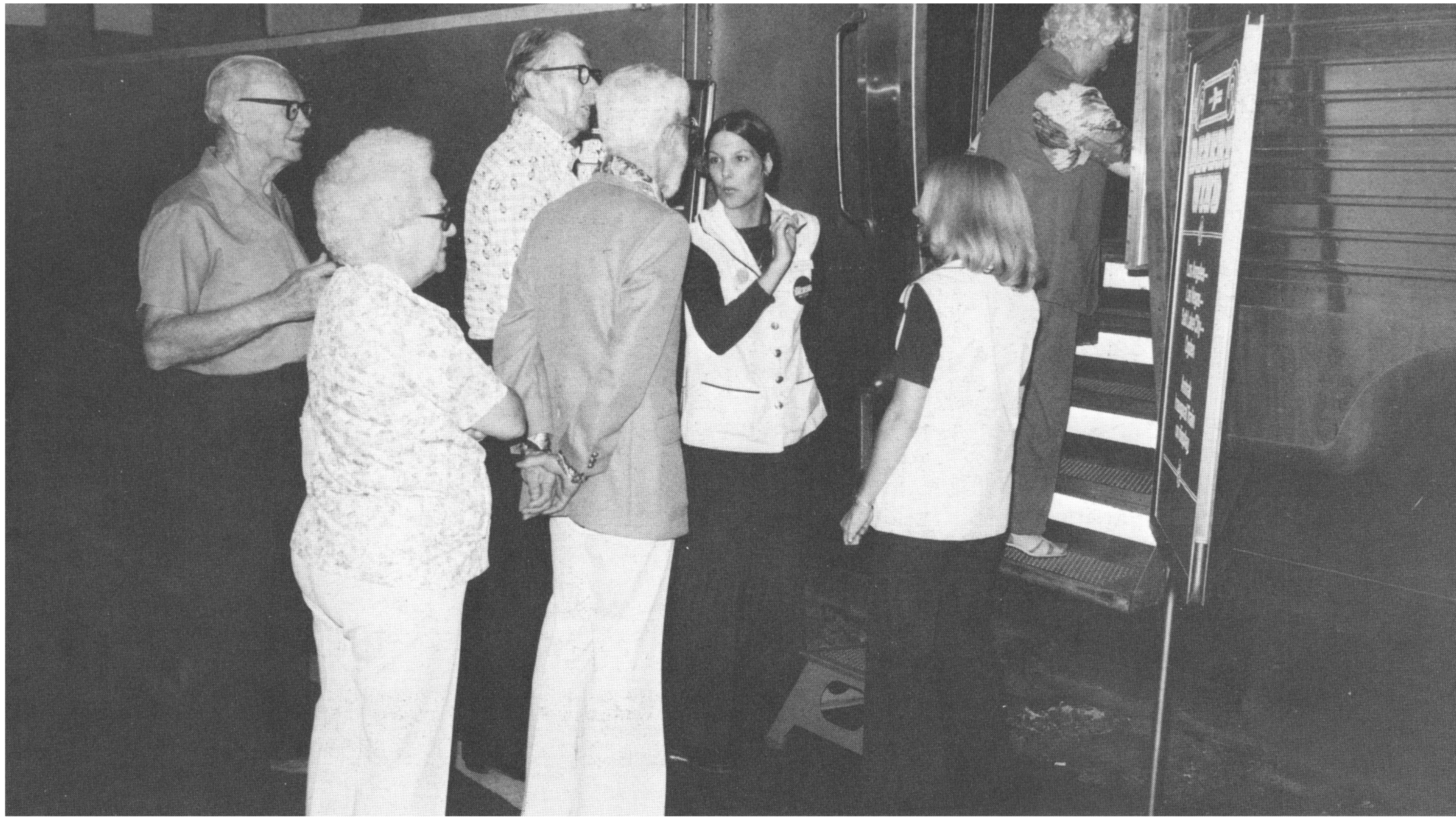








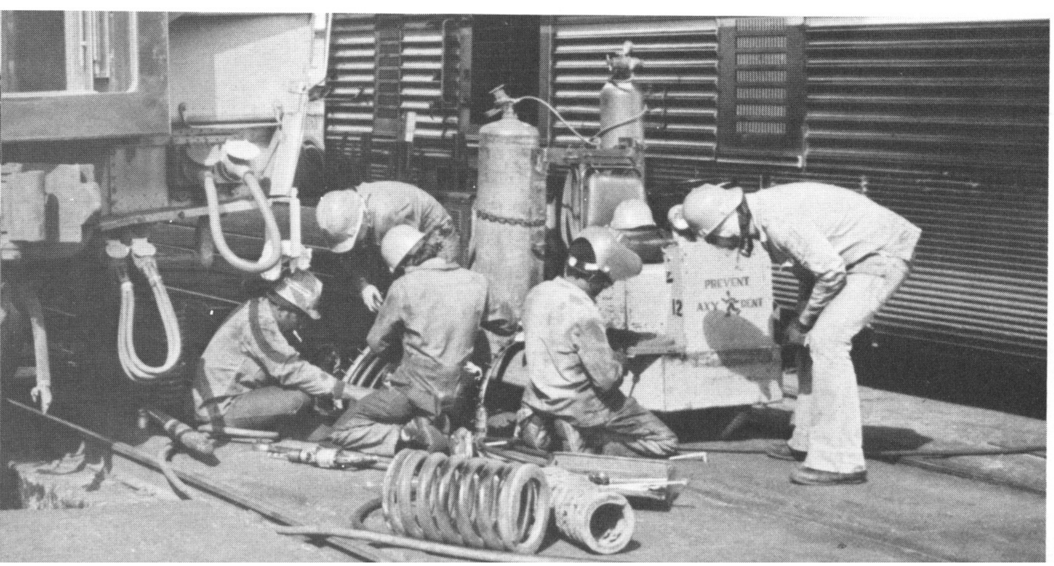

Amtrak

EMERGING CORRIDORS

What works efficiently in the corridors from Washington to Boston and from Los Angeles to San Diego may have application elsewhere.

A large portion of our future lies in expanded passenger rail service in densely populated short-haul transportation corridors. Such corridors will mean fuller benefits from track improvements, more efficient use of rolling stock and fixed facilities, more schedule options for the passenger, more riders, more revenues and a better return on investment for Amtrak. These efficiencies mean that expansion of corridor operations holds the very real prospect of significantly contributing to our efforts to meet Congressionally-mandated systemwide goals for speed, ridership and revenues.

As energy shortages and price increases become more severe, Amtrak must be ready to contribute in all possible ways to the solution to the challenges we face. Experience with existing corridor operations, and all available studies, show clearly that many people are willing and eager to leave their automobile and take the train on short trips if they can be sure the service would be reliable, timely and comfortable. Both Amtrak and the nation as a whole have an obligation to make that option a real one as soon as possible.



Thus at the direction of Congress Amtrak, with the Department of Transportation, is studying over a dozen potential high-speed, high-frequency emerging corridors outside of the northeast. They are as follows:

Chicago-Cincinnati via Indianapolis
Chicago-Cleveland
Chicago-Detroit
Chicago-Twin Cities via Milwaukee
Chicago-St. Louis
Los Angeles-San Diego
New York-Buffalo
Seattle-Portland
Los Angeles-Las Vegas
San Jose-Sacramento
Texas Triangle
(Fort Worth-Dallas-Houston-San Antonio-Fort Worth)
Atlanta-Nashville
Atlanta-Savannah
Boston-Springfield-New Haven (NEC Feeder)
Cleveland-Columbus-Cincinnati
Harrisburg-Philadelphia (NEC Feeder)
Miami-Orlando-Jacksonville
Washington-Richmond

One element of this study is the prospect of integration with commuter rail service not only in the Northeast Corridor but in other metropolitan areas that are considering the initiation of such service. Amtrak already operates a number of commuter rail services. We are currently investigating the expansion of our operations into this critically important field with its strong potential for substantial energy conservation.

ENERGY CONSERVATION

In the days when the railroad let America expand westward, no one talked of energy independence. Wood, coal and oil were there as they were needed and for more than a century, railroads were a force and a presence across this land, knitting it together as they provided mobility.

Today, few issues have so captured America's interest—indeed, been so forced on its consciousness—as has the energy crisis and its implications, not only for transportation but for all aspects of society.

From the White House to the town house to the farm house, and everywhere in between, conservation of energy resources has become a prime national concern. For Amtrak in 1979, it became a major goal.

When diesel fuel prices went from about 40¢ a gallon to nearly 90¢ a gallon (Amtrak consumes approximately 250,000 gallons a day), any savings in the amount of fuel consumed whether for heating buildings, lighting yards or fueling trains, is important. Amtrak succeeded, primarily because of superb employee cooperation, in saving more than $4 million in diesel fuel.

1979 proved that Amtrak could reduce waste and conserve energy without sacrificing quality.

WHERE WE'RE GOING

There is no question now that Amtrak at last has a clearly definable future. It is a future which to some extent is dictated by the price and supply of gasoline, but more importantly, it is a future which will be determined by Amtrak itself.

How well we operate, how good our service is, how credible we are with the public—all will serve to measure our success.

Amtrak has new support—from the cities and local areas that see new intermodal terminals as the key to downtown revitalization; from the states that want a truly balanced transportation mix serving their cities, both large and small; from the supply industry that sees new jobs and opportunities stemming from a reorganized and newly-equipped Amtrak; from present and potential consumers who see the new emphasis on service; from environmental and energy groups who are concerned about the implications of a radical change in transportation patterns; from all organized labor which views the promise of new jobs and increased productivity as a needed development; and from the Congress which sees the promise of both federal and state funds spent on a needed public service provided by a sound and businesslike corporation.

This kind of support has already given Amtrak new credibility. Our financing is no longer described in terms of operating loss and subsidization; the public is recognizing that the revenues offsetting our costs come from a rational fare policy, state contracts and a federal investment in a well-defined and needed public service.

For the first time Amtrak has the capability to plan five and ten years in advance, looking toward compatible equipment that is accessible, modern, comfortable, reliable, energy efficient and available to meet peak demands.

From Amtrak's basic national route system there is increasing emphasis on multiple frequencies between major city pairs; there is increased provision of commuter rail service to and between major metropolitan areas; there is supplemental and feeder service jointly provided by the states and Amtrak; there are cooperative arrangements with the intercity bus industry.

Amtrak is using its new support, credibility and independence to aggressively pursue a more constructive and productive relationship with the railroad industry.

As a corporation Amtrak is seeing to it that its employees will benefit from increased productivity, greater incentives, improved working conditions, an enviable safety record, exemplary minority and handicapped employment and promotion policies, and a far greater involvement in the pride, excitement and optimism that Amtrak earned in 1979.

What is now possible is that Amtrak can turn its full attention, efforts, resources and support to the most important thing of all—our passengers.

Amtrak 1979

FINANCIAL & OPERATING STATISTICS

OPERATING STATISTICS

	FY 1976	FY 1977	FY 1978	FY 1979
General				
System Route Miles .... (In thousands)	26	26	26	27
Stations Served	495	524	543	571
Train Miles Operated .... (In millions)	30.98	32.97	32.37	32.38
On-Time Performance				
Systemwide	74%	62%	62%	57%
Short-Distance	76%	66%	65%	61%
Long-Distance	69%	48%	52%	48%
Ridership				
Passengers .... (In millions)	18.2	19.2	18.9	21.4
Passenger Miles .... (In millions)	4,155	4,333	4,029	4,915
Revenue Cars				
Owned and Leased, 9/30	2,125	2,048	1,897	1,989
Operating fleet, 9/30	1,981	1,806	1,678	1,607
Out of Service, Daily Average	15.6%	17%	16.5%	16.9%
Back Shop, Daily Average	8.7%	7.3%	7.5%	8.1%
Total Average Out of Service	24.3%	24.3%	24.0%	25.0%
Average Age .... (In years)	20.3	20.4	20.5	20.3
Heavy Repair	543	369	360	260
New Deliveries	324	53	0	50
Locomotive Units				
Operating Fleet	352	330	320	331
Out of Service, Daily Average	13.7%	19.5%	18.8%	25.3%
Average Age .... (In years)	10.2	9.9	7.3	7.3
Number Rebuilt/Converted	27	26	38	22
New Deliveries	51	0	10	10
Turboliners				
Operating Fleet	11	13	13	13
Out of Service, Daily Average	8.3%	10.8%	11.2%	12.6%
Average Age .... (In years)	0.9	1.7	2.7	3.7
New Deliveries	5	2	0	0
Metroliners				
Operating Fleet	61	61	61	58
Out of Service, Daily Average	27.6%	28.4%	*42.1%	*64.3%
Average Age .... (In years)	10.0	11.0	12.0	13.0
Heavy Repair/Upgraded	2	5	0	19

*Includes Metroliners undergoing upgrade program at Erie, Pennsylvania.

NATIONAL RAILROAD PASSENGER CORPORATION

BALANCE SHEET

September 30, 1979 and 1978

Assets

	1979	1978
	(Thousands of dollars)	
Current assets:		
Cash	$ 8,474	$ 5,639
Receivables—		
Conrail and other railroads (Note 7)	36,217	57,295
Other	50,341	44,911
Federal labor protection grant (Note 10)	20,000	—
Materials and supplies, at average cost	62,791	64,601
	177,823	172,446
Property and equipment (Notes 1, 3, 4, 6, and 10):		
Passenger cars and locomotives	967,107	858,510
Northeast Corridor	540,038	353,066
Other	53,363	51,707
	1,560,508	1,263,283
Less—Accumulated depreciation and amortization	(125,680)	(85,843)
	1,434,828	1,177,440
Other assets:		
Long-term budget advances to railroads	26,009	8,459
Federal labor protection grant receivable (Note 10)	66,000	—
Other	5,935	2,277
	97,944	10,736
Total assets	$1,710,595	$1,360,622

Liabilities and Capitalization

	1979	1978
	(Thousands of dollars)	
Current liabilities:		
Due to banks—		
Notes (Note 9)	$ —	$ 29,000
Other	24,564	14,969
Current portion of long-term obligations (Notes 4, 6 and 10)	40,436	21,778
Accounts payable	71,758	43,728
Railroad accounts payable (Note 1)	59,972	38,817
Accrued expenses	89,886	89,184
	286,616	237,476
Long-term obligations (Notes 3, 4, 6 and 10):		
Notes payable, 10.4% to 11.4% in 1979	374,000	472,184
Equipment obligations	94,975	102,537
Mortgage notes payable	485,302	289,387
Labor protection payments	98,935	35,060
	1,053,212	899,168
Total liabilities	1,339,828	1,136,644
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	560,981	401,044
Railroad capital payments	108,938	102,263
Accumulated operating losses before Federal operating grants	(3,106,954)	(2,487,131)
Less—Federal operating grants	2,713,945	2,113,945
	(393,009)	(373,186)
Total capitalization	370,767	223,978
Total liabilities and capitalization	$1,710,595	$1,360,622

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

Statement of OPERATING LOSS BEFORE FEDERAL OPERATING GRANTS

For the years ended September 30, 1979 and 1978

	1979	1978
	(Thousands of dollars)	
Operating revenues (Note 1)	$ 381,289	$ 313,002
Operating expenses:		
Train operations	271,720	226,780
Maintenance of equipment	270,567	238,352
Maintenance of way	71,686	60,530
On-board services	103,988	89,395
Stations	60,293	68,448
Marketing and reservations	57,942	45,413
General support	38,714	41,229
Taxes and insurance	28,127	32,181
Depreciation and amortization (Note 3)	48,519	39,183
Total operating expenses	951,556	841,511
General and administrative expense	15,209	15,087
Interest expense	38,801	38,102
Capitalized interest on advances for equipment in production (Note 1)	(7,429)	(4,441)
	998,137	890,259
Operating loss before Federal operating grants, Northeast Corridor interest and labor protection payments	(616,848)	(577,257)
Northeast Corridor interest (Note 6)	2,975	4,395
Provision for labor protection payments (Note 10)	86,000	—
Federal grants accrued for labor protection payments (Note 10)	(86,000)	—
Operating loss before Federal operating grants (Note 2)	$ (619,823)	$ (581,652)

Statement of ACCUMULATED OPERATING LOSSES AND FEDERAL OPERATING GRANTS

For the years ended September 30, 1979 and 1978

(Thousands of dollars)

	Accumulated operating losses before Federal operating grants	Federal operating grants (Note 2)	Net
Balance October 1, 1977	$(1,905,479)	$1,577,945	$(327,534)
Fiscal year 1978 operating loss and Federal operating grants	(581,652)	536,000	(45,652)
Balance September 30, 1978	(2,487,131)	2,113,945	(373,186)
Fiscal year 1979 operating loss and Federal operating grants	(619,823)	600,000	(19,823)
Balance September 30, 1979	$(3,106,954)	$2,713,945	$(393,009)

The accompanying notes are an integral part of these statements.

NOTES FOLLOW

NATIONAL RAILROAD PASSENGER CORPORATION

Statement of CHANGES IN FINANCIAL POSITION

For the years ended September 30, 1979 and 1978

	1979	1978
	(Thousands of dollars)	
Uses of funds:		
Operating loss before Federal operating grants	$ 619,823	$ 581,652
Depreciation and amortization (Note 3)	(48,519)	(39,183)
Total cash used for operations	571,304	542,469
Northeast Corridor Improvement Project (Note 6)	186,972	160,190
Other purchases and refurbishments of property	118,935	112,919
Payment of equipment obligations (Note 4)	7,562	41,901
Payment of notes payable (Note 3)	127,184	20,444
Increase in receivables	4,352	55,421
Increase in long-term portion of labor protection grant receivable (Note 10)	66,000	—
Increase in long-term advances to railroads	17,550	557
Increase in other assets	1,848	4,398
Total uses of funds	1,101,707	938,299
Sources of funds:		
Federal grants (Note 2)	759,937	695,910
Note due to bank (Note 9)	—	8,940
Mortgage notes payable (Note 6)	195,915	157,193
Increase (decrease) in long-term portion of labor protection obligations (Note 10)	63,875	(4,020)
Increase in railroad capital payments	6,675	—
Increase in accounts payable, accrued expenses and other liabilities	78,140	55,978
Equipment obligations	—	24,429
Total sources of funds	1,104,542	938,430
Increase in cash	$ 2,835	$ 131

The accompanying notes are an integral part of this statement.

NATIONAL RAILROAD PASSENGER CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 1979 and 1978

(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, 1979 and 1978 accrued estimated recoveries for proposed adjustments were $7,369,000 and $7,514,000, respectively.

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 the selling price ($2,540,000 in 1979 and $1,256,000 in 1978).

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 capitalize 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 1979 and 1978 were:

	1979	1978
	(In Thousands)	
For operating losses	$ 600,000	$ 536,000
For capital acquisitions and improvements	159,937	159,910
	$ 759,937	$ 695,910

Fiscal 1980 Federal operating grant funds of $650,400,000 and Federal capital grant funds, including labor protection grant funds, of $223,000,000 were appropriated on November 30, 1979. Operations during October and November were supported by a Federal Government continuing resolution. As more fully discussed in Note 10, the Corporation has accrued in 1979 certain Federal grants relative to labor protection payments.

(3) Property and Equipment and Related Obligations—

At September 30, 1979 the Corporation had authority to borrow, under notes payable to the Federal Financing Bank, or enter into lease obligations for equipment and other capital purposes up to $850,000,000 with such obligations being guaranteed by the United States Government. This authorization has been provided to finance the Corporation's capital program (together with the capital grants discussed above). Substantial commitments have been made to acquire the property and equipment included in the program. 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 obligations 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, 1980. See Note 6 for information concerning the mortgage notes payable.

Property and equipment are stated at cost. Property and equipment are depreciated using the composite straight-line method over their estimated useful lives, except for the track structure, which is not depreciated. Upon disposition, the net cost of depreciated property retired or replaced is charged to accumulated depreciation and no gain or loss is recognized. 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 additional information on capital lease arrangements.

Included as part of the capital program is financing for a contract signed in 1975 with the Pullman Standard Division of Pullman Incorporated for the design and manufacture of the Superliners. Fifty-one of the 284 cars were delivered as of September 30. In recent discussions with the Corporation, Pullman has asserted generally that extensive design changes have substantially contributed to an increase in the time and cost of performance. Pullman's engineering consultants are completing their analysis of this matter. Until Pullman is able to substantiate its assertion, the Corporation will not be able to evaluate what effect, if any, these design changes might have on their capital program and the costs recorded to date or ultimately to be experienced under the contract.

(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 expiring in 1988 through 1991. At September 30, 1979, 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)
1980	$ 10,724
1981	10,358
1982	9,795
1983	9,784
1984	9,295
Later years	63,062
	113,018
Less amount representing interest	32,051
Present value of minimum lease payments at September 30, 1979	$ 80,967

The present value of minimum lease payments is reflected in the balance sheet as current and long-term equipment obligations of $5,849,000 and $75,118,000, respectively. Also included in the current and long-term equipment obligations are liabilities for equipment held under a conditional sales agreement ($1,656,000 current and $19,857,000 long-term).

Operating Leases—

At September 30, 1979 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)
1980	$ 9,898
1981	9,151
1982	7,067
1983	6,268
1984	3,792
Later years	15,657
	$51,833

Rent expense for the years ended September 30, 1979 and 1978 was $22,885,000 and $21,347,000, respectively.

(5) Pension Plan—

The Corporation has a fully funded defined benefit noncontributory retirement plan covering nonunion employees. Provisions for pension costs were $1,260,000 in 1979 and $1,949,000 in 1978.

(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 ranges from 7½% to 10% depending upon triple A industrial bond rates and is to be funded from the appropriation described below. As of September 30, 1979, the mortgage note payable to Conrail has been reduced to $10,-796,000.

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 purchase price is subject to adjustment by a special court, but the Federal Government would fund any additional cost. In addition, a total of $1,770,000,000 has been authorized to be appropriated for the improvement of the properties. 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.

As of September 30, 1979 and 1978, the Corporation has capitalized $411,175,000 and $224,203,000 for improvements to the Northeast Corridor including $177,855,000 and $95,175,000, respectively, 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, equipment maintenance and management agreements and arrangements with Conrail. Certain of the agreements are subject to negotiation of permanent agreements retroactive to April 1, 1976.

Negotiation of the permanent management agreement has been completed. No significant change is anticipated in the interim equipment maintenance agreements. Negotiations are continuing on the interim freight and commuter operating agreements and other arrangements, but progress has been limited, and it may be necessary to submit the freight and commuter operating agreement issues to arbitration.

Resolution of the issues has both retroactive and prospective significance. Retroactively, the maximum difference between the opposing positions could approximate $171,000,000 for the three and one-half year period. Prospectively, the range of the opposing positions may involve a difference of approximately $50,000,000 annually in current dollars.

Management has followed the policy under these interim agreements and arrangements of recording all costs having reasonable probability of recovery in final settlement. It is the opinion of management that the most probable outcome of the negotiations will not increase the costs recorded under the interim agreements and arrangements.

(8) Pending Litigation—

In the normal course of business, the Corporation is involved in various matters involving litigation and arbitration. 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, 1979, the Corporation had a line of credit agreement, expiring in March 1980, with a commercial bank 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.

(10) Route Restructure and Labor Protection Payments—

Pursuant to recent legislation, certain routes were discontinued effective October 1, 1979. In connection with this action, the Corporation became liable, subject to certain conditions, for salary and benefit payments to employees who were terminated due to the discontinuation of trains along these routes. This liability can extend for up to six years while an eligible employee remains unemployed or underemployed.

Assuming that the average terminated employee remains eligible for approximately four years, it is estimated that the total cost over the six-year period will be approximately $86,000,000. Management estimates that payments of approximately $20,000,000 will be made during fiscal year 1980. The U.S. Government has authorized $62,000,000 and appropriated $20,000,000 specifically for this purpose and is expected to authorize and appropriate sufficient amounts for each of the remaining five years. Provision has been made for the full estimated cost with an offsetting accrual for Federal grants.

In addition, Title V of the Regional Rail Reorganization Act of 1973, as amended, provides for protective payments to qualified employees of the railroads in reorganization and other transferors consisting generally of monthly displacement allowances, termination and separation allowances and relocation expense benefits until such employees attain age 65. The Act provides a fund, administered by the Railroad Retirement Board (RRB), to reimburse the cost of these protective payments.

In connection with the 1976 acquisition of the Northeast Corridor properties (see Note 6), the Corporation assumed responsibility for Title V payments to certain eligible employees. In 1978 and prior financial statements, the current year obligations and reimbursements were accounted for as a net recovery of a current payment. In 1979, the Corporation concluded that it is responsible for these payments notwithstanding the availability of funding through the RRB, although management believes that payments will continue to be reimbursed through the RRB. This assumed obligation, estimated for the full term to be $42,497,000, has been restated back to April 1, 1976 as a cost of the properties, with reimbursement being included as a Federal capital grant.

For the period April 1, 1976 to September 30, 1979 the Corporation has paid approximately $7,000,000 and has been reimbursed the same amount by the RRB.

REPORT OF INDEPENDENT ACCOUNTANTS

ARTHUR ANDERSEN & CO.
WASHINGTON, D. C.

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, 1979 and 1978, 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 examinations were 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 entered into interim agreements and arrangements with Consolidated Rail Corporation covering operations, equipment maintenance, and management of the Northeast Corridor properties. Certain of the agreements are subject to negotiation of permanent agreements retroactive to April 1, 1976. Based on the progress of the negotiations 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 arrangements. However, the ultimate outcome of the negotiations is uncertain at this time.

In our opinion, subject to the effect of the matter referred to in the preceding paragraph, the financial statements referred to above present fairly the financial position of National Railroad Passenger Corporation as of September 30, 1979 and 1978, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

December 12, 1979

BOARD OF DIRECTORS

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Charles Luna, *Vice Chairman*

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Alan S. Boyd *(ex officio)*

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Mary Head (c)

S. Lee Kling

Thomas J. Lamphier (s)

Jervis Langdon, Jr. (s)

James R. Mills

Ronald G. Nathan

Frank H. Neel (c)

William J. Quinn (s)

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c Consumer Representative

s Stockholder Representative

BOARD COMMITTEES

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Mary Head
Thomas J. Lamphier

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Neil E. Goldschmidt (or alternate)
S. Lee Kling
Thomas J. Lamphier
James R. Mills

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Frank H. Neel

Legal Affairs

William J. Quinn, *Chairman*
Harry T. Edwards
Ronald G. Nathan

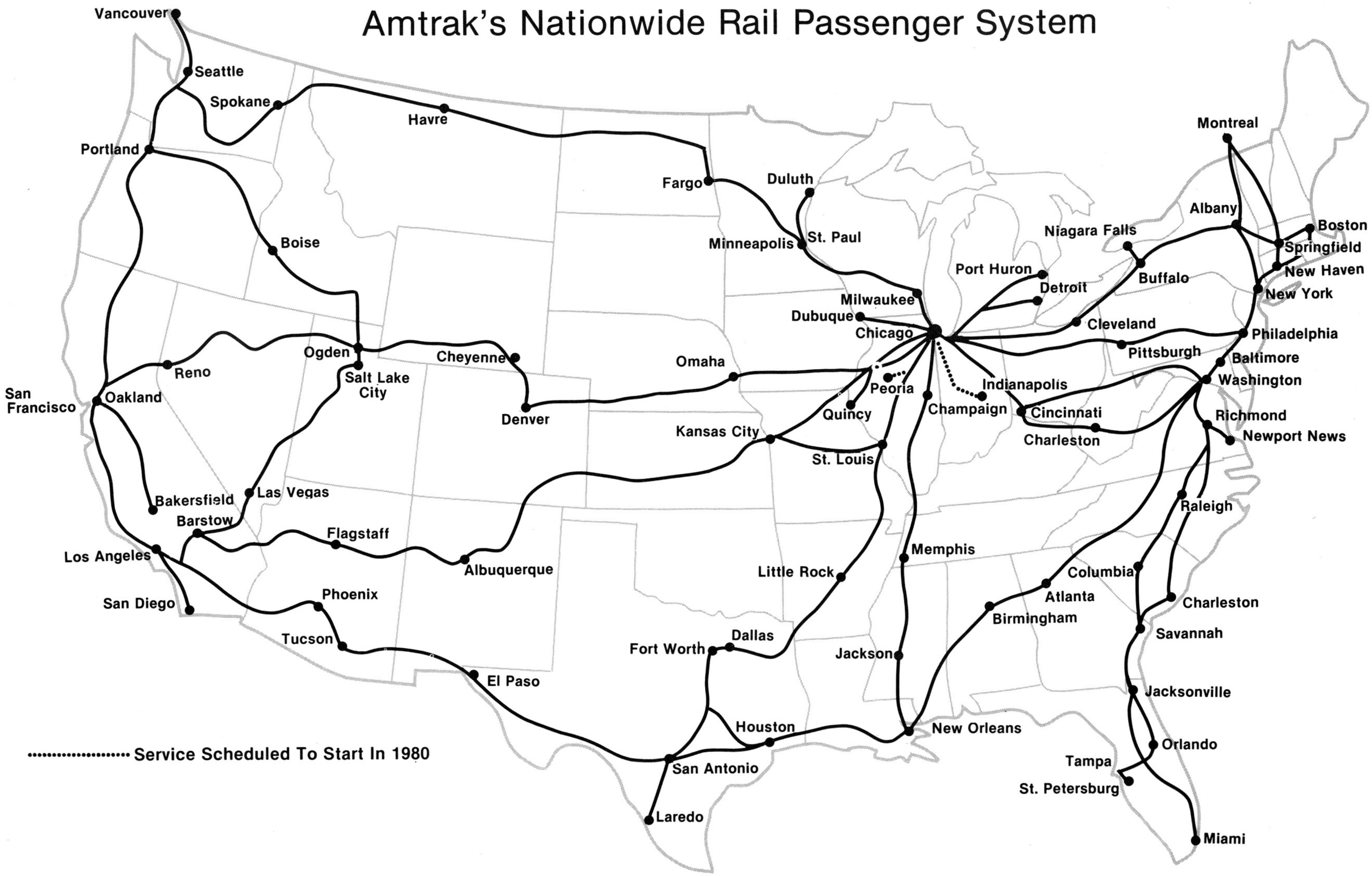
(As of February 15, 1980)

*CORPORATE OFFICERS**

- **President & Chief Executive Officer** — Alan S. Boyd
  - **Vice President & General Counsel** — Paul F. Mickey
  - **Vice President Corporate Planning** — William N. Daly
  - **Vice President Marketing** — William S. Norman
  - **Corporate Secretary** — Elyse G. Wander
  - **Group Vice President Operations & Maintenance** — Thomas P. Hackney
    - **Vice President Operations** — Robert A. Herman
    - **Vice President & Chief Engineer** — Robert F. Lawson
    - **Vice President & Chief Mechanical Officer** — Frank D. Abate
  - **Group Vice President Passenger Services & Communications** — M.L. Clark Tyler
    - **Vice President Government Affairs** — Lawrence D. Gilson
    - **Vice President Public Affairs** — Carole Foryst
    - **Vice President Passenger Services** — John V. Lombardi
  - **Group Vice President Finance & Administration** — Robert T. Eckenrode
    - **Vice President Labor Relations & Personnel** — George F. Daniels
    - **Vice President Computer Services** — Robert W. Hyer
    - **Vice President Finance & Treasurer** — Don R. Brazier

*In addition to the above, Corporate Officers also include **Melvin H. Baker,** Controller; and **Alex T. Langston** and **Barbara J. Willman,** Assistant Secretaries.

Amtrak's Nationwide Rail Passenger System



(As of February 15, 1980)

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