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1986

# NATIONAL RAILROAD PASSENGER CORPORATION

1986 ANNUAL REPORT





*In conducting a rail passenger business to serve both discretionary and business travelers, Amtrak carries more than 20 million people a year across 24,000 miles of rail line in 43 states—working*



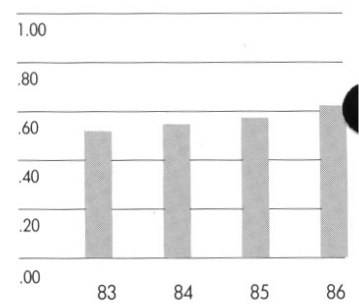
*to increase sales and revenues in a highly competitive travel industry*

*by providing a service that is both economical and inviting, and bringing every possible resource to bear to help increase overall revenues and reduce operating costs. That was Amtrak's story in fiscal year 1986 and will continue to be Amtrak's story in the future.*



■ Amtrak's management committee, from left, are Harold R. Henderson, vice president—law; W. Graham Claytor, Jr., chairman and president; Charles W. Hayward, vice president—finance and treasurer; Henry R. Moore, executive vice president and chief operating officer; and William S. Norman, executive vice president—marketing and business development.

Revenue-to-Expense Ratio





## THE PRESIDENT'S REPORT

In many ways, fiscal year 1986 (FY86) was one of Amtrak's most successful years. Certainly that was true of the corporation's financial performance, achieved as it was in a highly competitive market complicated by decreases in gasoline prices. Through it all Amtrak kept a keen eye on the bottom line and displayed an overriding concern for improving service, increasing revenues and controlling costs.

Revenues rose to \$861.4 million, well ahead of the record level of \$825.8 million reached in FY85. Our revenue-to-expense ratio, the prime indicator of Amtrak's financial performance, went up from .58 in FY85 to .62 in FY86. This improvement resulted from an increase of \$35.6 million in revenues compared to the preceding year and a \$36.5 million reduction in costs.

While the increase in revenues was a great stride forward, we also had significant success in keeping a tight rein on costs. These revenue and expense improvements, plus a \$54 million reduction in federal funding available for capital purposes, allowed us to operate the railroad with a federal grant that was reduced \$93.3 million (14 percent) from the FY85 level.

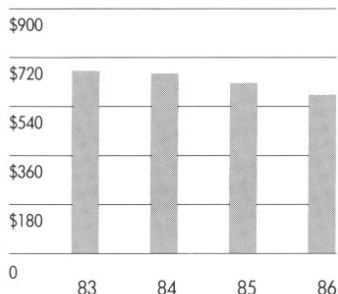
Many of the gauges of Amtrak service and efficiency showed encouraging readings. Passenger miles, as one example, increased substantially to pass the five billion mark for the first time in the corporation's history. Passenger miles per train mile, a useful index of the density of traffic on our lines, increased from 159 in FY85 to 172 in FY86. Ratios of our revenues to both short-term and long-term avoidable costs increased appreciably. The revenue-to-short-term-avoidable-cost ratio went from .86 in FY85 to .96 in FY86, while the revenue-to-long-term-avoidable-cost ratio moved from .71 to .78 over the same period.

In spite of this progress, of the \$587 million of federal support received for its operations in FY86, \$242 million was required to cover direct and indirect operating costs of the Northeast Corridor, and \$345 million was required for operating the rest of the system. No rail passenger system in the world is able to operate at a profit, and Amtrak is no exception.

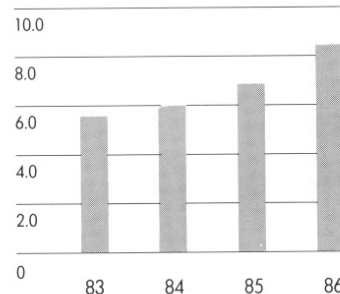
FY86 was not without warning signs alerting Amtrak to the need for continuing improvement in the quality and efficiency of our service. Our total system on-time performance decreased from 81 percent in FY85 to 74 percent in FY86.

Although many of the delays were attributable to causes beyond our control, we were aware that much of our reliability problem had to do with maintenance, particularly locomotive maintenance. (Our monthly average of equipment-related delays more than doubled in FY86.) So we intensified the locomotive maintenance program. Concentrated spot maintenance facilities were established for diesel locomotives at Chicago and for electric locomotives in Washington, D.C. Increasing the frequency of inspections and bringing the necessary supplies and expertise together in one location

**Operating Subsidy**  
(In constant FY86 dollars,  
in millions)



**Passenger Miles per Dollar  
of Federal Support**  
(In constant FY86 dollars)



## **THE MANAGEMENT TEAM**

W. Graham Claytor, Jr.  
Chairman and President  
Charles W. Hayward  
Vice President  
Finance and Treasurer  
Harold R. Henderson  
Vice President  
Law  
Henry R. Moore  
Executive Vice President  
and Chief Operating Officer  
William S. Norman  
Executive Vice President  
Marketing and Business  
Development  
Angelo M. Caputo  
Controller  
Anthony DeAngelo  
Assistant Vice President  
Real Estate  
Eugene N. Eden  
Vice President  
Passenger and Operating Services  
James H. English  
Vice President  
Government and Public Affairs  
William F. Erkelenz  
Corporate Secretary  
Robert E. Gall  
Vice President  
Sales and Advertising  
Timothy P. Gardner  
Vice President  
Passenger Marketing  
George E. Gautney  
Vice President  
Information Systems  
John P. Lange  
Assistant Vice President  
Labor Relations  
John N. Stulak  
Vice President  
Personnel and Administration  
Dennis F. Sullivan  
Vice President  
Operations and Maintenance  
Elyse G. Wander  
Vice President  
Corporate Planning and  
Development

offer obvious advantages for improving on-time performance.

Other business decisions confronted Amtrak in FY86, some cost-related and some service-related. One serious challenge associated with long-distance trains is the large financial commitment necessary to maintain an array of completely staffed stations to serve one or two trains a day. In many cases, the costs far outweigh the advantages. We have developed ways to provide comfortable and convenient waiting areas for passengers, and access to train information, reservations and ticket purchasing without a full-time staff, while at the same time improving Amtrak's cost picture.

At times, necessary business decisions lead us in the direction of more frequent or improved service, and these are the kind we like. One recent example was the decision to operate two separate trains along the Chicago-Pittsburgh portion of the *Capitol Limited* and *Broadway Limited* routes instead of combining the two trains at Pittsburgh. We anticipate that increased mail traffic and revenues will make this expanded service successful.

As always, Amtrak's people are the corporation's chief asset and the key to our future as an effective provider of rail passenger service. This was reflected in the emphasis on leadership training at all management levels during FY86 and the successful negotiations to begin hiring the train and engine crews who have in the past provided passenger service under our contracts with the freight railroads. This absorption of passenger train crews outside the Northeast Corridor began in FY86 and is expected to be completed during the next fiscal year. Train and engine crews in the Northeast Corridor were absorbed in FY83.

Having our train crews more closely identified with Amtrak's needs and goals gives us a useful advantage at a challenging time. Our ability to continue increasing the revenue-to-expense ratio, reduce our dependence on federal funding and improve the service we offer provides the best insurance for Amtrak's future. The combination will encourage continued confidence and support on the part of Congress and the traveling public.

Amtrak's federal funding, although authorized through FY87 and FY88, is still subject to the appropriations process and budget constraints. The same legislation that authorized our funding also presented us with some new opportunities to improve our bottom line and we intend to make the most of them.

Now we can require users of our tracks in the Northeast Corridor to compensate us more fully for our costs involved in their freight train operations. We can compete for government travel arranged by the General Services Administration, and we have the authority to carry unaccompanied used automobiles on *Auto Train*.

All of our business opportunities and how well we use them take on added importance as it becomes more and more difficult to further reduce our costs without adversely affecting service quality. We must continue to find new ways of doing business which will both lower our costs and improve our service. Beyond that, we must creatively market our passenger services and aggressively develop our corporate resources in order to increase revenues. Meeting that challenge is the surest way to preserve America's passenger railroad.



W. Graham Claytor, Jr.  
President  
December 31, 1986

# HIGHLIGHTS OF AMTRAK'S 1986 PERFORMANCE

## FIVE-YEAR COMPARISON OF AMTRAK'S PERFORMANCE

	1982	1983	1984	1985	1986
Operating Revenues (millions)	\$ 630.7	\$ 664.4	\$ 758.8	\$ 825.8	<b>\$ 861.4</b>
Operating Expenses (millions)	\$1,280.6	\$1,349.5	\$1,485.2	\$1,566.1	<b>\$1,530.2</b>
Revenue-to-Expense Ratio	.53	.54	.56	.58	<b>.62</b>
Revenue-to-Short-Term-Avoidable Cost Ratio *	.77	.80	.85	.86	<b>.96</b>
Revenue-to-Long-Term-Avoidable Cost Ratio **	.64	.68	.70	.71	<b>.78</b>
Passenger Miles (millions)	4,172	4,246	4,552	4,825	<b>5,012</b>
Passenger Miles Per Train-Mile	145.6	145.8	157.1	159.0	<b>172.2</b>
Ridership					
System (millions)	19.0	19.0	19.9	20.8	<b>20.3</b>
Contract Commuter (thousands)	—	231***	518	587	<b>656</b>
Systemwide On-Time Performance	79%	82%	80%	81%	<b>74%</b>

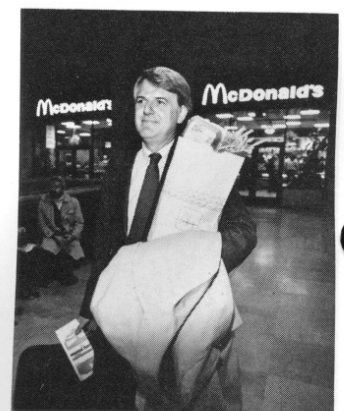
\* Short-term avoidable costs—Costs of activities that would stop with the discontinuance of a route or train, or begin with the introduction of a new route or train. Such costs include train and engine crews, fuel and power, and maintenance of way.

\*\* Long-term avoidable costs—All short-term avoidable costs, plus claims expenses, heavy maintenance and a portion of corporate and field overhead. Also included is a consideration of the effects route additions and deletions have on corporate costs over a period longer than one year.

\*\*\* Effective Jan. 1, 1983, Amtrak began providing commuter service under contract to the state of Maryland.



Revenue from real estate, mail and express shipments, and corporate development projects is becoming increasingly important to Amtrak's growth. The development of major real estate holdings, such as 30th Street Station in Philadelphia, above and right, produces a cash flow that will help pay for new passenger cars or other capital needs. Improvements to the station not only produce revenue, they also improve the convenience, comfort and attractiveness of the station for our customers. Amtrak is attracting new businesses, like McDonald's and Haagen Daz, whose products are recognized for their quality.





## AMTRAK ON THE UPGRADE

Although the number of passengers using Amtrak remained almost constant during FY86 compared to FY85, the growing popularity of our long-distance trains helped push passenger miles above the five billion mark. Particularly strong increases in passenger miles were recorded on *Auto Train* (up 44 percent), the Boston-Newport News *Colonial* and *Tidewater* (up 51 percent), the Chicago-New York/Boston *Lake Shore Limited* (up 24 percent), the Chicago-New York/Washington *Broadway Limited* and *Capitol Limited* (up 17 percent), the Los Angeles-New Orleans *Sunset Limited* (up 12 percent) and the New York-Florida *Silver Meteor* (up 9 percent).

A slight decrease in the number of riders reflects a conscious decision we made to lower our operating costs by operating fewer trains used primarily by commuters, all of which require very heavy subsidies. Due to this restructuring in some of our services, we estimate that we are no longer carrying some 600,000 to 700,000 commuters, primarily in the Northeast. This was one of the steps we had to take to live within a reduced federal grant.

Another step which affected ridership was changing three of our long-distance trains from daily to tri-weekly operation during the off-peak winter season. Savings on the *Pioneer* route were substantial; however, savings on the *Palmetto* and *Crescent* routes were not as much as we anticipated. Nevertheless, we were determined to maintain some level of service on all of our routes.

On the other hand, without adversely affecting our need for federal subsidies, Amtrak was able to add service between New York City and Cape Cod on summer weekends as a result of a contract with the commonwealth of Massachusetts.

A substantial gain in revenues, combined with a decrease in operating expenses, resulted in a four-percentage-point increase in the revenue-to-expense ratio—from .58 in FY85 to .62 in FY86. It was the best single-year increase in this ratio since 1982 and a highlight of Amtrak's most successful financial year.

Put in perspective, at Amtrak's present rate of earning and spending, a one-point increase in the revenue-to-expense ratio requires approximately \$14 million added revenues or a \$22 million reduction in expenses—or some equivalent combination of both factors.

Amtrak's people achieved these FY86 results in a challenging economic and competitive environment. In a total travel market that grew by only 2 percent we were able to make a 6.2 percent gain in passenger revenues. While gasoline prices were falling (27 percent between Labor Day 1985 and 1986) and the deregulated airlines were cutting prices to gain a competitive advantage, we managed a substantial increase in our revenue-to-expense ratio. Few other companies in the travel industry can match that rate of improvement. The major domestic airlines as a whole *lost* more in their revenue-to-expense ratio than we gained. What made the difference? A concentration on fundamentals: marketing, cost control and service improvements.





■ Railfones added to all New York-Washington Metroliner Service trains provide additional convenience for passengers using this popular Northeast Corridor high-speed service.

## WINNING IN THE MARKETPLACE

I ncreasing our revenue-to-expense ratio and continuing to reduce our dependence on federal funding is as keen a bottom-line concern for Amtrak as net income is for any other business. To do this successfully demands aggressive marketing, competitive pricing of a quality product and consistent development of all of Amtrak's assets to bring in more revenues to supplement that earned by our passenger trains.

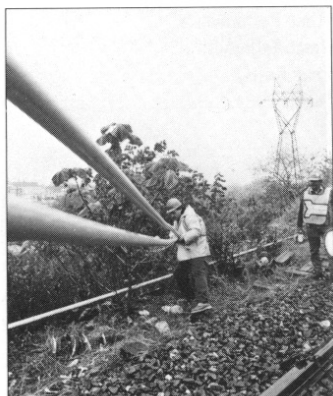
Amtrak's strength in the total travel market—and that is where we compete—depends to a great degree on how well we can sharpen and sell the *distinctiveness* of what rail passenger travel has to offer. FY86 provided numerous examples of this strategy at work.

Northeast Corridor service, especially the popular Metroliner Service between New York and Washington, gained new appeal in FY86 with the application of a number of refinements for the passenger's comfort and convenience. Amtrak's first-class Club Service was upgraded in July, with advance boarding at originating terminals, and complimentary coffee, wine, and meals with expanded menus. In June, on-board telephones became available on three cars of each Metroliner Service train. "Railfone," in service along 90 percent of the 224-mile route between New York and Washington, is a standard touch-tone telephone that can be activated with a major credit card. It allows the passenger to make outgoing calls anywhere in the United States, a particular convenience for business travelers. The service not only adds to the distinctiveness of our product, it is also netting a profit for Amtrak and our venture partner, Railfone, Inc.

Attention to the convenience of passengers begins long before they board a train. Amtrak's new "A-Plus" system, put in place in FY86, speeds the reservation and ticketing process for Amtrak's frequent travelers with a computer record of information about the individual passenger. The passenger simply gives a credit card number when making a reservation and picks up the ticket quickly upon arrival at the station. As an added convenience for Metroliner Service passengers, Amtrak has established a "will call" service at designated ticket windows in the stations at New York, Philadelphia and Washington for the pick-up of tickets previously ordered by telephone.

Although it is too early to evaluate the full effect of all these amenities, two developments in FY86 give a pretty good indication of their success. In the first quarter, Amtrak became the leading carrier in the Washington-New York air-rail passenger market, surpassing Eastern Airlines. For the year, ridership on Metroliner Service trains increased by 13.2 percent.

In promoting long-distance Superliner trains in the West, Amtrak's marketing approach concentrates on making the train trip itself part of the fun of a vacation rather than just a means of getting there. We do this by catering to the convenience and enjoyment of the traveler with a whole package of extras.

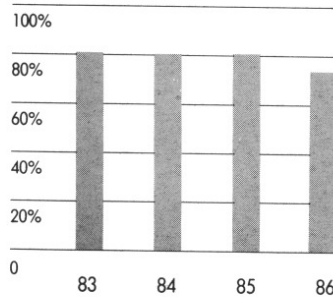


■ Far left, an AT&T worker, protected by an Amtrak flagman, carries cables that will be installed in conduits for AT&T's fiber optic system along the Northeast Corridor right-of-way. Additions to the subway car assembly program for the Washington Metropolitan Area Transit Authority, under way at the Beech Grove (Ind.) Maintenance Facility, left, also contributed to our revenue enhancement program.

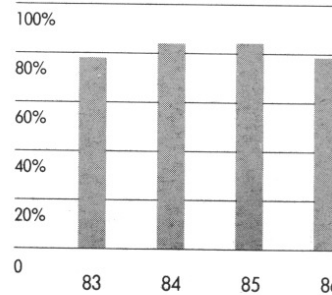


■ Mail and express revenue increased 5.5 percent in FY86. Bag-gagemen Jack J. Heatley, left, and Arthur Hester load an over-the-road mail container in Washington, D.C., in one of the 73 new mail and express cars delivered this year. Acting Foreman John T. Wright supervises.

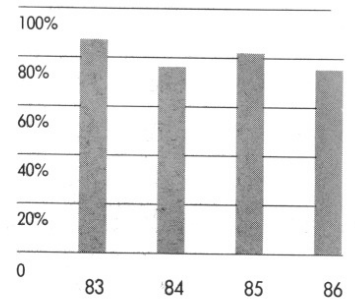
**On-Time Performance, Systemwide  
(Route Basis)**



**On-Time Performance,  
Northeast Corridor  
(Carrier Basis)**



**On-Time Performance,  
Contract Railroads  
(Carrier Basis)**





Pricing promotions also help Amtrak meet the intense competition by airlines in the long-distance market and the private automobile in middle- and short-distance travel. All Aboard America fares that entitle the traveler to round-trip travel with stopovers in one, two or three geographic regions were continued in FY86. They were supplemented by new All Aboard America coach fares in the Central and Western regions at further reductions in fares that allow stopovers only as necessary for direct train connections. In the middle-distance market, Amtrak established the \$7 return fare in connection with the purchase of round-trip tickets.

Also helping promote train travel and ease the holiday crush at rail stations were Amtrak's off-peak holiday fares at Thanksgiving, designed to encourage passengers to travel earlier or later than the usual rush times. Off-peak and summer family fare reductions added to the popularity of *Auto Train*, which showed important gains during FY86 in ridership and revenues. Amtrak's advertising concentrated on the markets and routes with the most productive potential. These included Metroliner Service and other corridor trains, *Auto Train* and long-distance trains to Florida and the West.

Revenue enhancement activities continued to play a growing part in Amtrak's business. In FY86 it amounted to \$69.6 million, an increase of 12 percent over FY85. Just as important as the revenue itself, the number and variety of ventures involved had encouraging implications for the future. Real Estate revenue of \$25.5 million was 23.9 percent ahead of the preceding year and further increases are predictable on the basis of real estate developments planned at our stations in Chicago, Philadelphia, New York and elsewhere.

Corporate Development revenue amounted to \$17.2 million, a 6.5 percent increase over FY85. Included were a new lease for fiber optics circuits along the Northeast Corridor right-of-way, installation of telephones on Metroliner Service trains, additions to the subway car assembly contract for the Washington Metropolitan Area Transit Authority under way at the Beech Grove (Ind.) Maintenance Facility, as well as track maintenance for other railroads and equipment leasing. Our rail welding plant at New Haven, which does work for outside firms as well as for Amtrak, is being modified to accommodate the new 78-foot rail sections now standard in the industry.

Mail and express revenue showed a 5.5 percent increase to \$26.9 million and prospects for future increases improved considerably with the addition of 73 new mail and express cars to Amtrak's fleet.

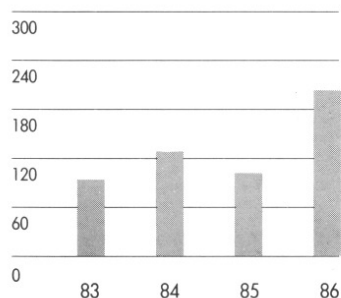
## **Passenger Ranking Amtrak and Largest Air Carriers\***

Twelve Months  
Ended Sept. 30, 1986  
PASSENGERS (000)

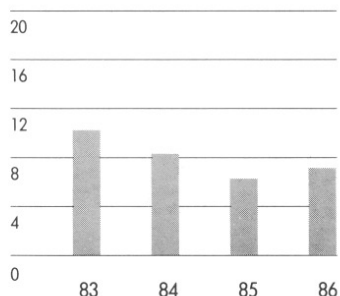
- 1 United  
(46,021)
- 2 American  
(42,295)
- 3 Delta  
(39,398)
- 4 Eastern  
(38,997)
- 5 Piedmont  
(21,431)
- 6 USAir  
(20,891)
- 7 **Amtrak**  
**(20,328)**
- 8 Republic  
(19,282)
- 9 Continental  
(17,138)
- 10 TWA  
(16,152)

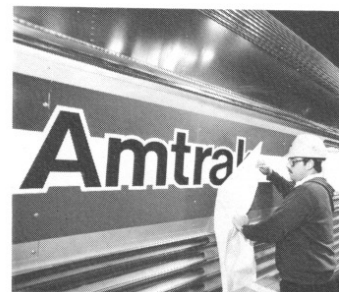
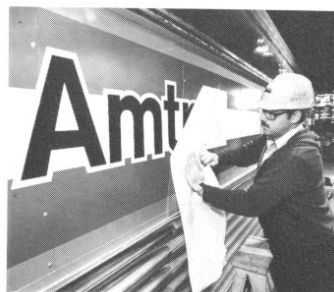
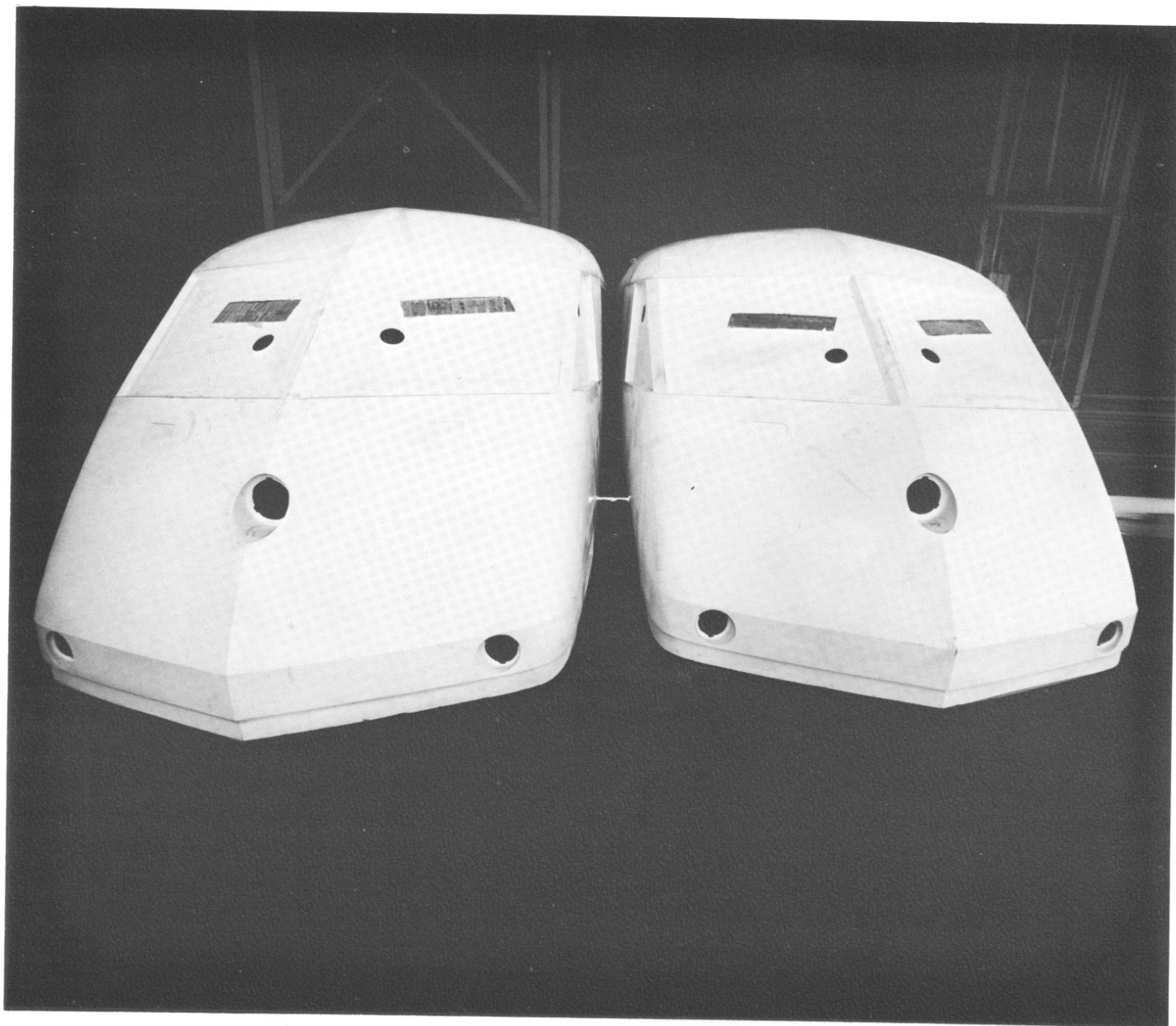
\*Domestic operations,  
scheduled service

**Equipment-Related Delays**  
(Average hours per month)



**Passenger Complaints**  
(Number of complaints  
per 10,000 passengers)





**B**ringing in more revenue is only part of the formula for improving Amtrak's bottom line. The other part is continued and effective cost control. Fortunately, this is an area where Amtrak has demonstrated some of its best results, and FY86 offered numerous examples of the prudence and productivity that must be our watchwords now and for the future.

One particularly encouraging development was the move to directly employ the train and engine crews that operate most of our passenger trains on contracting freight railroads throughout the country. We began employing the crews on our own Northeast Corridor passenger trains in January 1983 and on *Auto Train* later that year, with excellent results. After reaching agreements with the Brotherhood of Locomotive Engineers and the United Transportation Union, we began to hire the crews operating our trains on freight railroads.

Crew members were invited to bid on rail passenger jobs based on their railroad seniority, but with the understanding that they would be paid according to Amtrak's 40-hour work week rather than the traditional freight railroads' basis of train miles operated. When the designated train and engine crews have become Amtrak employees by the end of FY87, America's passenger railroad will become the first and only major U.S. railroad to operate under modern work rules.

Amtrak estimates that the new contracts will result in annual savings in the \$20 to \$30 million range. But more than costs are at issue here. As Amtrak employees, our crews will be more closely identified with the goals and future of the corporation, with a beneficial effect on the quality of our service.

Working to bring the cost-efficiency of our Reservation Sales Offices up to that of the more efficient of our airline competitors, we combined our existing five offices into three—at Fort Washington, Pa., Chicago and Los Angeles. The two smaller offices—at Carle Place, N.Y., and Jacksonville, Fla.—were closed. Prior to closing the two offices, we explored other cost-saving alternatives with the Brotherhood of Railway and Airline Clerks but we were unable to reach an agreement.

Installation of a new main frame computer at the Philadelphia Data Center in FY86 enabled Amtrak to meet business data processing needs. In addition, 16 new systems or enhancements to existing systems were implemented, contributing to cost reductions and enhancement of revenue opportunities.

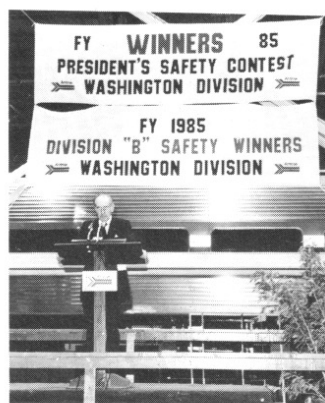
To meet Amtrak's requirements for excess liability coverage, we joined other railroads in forming a rail industry insurance company. The recent crisis in the insurance industry had confronted Amtrak

DOING  
MORE  
WITH  
LESS

■ Two completely rebuilt Turboliner train sets are scheduled to roll out of the Beech Grove Maintenance Facility in FY87. The trains are being completely modernized and will be fitted with new front sections, above left, as part of the program. Left, Carman Rick Adams applies the finishing touches to a refurbished Heritage sleeping car at Beech Grove.



■ Amtrak began direct employment of engineers and conductors on the Northeast Corridor in 1983, and outside the Corridor in 1986. Amtrak Engineer Carmine J. Palumbo, above, operates an AEM-7 electric locomotive, capable of cruising at 125 mph. Amtrak's commitment to safety was stressed by President W. Graham Claytor, Jr., right, at the dedication of the Washington Maintenance Facility in September. Mattress covers are custom tailored by experienced craftsman at Beech Grove, far right.





with the prospect of rate increases, lower liability limits and extended exclusions. Rather than pay more for considerably less coverage, railroads—including Amtrak—set up their own insurance company (to cover liability in excess of \$50 million).

Attention to track and equipment maintenance, as well as continued emphasis on safety, have an important bearing on Amtrak's productivity. In addition to welded rail installation and cross-tie renewal, Amtrak completed or began a number of projects in FY86 that promise to contribute to service and productivity in the future.

Upgrading was completed on the line between Porter, Ind., and Kalamazoo, Mich., a track and signal renewal program that brought authorized train speeds up to 79 miles per hour. Work began on a three-year program of rehabilitation and renewal on the line from Philadelphia to Atlantic City. On completion of the \$60 million project, a joint venture of Amtrak and New Jersey Transit, up to 18 trains a day are expected to operate over the line. They will serve a new rail terminal planned for the Atlantic City convention center complex.

Amtrak's new locomotive and car maintenance facility and commissary opened at Ivy City in Washington, D.C., in FY86. Replacing an outmoded plant on the same site, it was funded under the Northeast Corridor Improvement Project.

Our Joint Labor-Management Productivity Council, which has already helped local task forces develop and put to work a number of cost-saving and service-related ideas, continued efforts in the areas of in-house repairs, safety and employee recognition. Local task forces are exploring solutions to a variety of issues ranging from employee morale and cost-saving incentives to station improvements and traction energy savings.

Amtrak inaugurated in FY86 an intensified safety program of education and awareness that includes a safety and injury information system, safety committees on the local level and joint labor-management participation in the development of safety training programs.



■ The Beech Grove Maintenance Facility, far left, has gained industry-wide recognition for innovation and the quality of its work. Left, new wheels await installation on Amtrak equipment.



■ Amtrak's *California Zephyr*, above, en route from Chicago to San Francisco, travels through the heart of the Rocky Mountains. Amtrak's first-class Club Service, right, was upgraded in July, with advance boarding at originating terminals and added on-board amenities. During FY86 Amtrak linked its ARROW reservations system with United Airlines' Apollo services, used by more than 8,500 travel agencies, far right.



**M**aking Amtrak service a combination of courtesy, convenience, comfort, excitement and reliability enables Amtrak to compete in the marketplace and ensures our future. Such service enhances our revenues and our acceptance by the public. Much was done in FY86 to increase the appeal of Amtrak's service at every stage of a passenger's journey.

Reservations and ticketing became more convenient as a result of Amtrak's link with a third major airline reservations system—United Airlines' Apollo services, used by more than 8,500 travel agencies. Our automated ARROW system had already established links with American Airlines' SABRE Total Access system and Trans World Airlines' PARS. Two other developments in FY86 made the purchase of tickets more convenient. We became the first non-airline member of the Airline Reporting Corporation (ARC), which makes it easier for ARC's more than 24,000 travel agencies to process Amtrak ticket sales. Amtrak also became a participant in the Air Travel Card system, allowing some two million holders of the card to buy rail tickets as well as those of the world's major airlines. Amtrak already honors most other major credit cards.

Passengers wait for and board trains in more convenient and attractive settings in a number of Amtrak-served communities where stations have been upgraded or new stations opened in the past fiscal year. New stations were opened at Kansas City, Mo., in the heart of a new downtown development area; and at Quincy, Ill., where the new station building resembles an 1880's-vintage streetcar depot. (Quincy is only one of 18 station renovation projects in Illinois, most of them in stations owned by the Illinois Central Gulf and Burlington Northern railroads.) In Fargo, N.D., a smaller and more efficient new station in a renovated building has replaced an older facility.

A new \$23.5 million station was opened on a new site in Providence, R.I., permitting the city to incorporate the former station into a major urban renewal project. The modern station, funded by the Northeast Corridor Improvement Project, has a stainless steel dome that complements the historic dome of the nearby Rhode Island Statehouse.

Under the management of the Union Station Redevelopment Corporation, construction began in FY86 on the multimillion-dollar restoration and development of the Washington, D.C., Union Station as a thoroughly modern rail passenger terminal with three interconnecting levels of shops, restaurants and offices. Already nearing completion is the five-story parking garage behind the main station building. Station redevelopment work is also under way in New York, Philadelphia, Chicago, Princeton Junction, and Old Saybrook and New London, Conn.

## IMPROVING THE SERVICE



Providence Journal-Bulletin photo

■ Children of all ages enjoy Amtrak's "Superliner Experience" enhancements, far left, on the *California Zephyr*, *Coast Starlight*, *Empire Builder*, and *Southwest Chief*. Thousands of red and blue balloons rise above the new Providence, R.I., station, left, during its dedication and grand opening in July.





■ Richard H. McNabb, electrician at the Beech Grove Maintenance Facility, installs an electrical panel in one of the new generation of sleeping and dining cars, above. The three prototype cars, distinguishable by their double row of windows, will be extensively tested before they become models for a production order of cars. Metroliner Service trains, right, routinely reach speeds of 125 mph, enabling Amtrak to operate an under-three-hours schedule between New York and Washington.

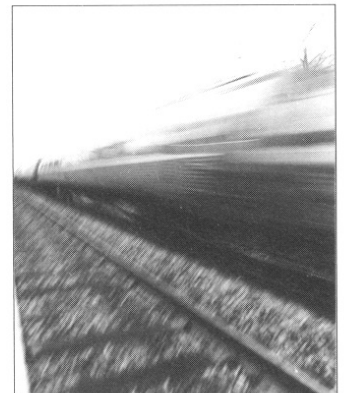
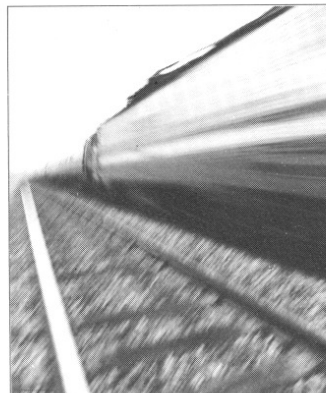
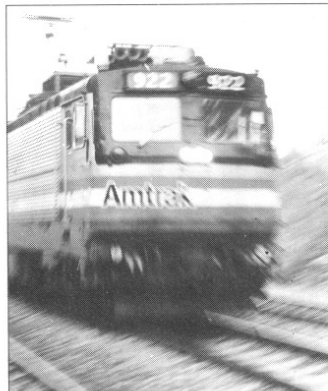


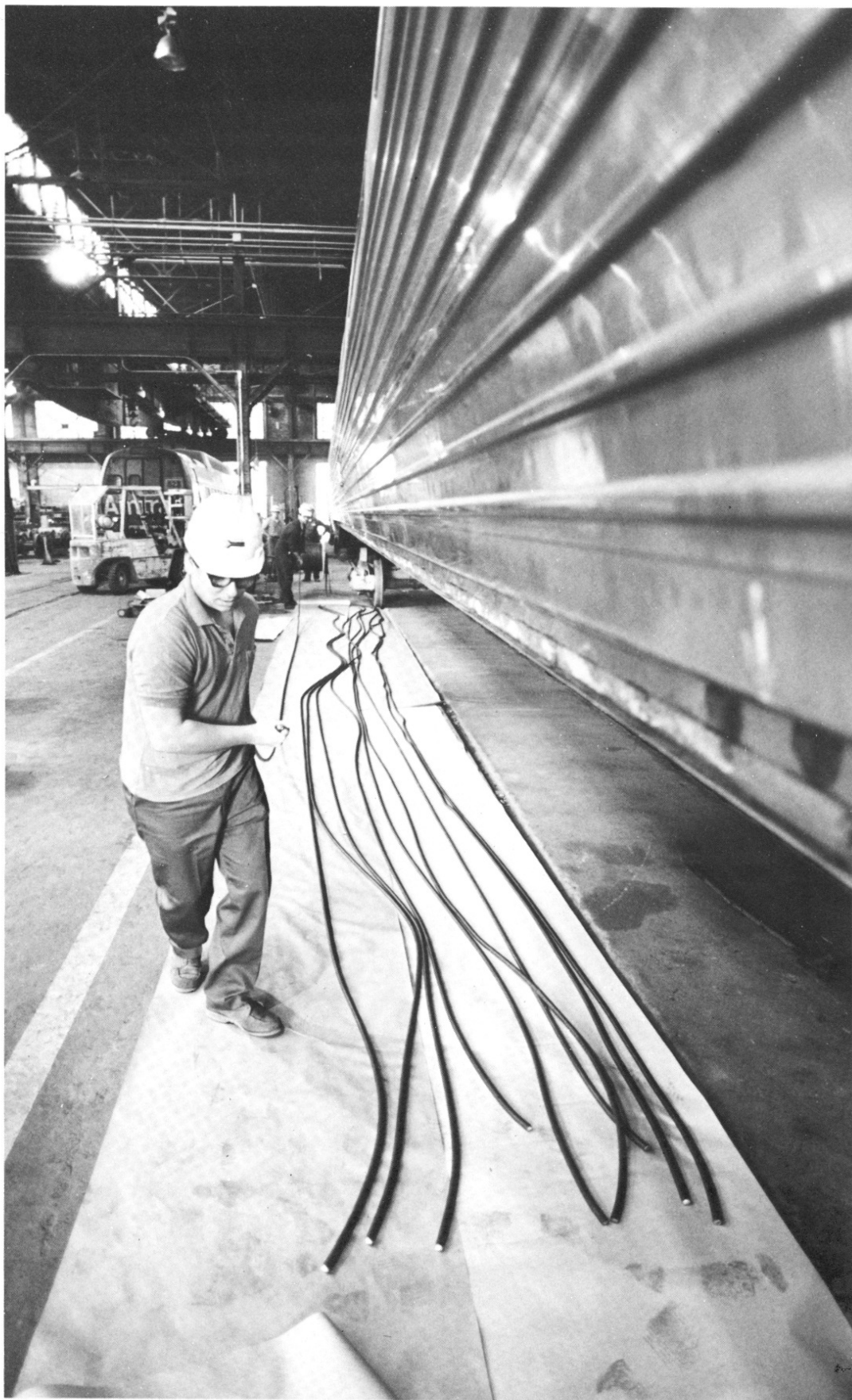
Aboard our trains, FY86 provided a number of examples of the refinements that make Amtrak more than a means of getting from place to place. We introduced a new lounge car, called "Le Pub," on the *Montrealer* between Washington and Montreal. It features food and beverage service in a club-like atmosphere with lounge seats and tables and an electric piano with a professional pianist during the evening hours. The *California Zephyr*, operating between Chicago and San Francisco, has guides from the California State Railroad Museum aboard during the weekends for the journey between Sacramento and Reno to describe for passengers this historic and scenic passage. In the East, on the Chicago-New York *Cardinal*, guides from the National Park Service ride the train between Montgomery and White Sulphur Springs, W.Va., during the summer months to describe for travelers the history and geology of the New River Gorge National River.

Encouraged by the success of the "Superliner Experience" on the *Southwest Chief* between Chicago and Los Angeles in FY85, we had the same package of enhancements ready to go on three other long-distance trains by the end of FY86. Now there are route guides, movies and games in the lounge car, and specialty drinks and snacks at a "hospitality hour" aboard the Chicago-Seattle/Portland *Empire Builder*, the Chicago-San Francisco *California Zephyr* and the Los Angeles-Seattle *Coast Starlight*. In FY87 Amtrak plans to expand the program to the Chicago-San Antonio *Eagle* and the Los Angeles-New Orleans *Sunset Limited*.

In April, on all long-distance trains, Amtrak began including a choice of complimentary meals with first-class sleeping car tickets. First-class passengers on long-distance trains already enjoyed such added refinements as a wine and cheese basket, stationery and information packet and morning wake-up beverage service with a complimentary newspaper.

Passenger equipment of the future continued to take shape at the Beech Grove Maintenance Facility where work progressed on Amtrak's next generation of passenger cars. After extensive service testing these will become the prototypes for our equipment orders in the years ahead.





■ Electrician Larry Katz lays out lengths of cable that will become the 480-volt electrical trainline for one of the original self-propelled Metroliner cars being rebuilt at the Wilmington Maintenance Facility for Los Angeles-San Diego service.

## ALONG THE TRACK AHEAD

As we look down the track all signals indicate "proceed," and that is what we intend to do. Building on our accomplishments to date, we will surpass the records we have already set for passenger miles and revenues. We will continue to improve the quality and reliability of our service while reducing our operating losses. And we will find ways to develop, challenge and reward each and every employee.

In 1987 we will begin to benefit substantially from many of our past investments and efforts. For example:

—Our state-of-the-art Centralized Electrification and Traffic Control system (CETC) is expected to be in full operation between Washington, D.C., and Wilmington, Del. This streamlined operation will improve both efficiency and reliability of operations in this part of Amtrak's busiest corridor.

—Two completely rebuilt Turboliner train sets will roll out of our Beech Grove Maintenance Facility ready to begin service along the heavily traveled Empire Corridor in New York state.

—Two prototype sleeping cars and a dining car will also roll out of Beech Grove to begin in-service testing on several Amtrak routes. Designed by Amtrak's equipment design group from the wheels up, these cars eventually will be models for a production order of cars to replace the Heritage fleet on eastern long-distance trains.

—An F40 diesel locomotive, the mainstay of Amtrak's motive power fleet, will emerge from Beech Grove with a newly installed prototype alternating-current traction drive which we believe will prove more reliable than the direct-current motor systems in our other diesels. After extensive tests and experience with this locomotive, we will be prepared to acquire units that have improved performance and reduced operating costs.

—Ten cars from the original self-propelled Metroliner fleet, which are being rebuilt at Amtrak's Wilmington Maintenance Facility, will be ready for service on the Los Angeles-San Diego route. These cars will enable us to operate an eighth round-trip on the route and extend one daily train to Santa Barbara. It will also permit us to reassign some Amfleet cars to increase capacity on other routes.

—On Jan. 1, 1987, Amtrak will begin operating the Massachusetts Bay Transportation Authority's commuter rail service in the Boston area. Amtrak already provides similar service for the state of Maryland. These commuter contracts are an excellent example of putting our expertise to work to earn extra revenue for Amtrak.

In other areas, we have laid a foundation upon which to continue building. As examples:

—Reconstruction of the "West Side Connection," a rail line along Manhattan's west side that will allow trains to operate directly from the Hudson River line through Pennsylvania Station,



■ Electrician James V. Church installs wiring in the air conditioning system panel of a prototype sleeping car, far left, at the Beech Grove Maintenance Facility. Car Repairman/Welder John Krajewski welds roof patches on a car, center, being rebuilt at the Wilmington Maintenance Facility. Left, Car Repairman Arnold Fritsche checks air trainline clearance on car being rebuilt for San Diego service, while Wilmington Shop Manager, Joe Bubble, supervises.

## **BOARD OF DIRECTORS**

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**The Honorable  
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Secretary of Transportation

Representatives Selected by the President  
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Amtrak's Rail Properties

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Los Angeles, Calif. (appointed  
September 1985, term expired  
September 1986)  
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business community)

began in July with construction of the 10th Avenue tunnel. When completed in 1989, passengers will be able to travel from Washington and other Northeast Corridor cities to Albany-Rensselaer and other New York state destinations without changing trains or stations. We estimate that the improved service will produce some 58 million additional passenger miles a year.

—We will also continue work on the Philadelphia-Atlantic City rail line in preparation for service scheduled to begin in 1989. By spring, our tracklaying machine will have completed its task of laying new ties and continuous welded rail along 52 miles of the route.

—Work also continues on the renovation and development of Washington Union Station, Philadelphia 30th Street Station, Chicago Union Station and New York Pennsylvania Station—our four largest stations, serving nearly 14 million passengers annually.

—Our leadership training program, which in FY86 involved managers up to the top level of the corporation, will continue to foster team building within all parts of our organization. Constant follow-up and reinforcement of the principles and ideas that have been introduced will be undertaken in order to realize the program's full potential for helping make Amtrak's management style both strong and sensitive.

In FY87, we will also continue to improve our service and the distinctiveness of our product. We are clearly the preferred carrier for trips between Washington and New York and we intend to maintain that advantage by providing convenient and reliable service. The addition of six Metroliner Service frequencies and completion of new parking garages at New Carrollton, Md., Stamford, Conn., and Wilmington, Del., will make our service more convenient for many; while new locomotive and car maintenance procedures will strengthen our on-time performance.

On our long-distance trains, we will continue to enhance the "vacation experience." Such on-board amenities as movies, bingo and trivia games, and special hospitality hours that have boosted revenues on the *Southwest Chief*, will be expanded to the *Sunset Limited* and *Eagle* routes in the spring.

Our efforts are steadily producing improved financial performance. In FY87, we expect to cover 64 percent of our costs with our own revenues, no small accomplishment for a corporation which just six years ago covered only 48 percent of its costs. There was a time when Amtrak's future seemed to depend on ever-increasing injections of taxpayer support. Today, the very opposite is true. The narrower the gap between revenues and expenses, the more independent and stable Amtrak becomes.



With funding from the commonwealth of Massachusetts, Amtrak inaugurated summer weekend service between New York City and Cape Cod in July. The inaugural train is pictured breaking a banner at Attleboro, Mass.



## OPERATING STATISTICS

	1982	1983	1984	1985	1986
<b>General</b>					
System Route Miles (in thousands)	23	24	24	24	<b>24</b>
Stations	506	497	510	503	<b>491</b>
Train Miles Operated (in millions)	29	29	29	30	<b>29</b>
<b>On-Time Performance</b>					
Systemwide	79%	82%	80%	81%	<b>74%</b>
Short Distance	79%	81%	81%	82%	<b>76%</b>
Long Distance	81%	82%	77%	78%	<b>69%</b>
<b>Ridership</b>					
Passengers (in millions)	19.0	19.0	19.9	20.8	<b>20.3</b>
Northeast Corridor	10.5	10.5	10.8	11.2	<b>10.7</b>
Short Distance	4.4	4.3	4.4	4.5	<b>4.4</b>
Long Distance	4.1	4.2	4.7	5.0	<b>5.1</b>
Passenger Miles (in millions)	4,172	4,246	4,552	4,825	<b>5,013</b>
<b>Locomotive Units</b>					
Operating Fleet	278	273	284	291	<b>291</b>
Available for Service (daily average)	88.4%	89.2%	92.3%	93.2%	<b>92.0%</b>
Average Age (in years)	4.0	5.0	6.0	7.0	<b>8.0</b>
Diesel Units (new deliveries)	0	0	0	10	<b>0</b>
Electric Units (new deliveries)	18	10	0	0	<b>0</b>
<b>Passenger Train Cars</b>					
Operating Fleet	1,450	1,480	1,379	1,523	<b>1664</b>
Owned and Leased:					
Superliner Cars	284	284	283	283	<b>282</b>
Amfleet I Cars	490	490	490	488	<b>486</b>
Amfleet II Cars	48	128	150	150	<b>149</b>
Heritage Cars	1,001	895	732	790	<b>789</b>
Turboliners (cars)	65	65	65	65	<b>65</b>
Self-Propelled Cars	108	76	78	78	<b>64</b>
Total Owned and Leased	<u>1,996</u>	<u>1,938</u>	<u>1,798</u>	<u>1,854</u>	<u><b>1835</b></u>
Average Age (in years)	14.0	14.8	13.2	14.2	<b>14.6</b>

NATIONAL  
RAILROAD  
PASSENGER  
CORPORATION  
(AMTRAK)

## BALANCE SHEET

AS OF SEPTEMBER 30, 1986 AND 1985

(THOUSANDS OF DOLLARS)

<b>Assets</b>	<b>1986</b>	<b>1985</b>
<b>Current Assets:</b>		
Cash, including short-term investments of \$121,175,000 and \$107,741,000 in 1986 and 1985, respectively	\$ 133,692	\$ 123,736
Accounts receivable, net	69,536	81,439
Materials and supplies, at average cost	108,706	119,966
<b>Total current assets</b>	<b>311,934</b>	<b>325,141</b>
<b>Property and Equipment:</b>		
Passenger cars and locomotives	1,412,749	1,371,282
Northeast Corridor	2,387,816	2,267,821
Other	351,088	315,266
	4,151,653	3,954,369
Less—Accumulated depreciation and amortization	(909,514)	(754,283)
	3,242,139	3,200,086
<b>Other Assets and Deferred Charges:</b>		
Long-term budget advances to railroads	9,029	9,178
Union Station redevelopment fund	57,433	63,016
Deferred charges and other	233,068	209,959
	299,530	282,153
<b>Total assets</b>	<b>\$3,853,603</b>	<b>\$3,807,380</b>

<b>Liabilities and Capitalization</b>	<b>1986</b>	<b>1985</b>
<b>Current Liabilities:</b>		
Railroad accounts payable	\$ 32,696	\$ 37,192
Accounts payable	72,500	66,178
Accrued expenses	101,663	107,565
Current portion of long-term obligations	5,732	3,933
Federal Railroad Administration advances	—	12,068
<b>Total current liabilities</b>	<b>212,591</b>	<b>226,936</b>
<b>Long-Term Obligations:</b>		
Notes payable	1,119,635	1,119,635
Mortgage notes payable	2,128,798	2,043,709
Other	18,039	18,266
	<b>3,266,472</b>	<b>3,181,610</b>
<b>Other Liabilities and Deferred Credits:</b>		
Casualty reserves	36,872	23,330
Deferred credits	158,404	174,924
	<b>195,276</b>	<b>198,254</b>
<b>Total liabilities</b>	<b>3,674,339</b>	<b>3,606,800</b>
<b>Commitments and Contingencies</b>		
<b>Capitalization (see Statement of Changes in Capitalization)</b>	<b>179,264</b>	<b>200,580</b>
<b>Total liabilities and capitalization</b>	<b>\$3,853,603</b>	<b>\$3,807,380</b>

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

NATIONAL  
RAILROAD  
PASSENGER  
CORPORATION  
(AMTRAK)

# STATEMENT OF OPERATIONS

FOR THE YEARS ENDED SEPTEMBER 30, 1986 and 1985

(THOUSANDS OF DOLLARS)

	1986	1985
<b>Operating Revenues</b>	<b>\$ 861,418</b>	<b>\$ 825,783</b>
<b>Operating Expenses:</b>		
Train operations	367,740	394,286
Maintenance of equipment	323,961	336,936
Maintenance of way	139,333	152,292
On-board services	126,742	131,044
Stations	101,147	104,781
Marketing and reservations	131,166	125,171
General support	113,195	109,946
Taxes and insurance	63,457	42,006
Depreciation and amortization	163,421	169,642
<b>Total operating expenses</b>	<b>1,530,162</b>	<b>1,566,104</b>
General and administrative expense	31,972	32,214
Interest expense	1,464	1,810
	<b>1,563,598</b>	<b>1,600,128</b>
<b>Net loss</b>	<b>\$ 702,180</b>	<b>\$ 774,345</b>

*The accompanying notes are an integral part of this statement.*



NATIONAL  
RAILROAD  
PASSENGER  
CORPORATION  
(AMTRAK)

STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE YEARS ENDED SEPTEMBER 30, 1986 AND 1985

(THOUSANDS OF DOLLARS)

	1986	1985
<b>Uses of funds:</b>		
Operations		
Net loss	\$702,180	\$774,345
Depreciation and amortization	(163,421)	(169,642)
Total funds used for operations	538,759	604,703
Northeast Corridor improvements	119,995	236,951
Other purchases and refurbishments of property	85,479	118,320
Increase (decrease) in other assets	17,377	(28,027)
Decrease in casualty reserves and deferred credits	2,978	3,912
Decrease (increase) in accounts payable and accrued expenses	4,076	(25,418)
Decrease in FRA advances	12,068	7,120
<b>Total uses of funds</b>	<b>780,732</b>	<b>917,561</b>
<b>Sources of funds:</b>		
Federal and state capital payments and federal operating payments	680,864	763,130
Mortgage notes payable	85,089	171,958
Decrease (increase) in receivables	11,903	(5,807)
Decrease in materials and supplies	11,260	5,235
Other	1,572	9,034
<b>Total sources of funds</b>	<b>790,688</b>	<b>943,550</b>
<b>Increase in cash     and short-term investments</b>	<b>\$ 9,956</b>	<b>\$ 25,989</b>

*The accompanying notes are an integral part of this statement.*

NATIONAL  
RAILROAD  
PASSENGER  
CORPORATION  
(AMTRAK)

STATEMENT OF CHANGES IN CAPITALIZATION  
FOR THE YEARS ENDED SEPTEMBER 30, 1986 AND 1985

(THOUSANDS OF DOLLARS)

	Balance September 30, 1984	Year Ended September 30, 1985	Balance September 30, 1985	Year Ended September 30, 1986	Balance September 30, 1986
Preferred stock issued to the Federal Government, \$100 par value; 50,000,000 shares authorized, 43,024,029 shares outstanding in 1986 and 36,279,449 shares outstanding in 1985	\$2,883,544	\$744,401	\$3,627,945	\$674,458	\$4,302,403
Common stock, \$10 par value; 10,000,000 shares authorized, 9,385,694 shares outstanding	93,857	—	93,857	—	93,857
Other paid-in capital:					
Railroad capital payments	108,997	—	108,997	—	108,997
Federal and state capital payments	128,924	18,729	147,653	6,406	154,059
	237,921	18,729	256,650	6,406	263,056
Accumulated deficit before federal operating payments	(7,050,119)	(774,345)	(7,824,464)	(702,180)	(8,526,644)
Federal operating payments	4,046,592	—	4,046,592	—	4,046,592
Accumulated deficit	(3,003,527)	(774,345)	(3,777,872)	(702,180)	(4,480,052)
Total capitalization	\$ 211,795	\$(11,215)	\$ 200,580	\$(21,316)	\$ 179,264

The accompanying notes are an integral part of this statement.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1986 AND 1985

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation

The financial statements reflect the consolidated operations of the National Railroad Passenger Corporation (Amtrak), and Chicago Union Station Company (CUS), a wholly owned subsidiary of Amtrak. All significant intercompany transactions have been eliminated.

#### 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 Amtrak. Amtrak's continuing program for auditing monthly costs reported by railroads has resulted in adjustments proposed and settled or under current negotiations. At September 30, 1986 and 1985, accrued estimated recoveries for proposed adjustments were \$4,590,000 and \$7,232,000, respectively.

#### 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 \$26,500,000 as of September 30, 1986 and 1985, and is reflected in the Balance Sheet under the caption, "Accrued Expenses." The non-current portion is classified as "Casualty Reserves."

### NOTE 2: FEDERAL AND STATE FUNDING

Funds are provided to Amtrak through federal and state payments for operations and for capital acquisitions and improvements. Pursuant to provisions of the Amtrak Improvement Act of 1981, Amtrak has been required to issue to the Secretary of Transportation cumulative preferred stock (no stated

dividends), with liquidation preference including any declared dividends prior to any payments to common stockholders, equal in par value to most federal operating and capital payments received subsequent to October 1, 1981, as well as capital and certain operating payments received prior to that date. Through September 30, 1986, Amtrak has issued 43,024,029 preferred shares of \$100 par value stock.

Public Law 99-500, approved on October 18, 1986, provides \$602,000,000 of grant funding for Fiscal Year 1987.

### NOTE 3: PROPERTY AND EQUIPMENT AND RELATED OBLIGATIONS

Amtrak's interest in its rolling stock is assigned to the Federal Government in connection with a note in the amount of \$1,119,635,000, which was executed on October 5, 1983, between Amtrak and the Federal Railroad Administration (FRA). This note, issued in consideration for the payment by FRA of Amtrak's outstanding guaranteed loan obligations to the Federal Financing Bank (FFB), matures on November 1, 2082, and can be renewed for successive 99-year terms. Interest is payable only in the event of prepayment of the principal.

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 depreciated over their estimated useful lives (see Note 4).

In March 1983, an emergency "Jobs Bill" (P.L. 98-8) was signed into law. This legislation, as subsequently amended, appropriates \$70,000,000 for Amtrak to fund labor-intensive capital projects intended to create new jobs. As of September 30, 1986 and 1985, Amtrak has incurred \$67,829,000 and \$65,572,000, respectively, in expenditures and commitments under this program.

## NOTE 4: LEASING ARRANGEMENTS

### Capital Leases

Amtrak leases certain items of equipment under capital leasing arrangements. At September 30, 1986, the gross amount of assets recorded under capital leases was \$8,095,000, and the future minimum lease payments under capital leases were as follows:

Year Ending September 30	Amounts (In Thousands)
1987	\$2,095
1988	1,333
1989	841
1990	527
1991	318
Later years	527
	5,641
Less amount representing interest	980
Present value of minimum lease payments at September 30, 1986	\$4,661

The present value of minimum lease payments is reflected in the Balance Sheet as current and long-term obligations of \$1,713,000 and \$2,948,000, respectively.

### Operating Leases

At September 30, 1986, Amtrak was obligated for the following minimum rental payments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year:

Year Ending September 30	Amounts (In Thousands)
1987	\$ 9,400
1988	5,183
1989	5,088
1990	4,648
1991	1,098
Later years	8,136
	\$33,553

Rent expense for the years ended September 30, 1986 and 1985 was \$24,048,000 and \$29,507,000, respectively.

## NOTE 5: PENSION PLAN

Amtrak has a defined benefit retirement plan covering nonunion employees and certain union employees. Costs are funded based upon the actuarial valuation in order to meet the funding requirements of ERISA.

The most recent complete actuarial valuation of the plan was performed as of January 1, 1986. As of that date, the actuarial present value of accumulated plan benefits was as follows:

Participants	Vested	Nonvested	Total
Active and deferred	\$16,402,152	\$6,139,096	\$22,541,248
Terminated	1,320,526	—	1,320,526
Retired	9,849,166	—	9,849,166
Total	\$27,571,844	\$6,139,096	\$33,710,940

The plan's net assets available for benefits were \$46,231,000 at January 1, 1986. Provision for pension costs was \$1,305,000 in 1986 and \$3,274,000 in 1985. The assumed rate of interest used in calculating the actuarial present value of accumulated plan benefits was seven percent in plan year 1986.

## NOTE 6: NORTHEAST CORRIDOR

In 1976, in connection with the United States Railway Association's Final System Plan, Amtrak acquired the properties of the Northeast Corridor from Conrail for \$86,366,000.

The Railroad Revitalization and Regulatory Reform (4R) Act of 1976, as amended, authorized an appropriation of \$120,000,000 for Amtrak to acquire the properties of the Northeast Corridor. As of September 30, 1986, Amtrak has received \$86,000,000 under this authorization. The remaining amount required to complete this acquisition was financed through federal loans (see Note 3). In addition, a total of \$2,500,000,000 has been authorized to be appropriated for the improvement of the properties. Amtrak has issued a mortgage note payable in 1975 to the Federal Government equal to the amounts expended for the acquisition and improvement of the properties acquired pursuant to the 4R Act. Interest is payable only in the event of prepayment of the principal.

As of September 30, 1986 and 1985, Amtrak has capitalized \$2,042,779,000 and \$1,957,670,000, respectively, for improvements to the Northeast Corridor.

## NOTE 7: PENDING LITIGATION AND ARBITRATION

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

In 1986, Amtrak settled a claim by the former Pullman Standard Division of Pullman Incorporated for additional compensation under a 1975 agreement, completed in 1981, for the design and manufacture of Superliner railcars for Amtrak. The dispute was resolved through a negotiated settlement which provided for, among other things, the mutual release of all claims between Amtrak and Pullman.



## NOTE 8: LINE OF CREDIT

Amtrak has a line of credit agreement, expiring in September 1987, 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, 1986 and 1985, there was no outstanding balance on the existing line 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 reflected as a deferred charge and deferred credit in the Balance Sheet of \$116,041,000 and \$123,925,000 as of September 30, 1986 and 1985, respectively. Revenue is recognized to the extent restrictions have been lifted, and funds released to Amtrak. For the years ended September 30, 1986 and 1985, Amtrak recognized revenue of \$17,620,000 and \$21,079,000, respectively, from these restricted funds.

## NOTE 10: UNION STATION REDEVELOPMENT FUND

Amtrak has agreed to provide up to \$70 million to help fund the restoration and development of the Washington Union Station complex. To meet this commitment, Amtrak has set aside \$70,000,000 in funds as of September 30, 1986, \$12,567,000 of which has been disbursed to the Union Station Redevelopment Corporation (USRC), the nonprofit corporation formed to manage the redevelopment program. The committed funds are classified under, "Other Assets and Deferred Charges" in the Balance Sheet. At the completion of the program, to the extent these funds have been released to USRC, they will be amortized to expense over the useful life of the station improvements.

## NOTE 11: INSURANCE

Effective October 1, 1986, Amtrak adopted a policy of self-funded insurance for liability losses up to \$50 million. Liability coverage in the \$50 million to \$100 million range is provided through an insurance company owned by Amtrak and various other railroads and transit authorities. Amtrak has entered into this arrangement 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.

## AUDITORS' REPORT

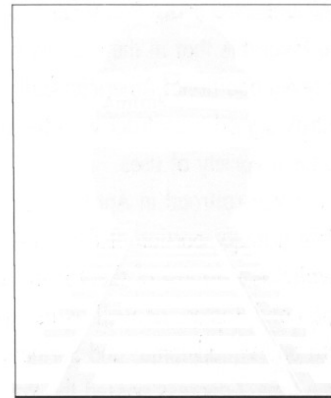
*To the Board of Directors of  
National Railroad Passenger Corporation:*

We have examined the balance sheet of NATIONAL RAILROAD PASSENGER CORPORATION (Amtrak) (incorporated pursuant to the Rail Passenger Service Act and the laws of the District of Columbia) as of September 30, 1986 and 1985, and the related statements of operations, changes in financial position and changes in capitalization 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.

In our opinion, the financial statements referred to above present fairly the financial position of Amtrak as of September 30, 1986 and 1985, and the results of its operations and the changes in its financial position and capitalization for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Arthur Andersen & Co.*

*Washington, D.C.  
November 21, 1986*



# AMTRAK AT FIFTEEN

## *A Rail Passenger Business And How It Grew*

During FY86 Amtrak marked its 15th year as the provider of intercity rail passenger service in the United States.

Amtrak began operation on May 1, 1971, with a \$40 million appropriation from Congress, a handful of employees, cast-off passenger cars from the private railroads and no track or maintenance facilities of its own. Amtrak's mandate: To breathe life into a dying rail passenger service that the nation's private railroads had been unable to save.

Few people gave Amtrak much chance to survive the two years for which it was originally funded, let alone succeed. But a funny thing happened on the way to the scrap yard. Amtrak revitalized the railroad passenger business.

That was not easy in a country that had been promoting a public policy of subsidizing highway and air travel for a half-century—but there were some important boosts along the way. In 1973 Amtrak received its first new intercity passenger equipment, and America received its first sharp message from the oil producing countries that oil and gasoline would no longer be so plentiful and cheap.

Six French-built Turboliners were Amtrak's first new cars. (Immediate need and the long lead time for domestic rail equipment dictated purchasing imported cars.) Passenger reaction to the new equipment was so favorable that in the ensuing two years Amtrak placed orders for seven additional American-built Turboliners. Subsequently, Amtrak signed a contract with the Budd Company for 492 Amfleet cars for a variety of uses.

Amtrak became a true railroad in April 1976, when the corporation acquired a major portion of the busiest stretch of railroad in the Western Hemisphere—most of the 455-mile Northeast Corridor between Washington and Boston, as well as its two feeder lines between Harrisburg and Philadelphia, and Springfield and New Haven. At the same time, Congress passed the Railroad Revitalization and Regulatory Reform Act which authorized spending \$2.5 billion to rebuild the Corridor. (The nine-year program enabled Amtrak to attain speeds of 125 miles per hour safely, and to operate its Washington-New York Metroliner Service on an under-three-hours schedule.)

From 1975 through 1980, orders were placed for 284 ultra-modern bi-level passenger cars to make Amtrak's long-distance western trains "Superliners." Maintenance facilities were improved,

and the corporation's Beech Grove (Ind.) Maintenance Facility gained new recognition for innovation and quality when our people there developed a system of rebuilding old steam-heated passenger cars for all-electric heating and air conditioning with power supplied from the locomotive. By 1982 all 1,500 of Amtrak's cars were new or rebuilt to this standard.

Besides upgrading train equipment and acquiring its own locomotive fleet, Amtrak installed a nationwide computer-controlled reservation and ticketing system that now connects us with 26,000 travel agencies, three airline reservation systems and a nationwide clearing house for ticket revenues.

In 1983, Amtrak began direct employment of engineers and conductors on its Northeast Corridor runs—on an eight-hour-day-pay basis rather than the mileage basis that had been the industry standard for decades. Amtrak began in 1986 assuming direct employment of engineers and conductors on its trains operated by contract railroads outside the Corridor on the same-pay basis. Eventual combined total annual cost savings in the Northeast Corridor and off Corridor are expected to reach the \$40 million range. It is worth noting here that Amtrak's union employees have contributed significantly to the corporation's improved productivity and efficiency.

Amtrak has found ways to bring many resources into play to improve financial performance. Right-of-way leases for fiber optics cable, joint real estate ventures involving Amtrak facilities and air rights, and marketing of its tracklaying and equipment maintenance skills to others have all helped swell Amtrak's revenues. So have the growing returns from carrying mail and package express shipments.

Such added revenues, combined with strong marketing of an improved passenger service, helped increase our cost recovery and reduce Amtrak's dependence on federal appropriations. In just the years between FY81 and FY86, Amtrak's revenue-to-expense ratio went from .48 to .62.

Looking at a longer time frame, in Amtrak's first full year of operation in 1972 we carried 16.6 million passengers a total of 3 billion passenger miles and brought in revenues of \$162.6 million. In FY86 there were 20.3 million travelers covering over 5 billion passenger miles and record revenues of \$861.4 million.

And that's the direction in which Amtrak will continue to move.

The Corporation contracts directly with unions covering most workers engaged in maintaining and operating Amtrak trains, stations and other facilities. During 1986 the Corporation began directly hiring some train operating crews who previously had been employees of various contracting freight railroads, a program that will be completed in 1987. Northeast Corridor train and engine crews and *Auto Train* operating crews have been Amtrak employees since 1983.

Whether they are employees of Amtrak or contracting freight railroads, engineers, brakemen, conductors, maintenance workers, signalmen, and myriad others work with Amtrak to bring you safe, timely, convenient service. These employees are represented by the following major labor organizations:

## AMTRAK'S PARTNERS

American Federation of Railroad Police, Inc.

American Railway and Airway Supervisors Association—A Division of BRAC

American Train Dispatchers Association

Amtrak Service Workers Council

Brotherhood of Locomotive Engineers

Brotherhood of Maintenance Of Way Employees

Brotherhood of Railroad Signalmen

Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers,  
Express and Station Employees

International Association of Machinists and Aerospace Workers

International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers

International Brotherhood of Electrical Workers

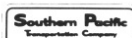
International Brotherhood of Firemen & Oilers

Joint Council of Carmen, Helpers, Coach Cleaners and Apprentices

Railroad Yardmasters of America

Sheet Metal Workers' International Association

United Transportation Union



*It is the policy of the National Railroad Passenger Corporation (Amtrak) to be an Equal Employment 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.*

Major photography  
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Cover photograph by C. P. Lee



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