# NATIONAL RAILROAD PASSENGER CORPORATION
# ANNUAL REPORT 1989



Amtrak®

# Five-Year Comparison of Amtrak's Performance

| | 1989 | 1988 | 1987 | 1986 | 1985 |
|---|---|---|---|---|---|
| Revenues (millions) | **$1,269.1** | $1,106.7 | $ 973.5 | $ 861.4 | $ 825.8 |
| Expenses (millions) | **$1,934.5** | $1,757.1 | $1,672.0 | $1,563.6 | $1,600.1 |
| Revenue-to-Expense Ratio | **.72** | .69 | .65 | .62 | .58 |
| Revenue-to-Short-Term-Avoidable Cost Ratio* | **1.20** | 1.15 | 1.03 | .96 | .86 |
| Revenue-to-Long-Term-Avoidable Cost Ratio** | **.91** | .90 | .79 | .78 | .71 |
| Passenger Miles (millions)*** | **5,859** | 5,678 | 5,221 | 5,013 | 4,825 |
| Passenger Miles Per Train-Mile*** | **188.4** | 188.3 | 176.8 | 172.2 | 159.0 |
| Ridership (millions) | | | | | |
| System | **21.4** | 21.5 | 20.4 | 20.3 | 20.8 |
| Contract Commuter | **17.4** | 15.4 | 10.2**** | .656 | .587 |
| Systemwide On-Time Performance | **75%** | 71% | 74% | 74% | 81% |

* Short-term avoidable costs—Costs of activities that would stop with the discontinuance of a route or train, or begin with the introduction of a new route or train. Such costs include train and engine crews, fuel and power, and maintenance of way.

** Long-term avoidable costs—All short-term avoidable costs, plus claims expenses, heavy maintenance and a portion of corporate and field overhead.

*** Contract commuter passengers not included.

**** Effective January 1, 1987, Amtrak began providing commuter service under contract to the Massachusetts Bay Transportation Authority.

Amtrak, the nation's passenger railroad, is experiencing the most financially successful and exciting period in its nineteen year existence. Revenue performance has been outstanding and the prospects for continued revenue and passenger growth are strong. The nation is witnessing a resurgence in demand for rail passenger service as an energy-efficient, environmentally-benign alternative to congested highways and airports. Amtrak is ready to meet the challenge of a new decade and century beyond and to develop the full potential for intercity rail passenger service in this nation.

# President's Letter

October 30, 1990, will mark the twentieth anniversary of the passage of the Rail Passenger Service Act, the statute that led to the creation of the National Railroad Passenger Corporation, better known as Amtrak. Those years have witnessed a remarkable resurgence in demand and support for rail passenger service in this country. At the same time, Amtrak has succeeded in making a dramatic improvement in the economics of operating its trains and today is one of the most efficient passenger railroads in the world.

As this Annual Report describes, this past year, Fiscal Year 1989, was an outstanding year. Amtrak earned a record $1.27 billion in revenues, more than double our revenues of just eight years ago. This enabled Amtrak to cover 72 percent of its operating costs from its own sources, a vast improvement over the 48 percent of costs covered in 1981. We are extremely proud of this achievement. Indeed, Amtrak has come to be recognized as one of the most reliable and efficient passenger transportation providers in this nation.

Despite a continuing and serious shortage of passenger equipment, we were able to make better use of our passenger car fleet to expand service on several routes and initiate several new trains. Revenue from our Northeast Corridor trains increased more than 15 percent, spurred in part by Amtrak's move to the spectacularly restored Washington Union Station. Systemwide passenger miles—the most accurate measurement of the volume of passenger travel on Amtrak—reached an all-time record of 5.86 billion. This remarkable growth in passenger miles has come at a time when Amtrak has essentially outstripped the capacity of its equipment to carry additional passengers on many of its routes. Indeed, we are turning away hundreds of thousands of potential passengers.

Our equipment shortage, particularly sleeping cars and locomotives, is an issue that must be addressed if we are to continue to improve financially. Amtrak is seeking both private and public funds with which to finance the equipment we need to meet the existing and future demand for Amtrak service during the next decade and century beyond. Our private financing this past year of 104 new short-distance coaches—Amtrak's first major acquisition of cars without federal assistance—reflects positively on the confidence of the private sector in Amtrak and the future of rail passenger service in this country.

Amtrak is committed to continuing its efforts to enhance service while decreasing its need for federal financial support. Indeed, with adequate capital support and several critical changes in the law to reduce our operating costs, it is now Amtrak's specific objective to cover 100 percent of its operating costs by the year 2000. This is an ambitious goal, one thought impossible several years ago, but we believe that it is achievable and we are committed to it.

After nearly 20 years of hard work to preserve, rebuild, and improve a national rail passenger system, we must now look to the coming decade and century beyond and ask: where is Amtrak going and how can it provide the best possible service to the traveling public? With our struggle for basic corporate survival largely behind us, we envision a future where Amtrak plays an even more important role in the national transportation system.

First, I believe that Amtrak can be the primary public transportation carrier in high-density corridors such as Washington to New York; New York to Boston; San Diego to Los Angeles; Chicago to Milwaukee; and numerous others. We already carry more passengers between cities on the Washington-New York corridor than all the airlines combined,

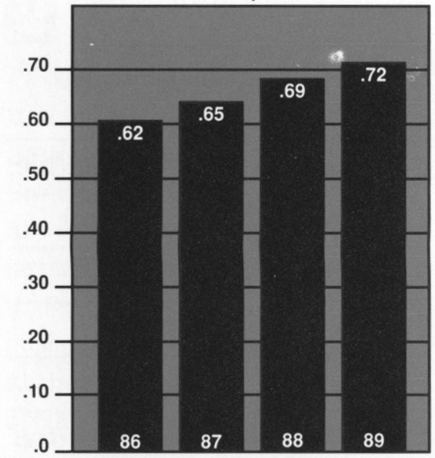
*The Management Committee: (clockwise, lower center) W. Graham Claytor, Jr., President and Chairman; Dennis F. Sullivan, Executive Vice President and Chief Operating Officer; Harold R. Henderson, Vice President-Law; Charles W. Hayward, Vice President-Finance and Administration; and William S. Norman, Executive Vice President.*

and the addition in October 1989 of three new non-stop Express Metroliner Service trains on the corridor should boost our share of the important business market even more.

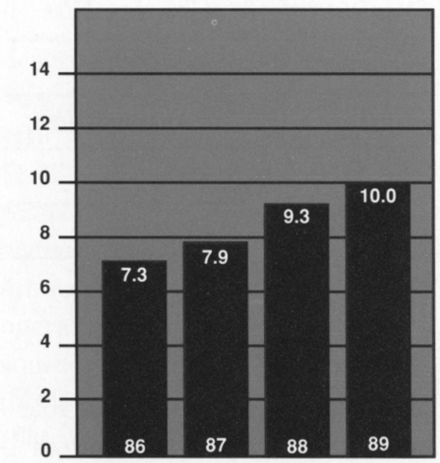
This same potential exists in other high-density corridors as well. Unlike the air passenger system, which is constrained by lack of airport capacity, there is still considerable existing capacity on rail lines for additional service. Amtrak's success has proven that many passengers prefer rail travel. In some corridors, such as between New York and Boston, further growth will require significant improvement of the railroad infrastructure, but faster, more reliable rail passenger service will contribute to reducing highway and airport congestion at a fraction of the cost of new roads or multi-billion-dollar airports.

Second, with additional long-distance equipment, Amtrak can play an even more important role in the long-haul markets. Amtrak today provides the only public transportation alternative to many small and rural communities, and this role is likely to increase as airline and bus companies continue to pull out of the rural market. Additional equipment also will provide the opportunity to initiate new service on routes we do not presently serve as the cost of new service becomes economically justified.

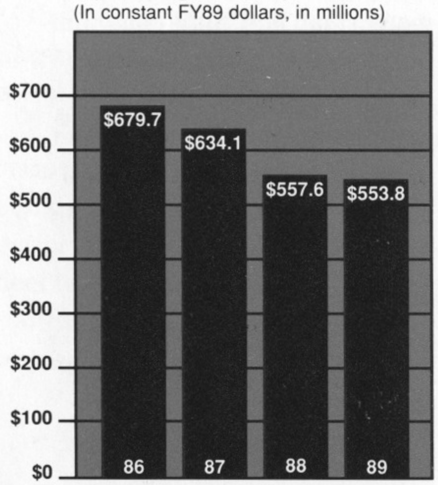
Revenue-to-Expense Ratio




Passenger Miles per Dollar of Federal Support
(In constant FY89 dollars)



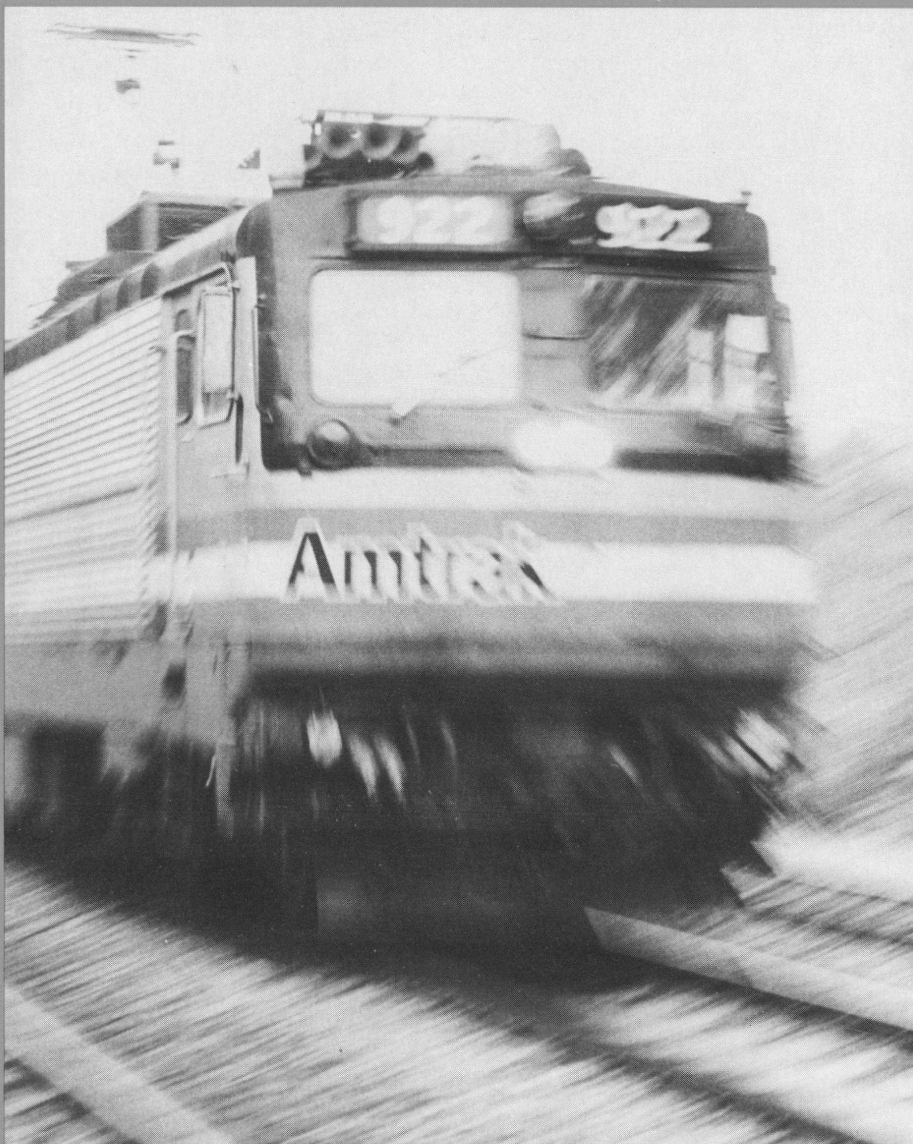

Operating Subsidy
(In constant FY89 dollars, in millions)




Third, we want to expand Amtrak's successful contract operation of state or regionally supported commuter rail systems. Amtrak already operates under contract several commuter rail systems, including Boston's large MBTA commuter service, and we believe that this business will grow significantly as communities seek to reduce the highway commuter congestion that is clogging travel to our major cities. Amtrak is the nation's expert in this area, with the efficiencies of a national organization and nearly 20 years of experience behind it. We are eager to obtain contracts to operate every new commuter rail system that comes on line, as well as compete to operate existing systems.

Finally, Amtrak is the logical operator of new ultra high-speed rail systems that may develop in the future between major population centers. Amtrak operates the fastest trains in the United States along the Northeast Corridor at speeds of 125 miles per hour, and we have some of the most skilled and dedicated railroad mechanical and operating employees in the industry, with special experience in the unique and demanding needs of passenger equipment. In addition, Amtrak has developed the world's most sophisticated reservations and train information system. We believe there is a bright future for new transportation systems in this country based on magnetic levitation or other more conventionally designed high-speed systems, though their cost likely will limit their applicability to select transportation corridors. I further believe that speeds considerably in excess of 125 miles per hour could be achieved on portions of our Northeast Corridor with significant infrastructure improvements. Amtrak is ready to apply its collective knowledge and experience to both furthering the development of new high-speed transportation systems and to actually operating them.

This is the Amtrak I believe the public wants and expects for the next decade and the century beyond—a future of enhanced service at less and less cost to the federal government—and we look forward to meeting that challenge. Amtrak has completed a rather successful, if at times stormy, adolescence and now has come of age. We have made a strong case for the rail passenger service alternative—economically, environmentally, and in terms of market demand. As noted, however, our national




*Metroliner Service is the only high speed rail service in North America. Traveling at 125 miles per hour, Metroliner Service trains wisk passengers between down-town Washington and mid-town Manhattan in as little as two hours and 37 minutes.*

impact and our continued success at improving ridership and initiating new services will be limited without the acquisition of new passenger equipment and capital funds to modernize our facilities. With support from the private financial sector, as well as continuing federal capital assistance, we can address these needs and expand the high quality of service Amtrak's passengers have come to expect.

*Amtrak is ready to apply its collective knowledge and experience to both furthering the development of new high-speed transportation systems and to actually operating them.*

W. Graham Claytor, Jr.

W. Graham Claytor, Jr.
December 1989

# A Record Year

Fiscal Year (FY) 1989 was an outstanding year for Amtrak in nearly every way. The nation's passenger railroad set new records for revenues and passenger miles; improved the on-time performance of its trains; initiated new service to several cities; successfully financed 104 new short-distance coaches with funds raised entirely in the private market; and reduced its need for federal operating support to the lowest level (in constant dollars) since 1974.

More intercity and commuter passengers traveled longer distances over Amtrak's route system than ever before. Total ridership rose to 38.8 million passengers—21.4 million intercity and 17.4 million contract commuter—enabling Amtrak to earn a record $1.27 billion in revenues during FY 1989, an increase of 14.7 percent over last year's record revenues. In terms of ticket sales revenue, Amtrak today ranks as one of the nation's largest passenger transportation companies and the outlook for continued growth is strong.

Intercity passengers traveled 5.86 billion miles along Amtrak's 24,000-mile route system. Since 1982, this represents an increase of 49 percent for Amtrak's long-distance trains, 37 percent for Northeast Corridor trains, and 12 percent for non-Northeast Corridor short-distance trains—an overall increase of nearly 40 percent. These are significant and important increases, because during this period the size of Amtrak's fleet of passenger cars essentially remained the same. In addition, ticket fares have increased substantially in recent years, particularly relative to the reduced air ticket fares that followed airline deregulation. Thus, the growth in passenger miles is the result of better and more efficient utilization of equipment and growing demand from the traveling public for rail passenger service. Actual intercity ridership of 21.4 million passengers was 6/10ths of one percent below last year's level, due to deliberate efforts by Amtrak to boost revenues and

*Families find distinct advantages in train travel: quality time together in a relaxing, fun, educational environment.*

passenger miles on its reserved trains by accommodating longer-distance, higher-revenue passengers over shorter-distance riders.

Amtrak's Northeast Corridor service generated a significant 15 percent increase in revenue and, for the second consecutive year, Amtrak carried more passengers between Washington and New York than any single airline. Indeed, more passengers traveled by Amtrak between the cities on the Washington-New York segment of the Northeast Corridor than on all the airlines combined. Ridership on Amtrak's premier Metroliner Service trains grew an impressive 8.5 percent. The beautiful restoration of Amtrak's Washington Union Station, completed last year and including a new passenger station and a highly successful retail mall, has itself stimulated an estimated 8 percent increase in ridership to and from the nation's capital and as much as a $10 million increase in revenues. Revenue also increased along the San Diego-Los Angeles corridor, where Amtrak now operates eight daily round trips, and along the ***San Joaquin*** route between Bakersfield and Oakland, California, where a third state-supported train was added in December 1989.

The growth in Amtrak revenues in recent years, both in actual dollars and as a percentage, has far exceeded rising costs.


*Travelers must reserve weeks or months in advance to secure first-class space in a limited sleeping car fleet.*

Between 1985 and 1989, revenues increased by 54 percent—$826 million to $1.27 billion—compared to just 21 percent for expenses—$1.60 billion to $1.93 billion. During FY 1989, however, rising costs actually exceeded increased revenues by some $15 million, a situation that Amtrak management is committed to avoiding in the future as the Corporation works toward its goal of achieving a 100 percent revenue-to-cost ratio. A major factor was the escalation far in excess of inflation in the cost of employee health and benefit programs. Annual health and benefit costs, which now amount to nearly $14,000 per employee, have increased 39 percent during this same period. Rising costs are a central issue in the negotiations for new labor agreements now underway between Amtrak and its labor organizations. Amtrak's ability to control costs in coming years will depend greatly on tying future increases in wages and benefits to improvements in employee productivity and the elimination of remaining outmoded and inefficient work rules, a major Amtrak objective in pending labor negotiations.

Indicative of the growing respect for Amtrak's dramatic financial improvement was the naming of Amtrak President W. Graham Claytor, Jr., as the "Railroader of the Year" by *Modern Railroads* magazine, only the second time in the history of the magazine that the award has gone to the head of a passenger railroad. Graham Claytor also received the "1989 Right Hand Man Award" given annually at the Cooperstown Railroad Conference by the Eastern General Managers Association to the railroad executive who has made the greatest contribution to the railroad industry.

# Making the Most from What We Have

In many ways, Amtrak is becoming the victim of its own success. Demand for Amtrak service in many markets far exceeds Amtrak's limited capacity to provide it. Amtrak's long-distance trains, historically sold out only during peak vacation periods, are now selling out for significant portions of the year. Demand for first-class sleeper reservations is particularly strong. One of Amtrak's top priorities over the near term is to acquire new passenger cars—Superliner cars to augment existing Western routes and to re-equip those Eastern routes capable of handling the tall double-deck cars; and single-level Viewliner cars to replace aging Heritage equipment used in the East. New, more efficient cars mean enhanced revenue generation, a more marketable service, and reduced maintenance costs. In many cases, new cars pay for themselves in increased incremental revenues and reduced costs. Amtrak intends to look to the private financial markets for much of the funding for new cars, but some federal capital support will be essential as well.

For the present, however, continued financial success requires generating the maximum yield from our limited number of passenger seats. Amtrak's yield-management program, which is being phased-in, already is having enormous success in this regard. The program, eventually to be assisted by a complex computer-based system, analyzes demand on each Amtrak route and for each city-pair segment of each route to ensure that the maximum revenue is generated from each seat sold to the public. In some cases, this means seeking to accommodate the longest-distance traveler; in other cases, it may require higher or lower ticket prices for the same seat depending on how far in advance of departure the seat is sold. The result can be dramatic. Between January and August 1989, the use of yield management resulted in increased revenues of some \$8-\$10 million over what sales would have been without the new system. With time, the system will play an even greater role in allocating and pricing the seats Amtrak sells to the public, resulting in significantly greater yields from our limited equipment fleet.

*"Railroads tend to build cities — whereas cars often tend to destroy them. That's because a railroad system concentrates life and activity around its stations."*

***Robert Campbell,*** The Boston Globe, *on Boston South Station*

# Revenue from a Variety of Sources

Revenue generated from other aspects of Amtrak's business, including real estate development, mail and express, and other revenue enhancement projects, continued to grow and contribute to the Corporation's bottom line.

Amtrak's operation of the Boston-area MBTA commuter system has proved extremely successful, generating a modest return for the Corporation as well as further establishing Amtrak's credentials as a commuter railroad operator. On-time performance for the MBTA trains during 1989 was a high 94 percent, entitling Amtrak to earn additional incentive payments. Amtrak also operates a major part of the Baltimore-to-Washington commuter system for the state of Maryland and has contracted to operate a commuter service between Northern Virginia and Washington, D.C., which will begin as soon as equipment can be obtained.

Revenues from mail and express reached $37 million, up 6 percent over last year. This should grow considerably in FY 1990 as recently acquired mail handling cars are phased into the system. Importantly, revenues generated by mail and express can help offset the operating losses associated with the start-up of new passenger routes and can be a key factor in the decision to initiate a new service.

Real estate revenues from development of the Corporation's properties continue to grow and after many years of planning, several important developments are progressing. Revenues for FY 1989 reached $43 million, a 40 percent improvement over last year, principally due to the sale of a maintenance facility in New Haven. In Philadelphia, development of office and retail space within Amtrak's 30th Street Station, as well as improvements to the passenger facilities, are proceeding. Plans are underway for development of up to 30 million square feet of residential, office and commercial development on the adjacent 60 acres. Construction should start within a few years and could continue for 20 years or more. Work also continues at Chicago Union Station, where major improvements are being made to all passenger facilities. Plans are moving ahead for renovation of the headhouse building by a private real estate development firm at a cost of $270 million to be obtained through private funding. Upon completion, Amtrak will receive the benefits of a modern station facility and annual rental revenues in excess of $4 million.

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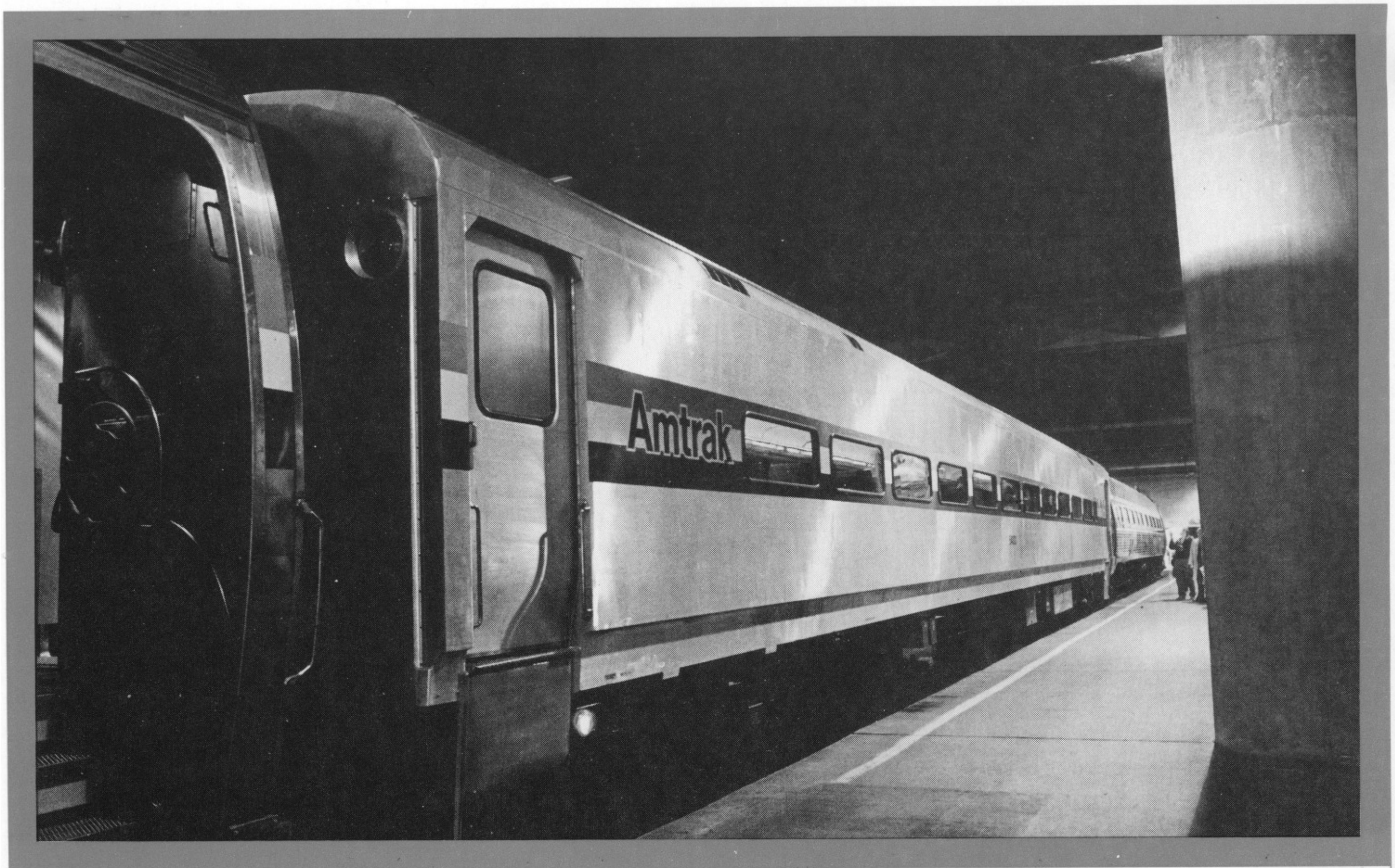
Work at Amtrak's New York Pennsylvania Station is nearing completion after several years of construction to improve the station's passenger and commercial facilities. Ticket counters and waiting areas have been modernized and significantly expanded, providing a vastly more organized and hospitable passenger flow for the 121,000 intercity and commuter riders who daily catch Amtrak and New Jersey Transit trains at the station. In addition, some 35,000 square feet in new retail space soon will be provided.

Corporate development activities also generated significantly improved revenues—$18.3 million versus $16.3 million last year—and contributed more than $6.5 million to Amtrak's capital program. Activities include the leasing of Amtrak's railroad right-of-way to run fiber optic communications lines, provision of track services to other railroads, a cogeneration facility in New Haven, and assembly of new light rail cars for the Southeastern Pennsylvania Transportation Authority (SEPTA).

# Enhanced Service for the Traveler




*Delivery of 104 "Horizon Fleet" short-distance cars has provided some relief from overcrowding on unreserved trains.*

Increased revenues have enabled Amtrak to fund important enhancements to its service. FY 1989 saw a number of improvements that have made the intercity rail passenger option even more attractive to the pleasure and business traveler.

The acquisition of 104 new short-distance coaches and food service cars—the first new short-distance cars acquired by Amtrak since 1977—has resulted in a new look for many of Amtrak's routes in the Midwest. The "Horizon Fleet," built by Bombardier Corporation and assembled at Bombardier's facility in Barre, Vermont, will also be used to re-equip Amtrak's ***San Joaquin*** service between Bakersfield and Oakland, California. Amfleet equipment previously used in the Midwest has been reassigned to the Northeast Corridor to relieve overcrowding and standee conditions. The Superliner cars released from ***San Joaquin*** service will be used to increase capacity on existing long-distance routes. Acquisition of the Horizon Fleet thus has translated into expanded capacity and enhanced service throughout the Amtrak system.

FY 1989 saw a renewed emphasis on improving the on-time performance of Amtrak's trains, resulting in an increase from 71.4 percent to 75.1 percent in systemwide reliability. Performance on off-Corridor routes owned and dispatched by freight railroads was only 67 percent, up from 64.6 percent last year but still considerably below Amtrak's goal. A cold winter and Hurricane Hugo, coupled with extensive track improvement programs undertaken by the freight railroads, were the primary causes for the delays. However, in the Northeast Corridor, which Amtrak owns and dispatches, some 87 percent of all trains arrived on-time, an important gain from last year's 82.1 percent, with Metroliner Service trains achieving a 92.8 percent on-time performance. The continued reliability of these trains, particularly the Metroliner Service, is critical for attracting passengers who might otherwise fly or drive. In addition, Amtrak's single Express Metroliner operated during FY 1989 reduced travel time between Washington and New York to just two hours and 40 minutes. Three additional Express Metroliners were added between the two cities in October 1989 and are expected to contribute significantly to the success of the Express Metroliner program.

A key to maintaining on-time performance is to ensure that both cars and locomotives are properly maintained and overhauled. New production-line techniques and strict adherence to overhaul schedules are enabling Amtrak to avoid many of the equipment-related failures that have undermined reliability in the past. The new maintenance and overhaul programs have facilitated a substantial increase in the number of cars overhauled, the quality of work performed, and in the speed at which maintenance is completed. For example, between September 1988 and September 1989, the number of passenger cars overdue for preventive maintenance was practically eliminated—a reduction of some 99 percent. In addition to improved reliability, the new procedures result in more attractive, better maintained cars and fewer breakdowns in mechanical systems.

Maintenance of the Northeast Corridor fleet will be further enhanced once delivery of all the new Bombardier Horizon Fleet cars is completed in January 1990. Expansion of the short-distance car fleet will relieve overcrowding conditions on Northeast Corridor trains. This, in turn, will take pressure off the equipment pool, allowing better and more frequent maintenance and servicing.

*Improved maintenance at modernized facilities enhances the comfort and reliability of the service.*

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# New Service to New Markets

Because of the improving economics of Amtrak's intercity rail operations, several new services were initiated during the year. Tri-weekly train service on the ***Texas Eagle*** was inaugurated in October 1988 between Houston and Dallas, Texas, with through service to and from Chicago. The train will begin operating daily during 1990. The New York-to-Savannah ***Palmetto*** was extended at the same time to Jacksonville, Florida, becoming Amtrak's third New York-Florida train.

After an absence of more than two years, Amtrak reinaugurated the popular ***Montrealer*** between Washington, D.C., and Montreal via Vermont in July 1989. The train was suspended in April 1987 due to the deteriorating condition of a portion of the line owned by the Boston and Maine Railroad. Federal, state and private funds were used to upgrade trackage acquired by Amtrak and sold to the Central Vermont Railway and service was resumed upon completion of the track work. Ridership on the restored ***Montrealer*** has far exceeded projections. The train is unique in Amtrak's system in that it provides live entertainment in the "Le Pub" food service car during much of the trip.


*New Hampshire became part of the Amtrak route system for the first time in July when the* ***Montrealer*** *was restored to service.*

On May 17, 1989, Amtrak inaugurated its ***Atlantic City Express*** service, with four daily round trips between Philadelphia and Atlantic City, and two longer-distance trains to Atlantic City from New York and Washington. The service represents the culmination of a five-year effort undertaken by Amtrak and New Jersey Transit to restore the Atlantic City rail line and to capture a portion of the large transportation market to Atlantic City casinos and New Jersey shore resorts. Efforts to market the new rail service initially were stymied by the refusal of the Atlantic City casinos to provide Amtrak passengers with "bonuses" of coin and food that the casinos already provide bus passengers. In August 1989, however, Harrah's Casino became the first casino to provide bonuses to Amtrak passengers. A number of tour operators also began providing special packages for Amtrak passengers. Amtrak remains optimistic that the

*Amtrak's **Atlantic City Express** aims for a small but profitable share of the 31 million people who visit Atlantic City each year.*

service will develop over the next year to become the preferred mode of transportation to this resort area of New Jersey.

State and local interest in providing an alternative to congested highways and airports has sparked enormous interest in new Amtrak service in various areas of the country, and Amtrak is working closely with federal, state and local officials to explore the funding of new routes. New service, financially supported by states under the "403(b)" program, was started in October 1989 between Chicago and Milwaukee, and between Birmingham and Mobile; a third ***San Joaquin*** train between Bakersfield and Oakland was added in December 1989. Discussions continue on adding service between Raleigh and Charlotte, and an additional San Diego-to-Santa Barbara train. Amtrak has been requested to study the equipment needs and feasibility of other new services—including service through Oklahoma, between Seattle and Vancouver, and between Chicago and Florida—as well as to consider operating its remaining tri-weekly services on a daily basis.

*Ridership on the restored **Montrealer** has far exceeded projections.*

Amtrak has entered into a contract with American European Express under which several rail cars offering "Orient Express"-type overnight deluxe service and meals would be added to Amtrak's Washington-Chicago ***Capitol Limited***. The new service, which began in November 1989, may well provide the most luxurious rail accommodations in the world. Income earned by Amtrak for operating the service will double the revenue generated by its special movements bureau, which includes other private car charters and the operation of special Amtrak trains.

# A Workforce Committed to Excellent Service

A positive perception of Amtrak is usually based on the Amtrak that much of the traveling public sees—the reservations or ticket agent, red cap, train conductor, train attendant, and food service employee. A passenger's negative experience with any Amtrak employee may well lead the passenger to avoid choosing rail passenger service in the future. Amtrak has worked hard in recent years to ensure that passengers receive the best possible service. Extensive training of all passenger service and train crew employees has resulted in better, more courteous service to passengers and a significant decrease in complaints and negative comments.

Amtrak has made considerable progress in improving both the look and the spirit of its service. Food service on Amtrak's long-distance trains now is regarded by passengers as one of the best features of the train. Indeed, Amtrak meals have even been favorably reviewed in the restaurant guides of some newspapers. Renewed focus on the quality and presentation of meals, and the preparation of food by trained chefs, as well as growing pride by Amtrak's food service employees, have led to this turnaround. Amtrak also began testing the use of china dishes

*Extensive training for all on-board and station personnel helps ensure the kind of courteous, efficient service that will bring the customer back again and again.*

and linen tablecloths on the Washington-to-Chicago ***Capitol Limited*** and the Los Angeles-to-Seattle ***Coast Starlight***. Passenger response was so overwhelming that Amtrak is considering extending the change to all its long-distance trains.

*Food service on Amtrak's long-distance trains now is regarded by passengers as one of the best features of the train.*

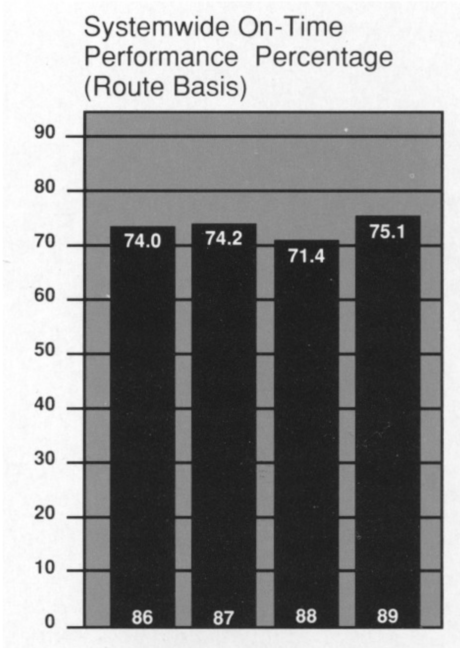
Amtrak is extremely proud of its 23,700 employees and the enormous contribution each has made to improving the Amtrak product. The growth in demand for Amtrak service, coupled with the acute equipment shortage, have resulted in the need for considerable overtime and added work for Amtrak's reservations and sales employees, maintenance crews, and transportation personnel. Amtrak's employees have met this challenge with vigor and understanding, and the end result—record revenues and passenger miles—has helped establish Amtrak as one of the nation's most important passenger transportation services.

*Experiments with china and linen tablecloths on the* ***Capitol Limited*** *and* ***Coast Starlight*** *proved so successful that the enhancements will gradually spread to other long-distance trains.*

# A Commitment to Safety

Amtrak made dramatic progress in FY 1989 in reducing the number and severity of work-related injuries. The ratio of reportable injuries per 200,000 man-hours shrunk 21 percent over the previous year to just 5.2, one of the best in the railroad industry. Amtrak's safety improvement is a real success story, and stems directly from a strong commitment to safety at all levels of the Corporation. In recognition of this improvement, Amtrak was awarded the prestigious Harriman Safety Award for the Most Improved Railroad for 1988. Continued progress during 1989 may rank Amtrak within the top three Class I railroads in the country for the fewest employee injuries.

An essential component of Amtrak's safety program is the Safety Training and Observation Program (STOP), which was implemented two years ago. Its primary focus is on identifying dangerous practices and creating a cooperative employee-management environment in which to learn from previous mistakes. The resulting improvement in safety translates directly into an important reduction in injuries and economic loss by the Corporation's employees. It also results in significant savings from fewer lost work-days and the reduced need to replace experienced workers.




Another essential factor in reducing employee injuries is to eliminate to the maximum extent possible the impact of drug or alcohol use by employees. Amtrak's employees have taken a leading role in this effort through the Operation RedBlock Program, a labor-initiated, management-supported drug and alcohol prevention and intervention program. RedBlock emphasizes awareness, education and prevention of drug and alcohol use through union-led peer prevention teams, and, when necessary, involves personal intervention to encourage those needing help to seek it. Employees seeking assistance can enter Amtrak's Employee Assistance Program without jeopardizing their jobs, provided the employees successfully end their drug or alcohol dependence.

*Amtrak's safety improvement is a real success story, and stems directly from a strong commitment to safety at all levels of the corporation.*

Because Operation RedBlock is a labor-initiated program, it applies only to employees of those unions that have agreed to sponsor it with Amtrak. Since its inception, RedBlock agreements have been signed with most of Amtrak's unions, including the Transportation and Communications Union (TCU), the Brotherhood of Locomotive Engineers (BLE), the United Transportation Union (UTU), the Brotherhood of Railroad Signalmen (BRS), the American Train Dispatchers Association (ATDA), the American Railway and Airline Supervisors Association (ARSA), the Amtrak Service Workers Council (ASWC), and the Brotherhood of Railroad Carmen (BRC). Amtrak salutes the efforts and willingness of these labor organizations to use the powerful RedBlock program to assist their members and make the railroads a safer place in which to work.

# Poised for the Future

Amtrak has made an impressive case for the rail travel alternative. It is one of the world's most efficiently operated passenger systems and is committed to covering 100 percent of its operating costs by the turn of the century. Amtrak has demonstrated that it can compete directly with airlines in densely populated transportation corridors and can play an important role in reducing the need for new multi-billion dollar highways and airports. It provides a critical link—in many areas the *only* link—connecting rural America with the rest of the nation. And, it offers the American public a relaxing, fun way in which to appreciate the beauty and bounty of this country.

Amtrak is poised for a new decade and a new century of enhanced service to the traveling public. The limiting factor primarily will be the capital with which to purchase the equipment—cars and locomotives—to carry all the passengers who want to travel by rail. Amtrak has created some of the finest rail passenger equipment in the world. Its Superliner and Viewliner designs are among

*Two F69PH-AC diesel locomotives with AC traction will be tested extensively throughout the Amtrak system.*

the most innovative in the travel industry. Amtrak, in conjunction with the Electro-Motive Division of General Motors, also has taken the lead in the United States in new locomotive design. Two prototype F69PH-AC alternating current (AC) traction locomotives were delivered to Amtrak in July and are undergoing extensive testing at a test track in Pueblo, Colorado. The new AC technology results in significant fuel savings, reduced maintenance and improved reliability. Amtrak also hopes to develop, through its aggressive waste disposal research and development program, the first long-distance toilet systems in the world that will eliminate the current need to release wastes en route.

With adequate capital to acquire new Superliner and Viewliner cars and new locomotives, Amtrak can add trains to existing routes and initiate new routes where economically justified, and work together with state and local governments to jointly provide an energy efficient, environmentally benign alternative to congested highways and airports.

An important example of this effort is the close cooperation between Amtrak and the Coalition of Northeastern Governors (CONEG) to identify the capital improvements necessary to reduce running time between

*"On airplanes, conversation tends to be forced, for lack of any action that causes natural comments. But trains, with their picture-window view of people and places, foster a camaraderie, an openness among strangers."*

*Mary Lu Abbot*, Houston Chronicle

*The "Sightseer Lounge" on Amtrak's Superliner trains offers an incomparable view of the American West.*

New York and Boston from the current four hours and 30 minutes to under three hours. Faster service would enable Amtrak to capture a larger share of the New York-Boston business market, producing substantial incremental revenues for the Corporation as well as significantly reducing congestion at Boston's Logan airport, New York's airports, and along the crowded interstate highway system linking southern New England. Amtrak, CONEG and federal officials are now exploring options for funding these important improvements.

Considerable efforts also are underway in California to identify ways in which intercity and commuter rail service can reduce congestion and automobile pollution. A joint rail replacement program funded by Amtrak; the state of California; the Santa Fe Railway; and Los Angeles, Orange and San Diego counties, is underway to enhance service along the crowded San Diego-Los Angeles corridor. Amtrak already provides eight daily round trips along the corridor and the State is interested in at least two additional trips. San Diego County and Orange County also are exploring commuter service along the route. A similar expansion of service is being studied on the ***San Joaquin*** route between Bakersfield and Oakland. Significant state supported rail infrastructure improvement projects also are underway in Michigan, Wisconsin, Illinois and New York.

While the economics of rail passenger service and Amtrak's goal of covering 100 percent of its operating costs by the year 2000 will limit Amtrak's efforts to initiate costly new service, expanded rail passenger options are possible in many areas of the country, particularly where states or localities are able to assist. Amtrak is ready and eager to build on its experience and success of the past 19 years to enhance rail passenger service in this nation and to provide the public with one of the most efficient, reliable and enjoyable transportation experiences.

# Labor Organizations and Railroad Partners

The Corporation contracts directly with labor organizations representing approximately 20,000 employees.

Engineers, brakemen, conductors, maintenance workers, signalmen and myriad others work with Amtrak to deliver safe, timely, convenient service. Amtrak and freight railroad employees are represented by these major labor unions:

- American Federation of Railroad Police, Incorporated
- American Railway and Airway Supervisors Association - A Division of TCU
- American Train Dispatchers Association
- Amtrak Service Workers Council
- Brotherhood of Locomotive Engineers
- Brotherhood of Maintenance of Way Employees
- Brotherhood of Railroad Signalmen
- International Association of Machinists and Aerospace Workers
- International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers
- International Brotherhood of Electrical Workers
- International Brotherhood of Firemen and Oilers
- Joint Council of Carmen, Helpers, Coach Cleaners and Apprentices
- Railroad Yardmasters of America
- Sheet Metal Workers' International Association
- Transportation Communications Union
- United Transportation Union

Outside its own Northeast Corridor, Amtrak contracts with 15 private freight railroads to dispatch its trains, maintain the tracks and provide other support services necessary for efficient train operations.

# Operating Statistics

| | **1989** | 1988 | 1987 | 1986 | 1985 |
|---|---|---|---|---|---|
| **General** | | | | | |
| System Route Miles (in thousands) | **24** | 24 | 24 | 24 | 24 |
| Stations | **504** | 498 | 487 | 491 | 503 |
| Train Miles Operated (in millions) | **31** | 30 | 30 | 29 | 30 |
| **On-Time Performance** | | | | | |
| Systemwide | **75%** | 71% | 74% | 74% | 81% |
| Short Distance | **81%** | 76% | 78% | 76% | 82% |
| Long Distance | **54%** | 54% | 62% | 69% | 78% |
| **Ridership** | | | | | |
| Passengers (in millions) | **21.4** | 21.5 | 20.4 | 20.3 | 20.8 |
| Northeast Corridor | **11.1** | 11.2 | 10.7 | 10.7 | 11.2 |
| Short Distance | **4.7** | 4.8 | 4.5 | 4.4 | 4.5 |
| Long Distance | **5.5** | 5.4 | 5.2 | 5.1 | 5.0 |
| Passenger Miles (in millions) | **5,859** | 5,678 | 5,221 | 5,013 | 4,825 |
| **Locomotive Units** | | | | | |
| Operating Fleet | **312** | 298 | 289 | 291 | 291 |
| Available for Service (daily average) | **87.0%** | 88.0% | 89.0% | 92.0% | 93.2% |
| Average Age (in years) | **11.0** | 10.0 | 9.0 | 8.0 | 7.0 |
| Diesel Units (new deliveries) | **8** | 9 | 0 | 0 | 10 |
| Electric Units (new deliveries) | **5** | 1 | 0 | 0 | 0 |
| **Passenger Train Cars** | | | | | |
| Operating Fleet | **1,742** | 1,710 | 1,705 | 1,664 | 1,523 |
| Owned and Leased*: | | | | | |
| Superliner Cars | **282** | 282 | 282 | 282 | 283 |
| Amfleet I Cars | **483** | 483 | 484 | 486 | 488 |
| Amfleet II Cars | **149** | 149 | 149 | 149 | 150 |
| Heritage Cars | **827** | 813 | 790 | 789 | 790 |
| Turboliners (cars) | **65** | 65 | 65 | 65 | 65 |
| Self-Propelled Cars | **40** | 43 | 61 | 64 | 78 |
| Low-Level Cab Cars | **21** | 18 | 0 | 0 | 0 |
| Horizon Cars | **45** | 0 | 0 | 0 | 0 |
| Total Owned and Leased | **1,912** | 1,853 | 1,831 | 1,835 | 1,854 |
| Average Age (in years) | **17.5** | 16.6 | 15.6 | 14.6 | 14.2 |

* Includes some older or damaged cars awaiting overhaul, conversion to head-end power or sale.

# Consolidated Balance Sheets

**As of September 30, 1989 and 1988**

(Thousands of dollars)

| **Assets** | **1989** | 1988 |
|---|---|---|
| **Current Assets:** | | |
| Cash and cash equivalents | **$ 113,243** | $ 107,603 |
| Short-term cash investments, at cost, which approximates market | **54,845** | 47,249 |
| Accounts receivable, net of allowance for doubtful accounts of $3,034 and $2,458 in 1989 and 1988, respectively | **80,604** | 57,248 |
| Materials and supplies, at average cost | **117,016** | 110,645 |
| **Total current assets** | **365,708** | 322,745 |
| **Property and Equipment:** | | |
| Passenger cars and locomotives | **1,559,275** | 1,449,494 |
| Northeast Corridor | **2,825,377** | 2,648,385 |
| Other | **357,069** | 401,771 |
| | **4,741,721** | 4,499,650 |
| Less – Accumulated depreciation and amortization | **(1,366,179)** | (1,199,426) |
| | **3,375,542** | 3,300,224 |
| **Other Assets and Deferred Charges:** | | |
| Escrowed proceeds from sales of tax benefits | **80,877** | 87,951 |
| Penn Station joint venture | **44,872** | 44,837 |
| Deferred charges and other | **140,822** | 125,994 |
| | **266,571** | 258,782 |
| **Total assets** | **$ 4,007,821** | $ 3,881,751 |

| Liabilities and Capitalization | 1989 | 1988 |
|---|---|---|
| **Current Liabilities:** | | |
| Accounts payable | $ 114,645 | $ 87,942 |
| Accrued expenses and other current liabilities | 162,014 | 115,701 |
| Current portion of long-term debt and capital lease obligations | 5,780 | 6,972 |
| **Total current liabilities** | 282,439 | 210,615 |
| **Long-Term Debt and Capital Lease Obligations:** | | |
| Equipment debt | 47,028 | 25,401 |
| Capital lease obligations | 73,732 | 3,576 |
| | 120,760 | 28,977 |
| **Other Liabilities and Deferred Credits:** | | |
| Casualty reserves | 67,159 | 65,292 |
| Deferred revenue – sales of tax benefits | 80,877 | 87,951 |
| Deferred revenue – Penn Station joint venture | 40,389 | 42,484 |
| Advances from railroads and commuter agencies | 43,085 | 35,035 |
| Other | 6,223 | 5,316 |
| | 237,733 | 236,078 |
| **Total liabilities** | 640,932 | 475,670 |
| **Commitments and Contingencies** | | |
| **Capitalization (see Consolidated Statements of Changes in Capitalization)** | 3,366,889 | 3,406,081 |
| **Total liabilities and capitalization** | $4,007,821 | $3,881,751 |

The accompanying notes are an integral part of these consolidated balance sheets.

# Consolidated Statements of Operations

**For the Years Ended September 30, 1989 and 1988**

(Thousands of dollars)

| | **1989** | 1988 |
|---|---|---|
| **Revenues:** | | |
| Transportation related | **$1,072,484** | $ 947,059 |
| Other | **196,586** | 159,668 |
| **Total revenues** | **1,269,070** | 1,106,727 |
| **Expenses:** | | |
| Train operations | **400,959** | 374,845 |
| Maintenance of equipment | **429,038** | 384,049 |
| Maintenance of way | **226,798** | 193,404 |
| On-board services | **165,598** | 149,921 |
| Stations | **115,749** | 109,929 |
| Marketing and reservations | **172,879** | 149,670 |
| General support | **135,655** | 136,501 |
| Taxes and insurance | **76,497** | 61,564 |
| Depreciation and amortization | **165,802** | 153,731 |
| General and administrative | **42,061** | 41,173 |
| Interest | **3,507** | 2,296 |
| **Total expenses** | **1,934,543** | 1,757,083 |
| **Net loss** | **$ 665,473** | $ 650,356 |

The accompanying notes are an integral part of these consolidated statements.

# Consolidated Statements of Cash Flows

**For the Years Ended September 30, 1989 and 1988**
(Thousands of dollars)

| | 1989 | 1988 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net loss | **$(665,473)** | $(650,356) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | **165,802** | 153,731 |
| Provision for inventory loss and obsolescence | **6,000** | 6,000 |
| Provision for losses on accounts receivable | **3,225** | 2,400 |
| Gain on sales of property | **(16,520)** | (9,627) |
| Other | **2,094** | – |
| Changes in assets and liabilities: | | |
| Decrease (increase) in accounts receivable | **(22,547)** | 6,147 |
| Increase in materials and supplies | **(12,371)** | (13,634) |
| Increase in other assets and deferred charges | **(10,970)** | (7,959) |
| Increase (decrease) in accounts payable and accrued expenses and other current liabilities | **73,016** | (407) |
| Decrease in other liabilities and deferred credits | **(5,403)** | (12,095) |
| **Net cash used in operating activities** | **(483,147)** | (525,800) |
| **Cash Flows From Investing Activities:** | | |
| Purchases and refurbishments of property and equipment | **(126,241)** | (120,886) |
| Proceeds from disposals of property and equipment | **20,929** | 16,152 |
| Cash released from restricted proceeds of tax benefits sales | **16,550** | 16,942 |
| Cash advances to Union Station Redevelopment Corporation | **(4,680)** | – |
| Cash designated for Penn Station joint venture | **(4,223)** | – |
| Cash investments | **(306,852)** | (293,277) |
| Proceeds from disposition of cash investments | **281,953** | 289,017 |
| Other | **–** | (380) |
| **Net cash used in investing activities** | **(122,564)** | (92,432) |
| **Cash Flows From Financing Activities:** | | |
| Proceeds from issuance of preferred stock | **574,300** | 590,300 |
| Proceeds from federal paid-in capital | **39,433** | 50,473 |
| Proceeds from federal and state capital payments | **5,068** | 3,110 |
| Principal payments under long-term debt and capital lease obligations | **(7,450)** | (14,850) |
| **Net cash provided by financing activities** | **611,351** | 629,033 |
| Net increase in cash and cash equivalents | **5,640** | 10,801 |
| Cash and cash equivalents – beginning of year | **107,603** | 96,802 |
| Cash and cash equivalents – end of year | **$ 113,243** | $ 107,603 |

The accompanying notes are an integral part of these consolidated statements.

# Consolidated Statements of Changes in Capitalization

**For the Years Ended September 30, 1989 and 1988**

(Thousands of dollars)

| | Preferred stock | Common stock | Other paid-in capital | Accumulated deficit | Totals |
|---|---|---|---|---|---|
| **Balance at September 30, 1987** | $ 4,886,403 | $ 93,857 | $ 3,610,205 | $ (5,178,567) | $ 3,411,898 |
| Issuance of preferred stock.... | 590,300 | – | – | – | 590,300 |
| Federal paid-in capital............ | – | – | 50,473 | – | 50,473 |
| Federal and state capital payments .............................. | – | – | 3,766 | – | 3,766 |
| Net loss .................................... | – | – | – | (650,356) | (650,356) |
| **Balance at September 30, 1988** | 5,476,703 | 93,857 | 3,664,444 | (5,828,923) | 3,406,081 |
| Issuance of preferred stock.... | 579,300 | – | – | – | 579,300 |
| Federal paid-in capital............ | – | – | 39,433 | – | 39,433 |
| Federal and state capital payments .............................. | – | – | 7,548 | – | 7,548 |
| Net loss .................................... | – | – | – | (665,473) | (665,473) |
| **Balance at September 30, 1989** | **$6,056,003** | **$93,857** | **$3,711,425** | **$(6,494,396)** | **$3,366,889** |

The accompanying notes are an integral part of these consolidated statements.

**September 30, 1989 and 1988**

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation**

The financial statements reflect the consolidated operations of the National Railroad Passenger Corporation and its wholly-owned subsidiaries, Chicago Union Station Company and Washington Terminal Company. All significant intercompany transactions have been eliminated. Certain reclassifications have been made to the prior year's statements to conform with the 1989 presentation.

**Passenger Related Revenue**

Passenger fares are recognized as operating revenues when the related transportation services are furnished. Tickets which have been sold but not used, are classified as deferred ticket revenues, and are included in the Consolidated Balance Sheets under "Accrued expenses and other current liabilities."

**Contracted Services Revenue**

The Consolidated Statements of Operations include the gross revenues earned and expenses incurred under various arrangements to provide access to the Northeast Corridor, and to perform services for freight railroads and commuter agencies that provide rail services along the Northeast Corridor.

**Cash Equivalents**

Amtrak considers all financial instruments purchased having a maturity of three months or less to be cash equivalents. Those financial instruments purchased with a maturity of over three months, and which mature not more than one year from the Consolidated Balance Sheet date, are classified as short-term cash investments.

**Property and Depreciation**

Property and equipment are stated at cost, and are depreciated using the composite straight-line method over their estimated useful lives. Certain major items of property acquired through capital lease agreements are recorded as assets and are amortized over the shorter of their estimated useful lives or the lease term.

**Casualty Losses**

Provision is made for Amtrak's portion of the estimated liability for unsettled casualty and accident claims. The current portion of this liability is included in the Consolidated Balance Sheets under "Accrued expenses and other current liabilities." The non-current portion is classified as "Casualty reserves." As of September 30, 1989 and 1988, the current claims liability included in accrued expenses and other current liabilities was $46,200,000 and $41,500,000, respectively.

## NOTE 2: FEDERAL AND STATE FUNDING

Funds are provided to Amtrak through federal and state payments for operations and for capital acquisitions and improvements. For funds received from the Federal Government, Section 304 of the Rail Passenger Service Act (45 U.S.C. 544) requires Amtrak to issue to the United States Secretary of Transportation preferred stock equal in par value to all federal operating payments and most federal capital payments received subsequent to October 1, 1981, as well as capital and certain operating payments received prior to that date.

Public Law 101-239, approved on December 19, 1989, provides $604,700,000 in federal funds to Amtrak for Fiscal Year 1990 (unaudited—subsequent to date of auditors' report).

Federal paid-in capital, included in the Consolidated Statements of Changes in Capitalization, reflects certain funding received from the Federal Government to finance acquisition of and improvements to property and equipment. In exchange for these funds, Amtrak issued two promissory notes to the United States. The first note matures on December 31, 2975, and is secured by Amtrak's real property. The second note matures on November 1, 2082, with successive 99-year renewal terms, and is secured by Amtrak's equipment and certain rolling stock. Neither of the notes bears interest, unless prepaid (which Amtrak does not intend to do). The Federal Government's security interest in Amtrak's real property, equipment, and rolling stock entitles it to repayment plus interest in the event Amtrak ceases operations, is acquired by another entity, or seeks relief under bankruptcy or insolvency laws.

## NOTE 3: PREFERRED AND COMMON STOCK

At September 30, 1989, 68,400,000 shares of $100 par value preferred stock were authorized, of which 60,560,029 shares were issued and outstanding. On November 1, 1989, 440,587 shares of preferred stock were issued at par value, increasing the total number of shares issued and outstanding to 61,000,616. At September 30, 1988, 56,300,000 shares were authorized, of which 54,767,029 shares were issued and outstanding. All issued and outstanding preferred shares are held by the Secretary of Transportation for the benefit of the United States Government. Dividends are to be fixed at a rate not less than 6% per annum and are cumulative so that no dividends may be paid on the common shares prior to the payment of all accrued but unpaid dividends on the preferred shares. No dividends have been declared. Preferred stockholders are also entitled to a liquidation preference over common shares involving a payment of not less than par value plus all accrued unpaid dividends. Each share of preferred stock is convertible into 10 shares of common stock at the option of the preferred stockholder.

At September 30, 1989 and 1988, 10,000,000 shares of $10 par value common stock were authorized, of which 9,385,694 shares were issued and outstanding.

## NOTE 4: LONG-TERM DEBT

During 1988, Amtrak entered into an agreement with a manufacturer for the construction of 104 passenger rail cars. Under an agreement with a third-party lender, $74,692,000 in progress payments have been made on Amtrak's behalf through September 30, 1989. Interest (9.75% annual rate) on amounts advanced, and a commitment fee on the portion of the $105,000,000 financing commitment not yet advanced, are charged to Amtrak during construction and are payable quarterly. Interest and related financing charges are being capitalized during the construction period as components of the cars' total cost. Interest capitalized during the years ended September 30, 1989 and 1988, amounted to $3,367,000 and $287,000, respectively. At September 30, 1989, 45 finished cars had been delivered and accepted.

On September 25, 1989, Amtrak entered into concurrent agreements to lease the 104 cars to a third party and sublease them back. Under the terms of the lease, the lessee will lease from Amtrak all 104 cars for a period of 25 years, in exchange for assuming from Amtrak a portion of the loan payable to the third-party lender, extinguishing the balance of the debt, and reimbursing Amtrak for interest and other financing costs incurred during the cars' construction period. Under the sublease, Amtrak will sublease the cars back for a period of 20 years in exchange for future cash payments. The lease is being treated as a sales-type lease for accounting purposes, with no anticipated gain or loss resulting from the transaction. The leaseback is being treated as a capital lease (see Note 5). At September 30, 1989, $34,845,000 is owed to the original lender for cars under construction, and is included in long-term debt ($69,000 current portion) on the Consolidated Balance Sheet. This will be converted to capital lease obligations as the cars are delivered.

The remaining equipment debt at September 30, 1989, consists of the following (amounts in thousands):

| | Due within one year | Due in excess of one year | Total |
|---|---|---|---|
| Conditional sales agreement for the purchase of nine new diesel locomotives. Debt is payable in 40 quarterly installments, the final of which is due April 15, 1998. Interest on the first 20 installments is fixed at 10.125%, with the rate for the final 20 payments to be established in 1993. | $1,052 | $8,155 | $9,207 |
| Non-interest-bearing notes payable in final settlement of the purchase price of Superliner passenger cars. Notes are payable in annual installments, due each December 1, of $2 million, the final of which is due in 1990. | $2,000 | $2,000 | $4,000 |
| Construction retainage due manufacturer of passenger rail cars on finished cars delivered. Retainage is due two years after acceptance of the 104th car or upon delivery of a warranty agreement. | – | $2,097 | $2,097 |

## NOTE 5: LEASING ARRANGEMENTS

### Capital Leases

In September 1989, Amtrak entered into concurrent agreements to lease 104 passenger rail cars for a period of 25 years and sublease the cars back from the lessee for a period of 20 years (see Note 4). The sublease has been classified as a capital lease, and accounted for $43,833,000 of capital lease obligations at September 30, 1989. An additional $65 million of capital lease obligations are expected to occur during fiscal year 1990 as additional cars are delivered.

In December 1988, Amtrak entered into an agreement to lease seven electric locomotives for 20 years. The lease has been classified as a capital lease, and accounted for $25,213,000 of capital lease obligations at September 30, 1989.

Amtrak leases certain other items of equipment under capital leasing arrangements. At September 30, 1989, the gross amount of assets recorded under capital leases was $81,186,000, and the future minimum lease payments under capital leases were as follows:

| Year Ending September 30 | Amounts (In Thousands) |
|---|---|
| 1990 | $ 6,837 |
| 1991 | 8,323 |
| 1992 | 8,053 |
| 1993 | 7,618 |
| 1994 | 6,670 |
| Later years | 105,746 |
| | 143,247 |
| Less amount representing interest | 66,856 |
| Present value of minimum lease payments at September 30, 1989 | $ 76,391 |

The present value of minimum lease payments is included in the Consolidated Balance Sheet as current and long-term obligations of $2,659,000 and $73,732,000, respectively.

**Operating Leases**

At September 30, 1989, Amtrak was obligated for the following minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year:

| Year Ending September 30 | Amounts (In Thousands) |
|---|---|
| 1990 | $ 11,612 |
| 1991 | 15,749 |
| 1992 | 14,730 |
| 1993 | 13,494 |
| 1994 | 11,194 |
| Later years | 135,458 |
| | $202,237 |

Rent expense for the years ended September 30, 1989 and 1988 was $28,004,000 and $23,749,000, respectively.

## NOTE 6: PENSION PLAN

Amtrak has a qualified noncontributory defined benefit retirement plan held in trust covering nonunion employees and certain union employees. Benefits are based on years of credited service, and the employee's average compensation during the highest five consecutive years. Amtrak's funding policy is to contribute annually the amount recommended by outside actuaries. The plan was amended during the year to incorporate provisions of the Tax Reform Act of 1986, which were effective January 1, 1989, resulting in an $8,108,000 increase in the plan's total projected benefit obligation due covered employees, relating to prior years' service. This unrecognized prior service cost is being amortized to pension expense over 11.8 years. Pension expense for 1989 and 1988 was $2,731,000 and $656,000, respectively. The following tables set forth the plan's funded status, amounts recognized in the Consolidated Balance Sheets at September 30, 1989 and 1988, and components of the net pension expense for 1989 and 1988 (amounts in thousands):

| | 1989 | 1988 |
|---|---|---|
| Actuarial present value of benefit obligations: | | |
| Accumulated benefit obligation, including vested benefits of $46,908 and $35,130, respectively | $47,434 | $39,134 |
| Projected benefit obligation for service rendered to date | $65,121 | $49,328 |
| Plan assets at fair value, primarily fixed income investments and listed stocks | 63,503 | 56,051 |
| Plan assets in excess of (less than) projected benefit obligation | (1,618) | 6,723 |
| Unrecognized prior service cost | 7,763 | – |
| Unrecognized net loss | 3,591 | 4,484 |
| Unrecognized net asset existing at October 1, 1986 being amortized over 11.6 years | (9,054) | (10,100) |
| Prepaid pension expense recognized in Consolidated Balance Sheets | $ 682 | $ 1,107 |
| Net pension expense for 1989 and 1988 included the following components: | | |
| Service cost – benefits earned during the period | $ 4,042 | $ 3,064 |
| Interest cost on projected benefit obligation | 4,063 | 3,278 |
| Actual return on plan assets | (6,543) | (871) |
| Net amortization and deferral | 1,169 | (4,815) |
| Net pension expense | $ 2,731 | $ 656 |

The weighted average discount rate used in determining the projected benefit obligation was 7.5% in 1989 and 1988. The projected rate of increase in future compensation levels was 6.0% in 1989 and 1988. The assumed long-term rate of return on plan assets was 8.0% and 7.75% in 1989 and 1988, respectively. The unfunded accrued pension cost at September 30, 1986, is being amortized over the remaining average service life of plan members, and $2,667,000 and $2,975,000 net of amortization, is included under "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets at September 30, 1989 and 1988, respectively.

## NOTE 7: COMMITMENTS AND CONTINGENCIES

In the normal course of business, Amtrak is involved with various matters involving litigation and arbitration, including environmental clean-up matters. It is the opinion of management and counsel that the disposition of these matters will not materially affect Amtrak's financial statements.

## NOTE 8: LINES OF CREDIT

Amtrak has line of credit agreements, expiring in September 1990, with commercial banks to borrow up to $25,000,000 at an interest rate of .25% below the prime commercial loan rate of the primary bank on unsecured 90-day loans. As of September 30, 1989 and 1988, there was no outstanding balance on the existing lines of credit.

**NOTE 9: SALE OF TAX BENEFITS**

Pursuant to provisions of the Economic Recovery Tax Act of 1981, Amtrak sold the rights to the tax benefits associated with certain qualified assets. Cash proceeds from these sales, plus accrued interest, are subject to certain restrictions, and, therefore, are presented as a non-current asset and deferred revenue in the Consolidated Balance Sheets. Revenue is recognized to the extent restrictions have been lifted, and funds released to Amtrak. For the years ended September 30, 1989 and 1988, Amtrak recognized revenue of $14,133,000 and $13,752,000, respectively, from these restricted funds.

**NOTE 10: UNION STATION REDEVELOPMENT**

Amtrak provided $70,000,000 to help fund the restoration of the Washington Union Station complex. This funding is included in the Consolidated Balance Sheets as leasehold improvements under "Northeast Corridor," and is being amortized to expense over 40 years.

**NOTE 11: PENN STATION JOINT VENTURE**

On August 5, 1988, Amtrak, the Metropolitan Transportation Authority (MTA) and the Long Island Rail Road Company (LIRR) entered into an agreement under which Amtrak and LIRR would jointly design, construct, operate and maintain a modern system for the centralized control of train movements in and around Penn Station, New York City, at an anticipated cost of between $90,000,000 and $120,000,000. The projected construction period is five years. Under the terms of the joint venture agreement, Amtrak and MTA ultimately will evenly share the cost and ownership of the capital improvements.

In concurrently executed agreements, Amtrak leased to LIRR certain space in Penn Station for 99 years, with an automatic 99-year renewal term, along with the right to jointly use the Penn Station operating facilities for 99 years, for a total of $44,400,000. The space rental was accounted for by Amtrak as a sale. The resulting gain of $42,537,000, net of the book value of assets sold, was deferred, and is being recognized as income as expenditures occur on the joint venture project. During the year ended September 30, 1989, $2,095,000 of income was recognized. The gross lease proceeds of $44,400,000, plus a pro rata share of future interest income have been designated to fund Amtrak's obligations under the joint venture agreement, and are presented net of joint venture project costs incurred, under "Other Assets and Deferred Charges" in the Consolidated Balance Sheets.

**NOTE 12: SALES OF FACILITIES**

In May 1989, Amtrak sold certain of its facilities located in New Haven, Connecticut, for $15,215,000 in cash, resulting in a gain of $12,658,000, net of the book value of the assets sold. In March 1989, Chicago Union Station Company sold land for $5,585,000 in cash, resulting in a gain of $3,862,000, net of the book value of the land sold.

**NOTE 13: INSURANCE**

Amtrak is self-insured for liability losses up to $25 million. Liability coverage in the $25 million to $100 million range is provided through insurance companies owned by Amtrak and various other railroads and transit authorities. Amtrak has entered into these arrangements in order to secure a reasonable source of excess liability insurance. Premiums are payable annually, and are set by an independent underwriter using, among other criteria, the claims experience of each insured.

**NOTE 14: SUPPLEMENTAL CASH FLOW INFORMATION**

For the years ended September 30, 1989 and 1988, Amtrak engaged in the following investing and financing activities that affected recognized assets and liabilities, but did not result in a change in cash and cash equivalents (amounts in thousands):

| | 1989 | 1988 |
|---|---|---|
| • Obligations incurred in connection with progress payments made by a third-party lender on Amtrak's behalf for the construction of 104 passenger cars | $62,498 | $12,194 |
| • Reduction of obligation due third-party lender in connection with the leasing of passenger cars | $39,847 | – |
| • Payments made for the redevelopment of Washington Union Station, from a fund established specifically for that purpose | $ 3,889 | $23,773 |
| • Proceeds received from 99-year lease of portions of Penn Station, New York City, and designated to fund specific improvements at Penn Station | – | $44,400 |
| • Expenditures made for projects along the Northeast Corridor from funds established specifically for those purposes | $15,748 | – |
| • Liability incurred in connection with the purchase of nine new diesel locomotives | – | $10,523 |
| • Capital lease obligations incurred in connection with the leasing of new equipment | $73,293 | $ 5,359 |
| • Issuance of preferred stock related to property refurbishments | $ 5,000 | – |

Cash interest of $3,003,000 and $2,364,000 was paid during 1989 and 1988, respectively.

# Management Report

Management is responsible for the preparation and integrity of the financial statements presented in this Annual Report. These statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on managment's best estimates and judgement. Management considers that the financial statements present fairly the financial position of Amtrak and the results of its operations.

To meet its responsibility, management maintains a comprehensive system of internal controls, policies and procedures to assure the proper authorization of transactions, the safeguarding of assets and reliability of financial information. The system can only provide reasonable assurance, not absolute, that the related records fairly reflect all transactions and proper accountability. The concept of reasonable assurance is based on the recognition that the cost of a system of internal controls must be related to the benefits derived.

Amtrak has established its intent to maintain a high standard of ethical conduct in all business activities. Internal accounting controls, operating controls as well as a corporate rules of conduct and a business ethics policy are documented and communicated to all levels of management.

The Board of Directors through its Audit Committee reviews the system of internal controls and financial reporting. The Committee meets and consults regularly with management, the internal auditors and the independent accountants to review the scope and results of their work. The accounting firm of Arthur Andersen & Co. has performed an independent audit of the financial statements and has full and free access to meet with the Committee, without management representatives present, to discuss the results of the audit.

W. Graham Claytor, Jr.

W. Graham Claytor, Jr.
Chairman
and President

Charles W. Hayward

Charles W. Hayward
Vice President-Finance
and Administration

# Report of Independent Public Accountants

To the Board of Directors of National Railroad Passenger Corporation:

We have audited the accompanying consolidated balance sheets of National Railroad Passenger Corporation (incorporated pursuant to the Rail Passenger Service Act and the laws of the District of Columbia) and subsidiaries (Amtrak) as of September 30, 1989 and 1988, and the related consolidated statements of operations, cash flows, and changes in capitalization for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

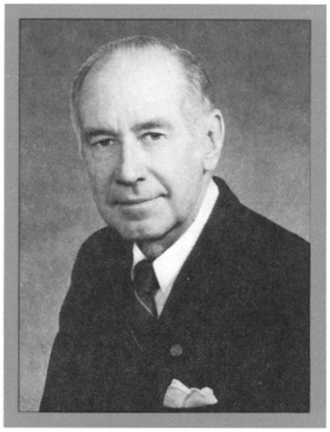
We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Amtrak as of September 30, 1989 and 1988, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

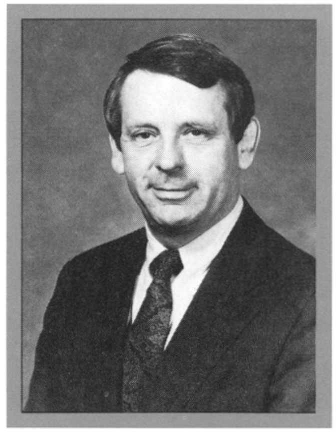
Arthur Andersen & Co.

Washington, D.C.
November 17, 1989

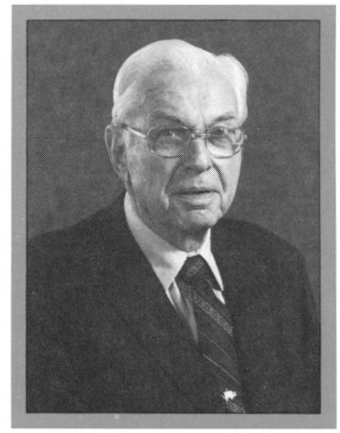
## Board of Directors



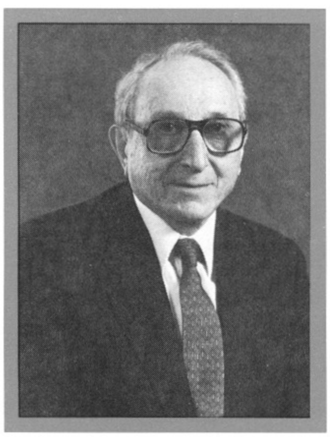
**W. Graham Claytor, Jr.**
*Chairman*



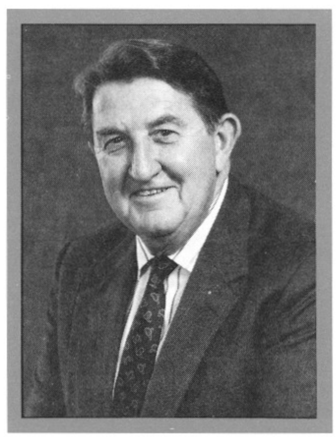
**The Honorable Samuel K. Skinner**
*Secretary of Transportation*



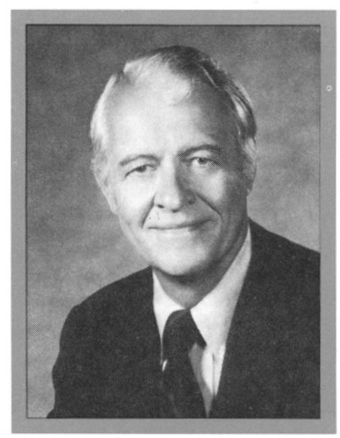
**Charles Luna**
*Dallas, Texas*



**Samuel H. Hellenbrand**
*New York, New York*

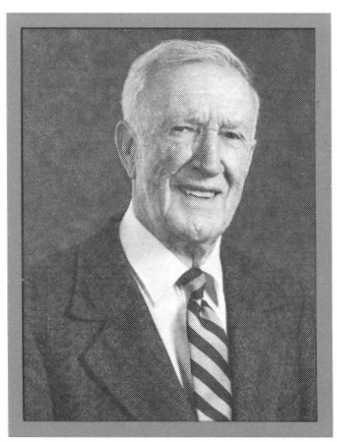


**Frank W. Jenkins, Esquire**
*Ambler, Pennsylvania*



**The Honorable Robert D. Orr**
*Governor of Indiana*
*(resigned July 1, 1989)*

**Paul M. Weyrich**
*Annandale, Virginia*



**Ralph T. Kerchum**
*Oakland, California*
*(term expired December 7, 1989)*

**Darrell M. Trent**
*Wilmington, Delaware*

# Corporate Officers

**Jane E. Bass**
Assistant Corporate Secretary

**Peter A. Cannito**
Vice President
Engineering

**W. Graham Claytor, Jr.***
Chairman and President

**Anthony D. DeAngelo**
Vice President
Real Estate and Operations Development

**Eugene N. Eden**
Vice President
Passenger Services

**William F. Erkelenz**
Corporate Secretary

**Robert E. Gall**
Vice President
Sales

**Timothy P. Gardner**
Vice President
Passenger Marketing

**Thomas J. Gillespie, Jr.**
Assistant Vice President
Government and Public Affairs

**Charles W. Hayward***
Vice President
Finance and Administration

**Harold R. Henderson***
Vice President
Law

**Richard I. Klein**
Treasurer

**John P. Lange**
Assistant Vice President
Labor Relations

**Robert L. Lewis, III**
Controller

**Neil D. Mann**
Assistant Vice President
Personnel

**William S. Norman***
Executive Vice President

**Medaris W. Oliveri**
Assistant Corporate Secretary (part-time)

**Norris W. Overton**
Vice President
Information Systems

**Dennis F. Sullivan***
Executive Vice President and Chief Operating Officer

**Robert C. VanderClute**
Vice President
Transportation

**Elyse G. Wander**
Vice President
Corporate Planning and Development

**Nina E. West**
Assistant Corporate Secretary (part-time)

* *Management Committee Member*

Effective Dec. 31, 1989

It is the policy of the National Railroad Passenger Corporation (Amtrak) to be an Equal Opportunity Employer. We pledge our support to enhance growth opportunities for minorities and women, and to ensure that they are effectively represented throughout our work force.

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Richard Steinheimer

Amtrak®

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