AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

AMTRAK FOOD AND BEVERAGE OPERATIONS

(109–22)

HEARING

BEFORE THE

SUBCOMMITTEE ON

RAILROADS

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

JUNE 9, 2005

Printed for the use of the
Committee on Transportation and Infrastructure

U.S. GOVERNMENT PRINTING OFFICE

22–501 PDF WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

DON YOUNG, Alaska, *Chairman*

THOMAS E. PETRI, Wisconsin, *Vice-Chair*
SHERWOOD L. BOEHLERT, New York
HOWARD COBLE, North Carolina
JOHN J. DUNCAN, JR., Tennessee
WAYNE T. GILCHREST, Maryland
JOHN L. MICA, Florida
PETER HOEKSTRA, Michigan
VERNON J. EHLERS, Michigan
SPENCER BACHUS, Alabama
STEVEN C. LATOURETTE, Ohio
SUE W. KELLY, New York
RICHARD H. BAKER, Louisiana
ROBERT W. NEY, Ohio
FRANK A. LOBIONDO, New Jersey
JERRY MORAN, Kansas
GARY G. MILLER, California
ROBIN HAYES, North Carolina
ROB SIMMONS, Connecticut
HENRY E. BROWN, JR., South Carolina
TIMOTHY V. JOHNSON, Illinois
TODD RUSSELL PLATTS, Pennsylvania
SAM GRAVES, Missouri
MARK R. KENNEDY, Minnesota
BILL SHUSTER, Pennsylvania
JOHN BOOZMAN, Arkansas
JIM GERLACH, Pennsylvania
MARIO DIAZ-BALART, Florida
JON C. PORTER, Nevada
TOM OSBORNE, Nebraska
KENNY MARCHANT, Texas
MICHAEL E. SODREL, Indiana
CHARLES W. DENT, Pennsylvania
TED POE, Texas
DAVID G. REICHERT, Washington
CONNIE MACK, Florida
JOHN R. 'RANDY' KUHL, JR., New York
LUIS G. FORTUÑO, Puerto Rico
LYNN A. WESTMORELAND, Georgia
CHARLES W. BOUSTANY, JR., Louisiana
VACANCY

JAMES L. OBERSTAR, Minnesota
NICK J. RAHALL, II, West Virginia
PETER A. DEFAZIO, Oregon
JERRY F. COSTELLO, Illinois
ELEANOR HOLMES NORTON, District of Columbia
JERROLD NADLER, New York
ROBERT MENENDEZ, New Jersey
CORRINE BROWN, Florida
BOB FILNER, California
EDDIE BERNICE JOHNSON, Texas
GENE TAYLOR, Mississippi
JUANITA MILLENDER-MCDONALD, California
ELIJAH E. CUMMINGS, Maryland
EARL BLUMENAUER, Oregon
ELLEN O. TAUSCHER, California
BILL PASCRELL, JR., New Jersey
LEONARD L. BOSWELL, Iowa
TIM HOLDEN, Pennsylvania
BRIAN BAIRD, Washington
SHELLEY BERKLEY, Nevada
JIM MATHESON, Utah
MICHAEL M. HONDA, California
RICK LARSEN, Washington
MICHAEL E. CAPUANO, Massachusetts
ANTHONY D. WEINER, New York
JULIA CARSON, Indiana
TIMOTHY H. BISHOP, New York
MICHAEL H. MICHAUD, Maine
LINCOLN DAVIS, Tennessee
BEN CHANDLER, Kentucky
BRIAN HIGGINS, New York
RUSS CARNAHAN, Missouri
ALLYSON Y. SCHWARTZ, Pennsylvania
JOHN T. SALAZAR, Colorado

SUBCOMMITTEE ON RAILROADS

STEVEN C. LATOURETTE, Ohio, *Chairman*

THOMAS E. PETRI, Wisconsin
SHERWOOD L. BOEHLERT, New York
JOHN L. MICA, Florida
SPENCER BACHUS, Alabama
JERRY MORAN, Kansas
GARY G. MILLER, California
ROB SIMMONS, Connecticut
TODD RUSSELL PLATTS, Pennsylvania
SAM GRAVES, Missouri
JON PORTER, Nevada
TOM OSBORNE, Nebraska
MICHAEL E. SODREL, Indiana
LYNN A. WESTMORELND, Georgia, *Vice-Chair*
DON YOUNG, Alaska *(ex officio)*

CORRINE BROWN, Florida
NICK J. RAHALL II, West Virginia
JERROLD NADLER, New York
ROBERT MENENDEZ, New Jersey
BOB FILNER, California
ELIJAH E. CUMMINGS, Maryland
EARL BLUMENAUER, Oregon
LEONARD L. BOSWELL, Iowa
JULIA CARSON, Indiana
PETER A. DEFAZIO, Oregon
JERRY F. COSTELLO, Illinois
EDDIE BERNICE JOHNSON, Texas
JAMES L. OBERSTAR, Minnesota *(ex officio)*

CONTENTS

TESTIMONY

	Page
Biggs, Dan L., International Vice President, Transportation Communications Union	34
Capon, Ross, Executive Director, National Association of Rail Passengers	34
Crosbie, William L., Senior Vice President, Amtrak	8
Hecker, JayEtta Z., Director, Physical Infrastructure Issues, Government Accountability Office	8
Preston, Karen, Amtrak Passenger from Sacramento, California	34
Weiderhold, Fred E., Jr., Inspector General, Amtrak	8

PREPARED STATEMENTS SUBMITTED BY MEMBERS OF CONGRESS

Brown, Hon. Corrine, of Florida	81
Costello, Hon. Jerry F., of Illinois	94
Oberstar, James L. of Minnesota	163
Young, Hon. Don, of Alaska	185

PREPARED STATEMENTS SUBMITTED BY WITNESSES

Biggs, Dan L	46
Capon, Ross	90
Crosbie, William	96
Hecker, JayEtta Z	124
Preston, Karen	167
Weiderhold, Fred E., Jr.	172

SUBMISSIONS FOR THE RECORD

Biggs, Dan L., International Vice President, Transportation Communications Union:	
Employee Paid/Unpaid Hours, chart	58
Job Functional of Amtrak On-Board Service Workers, report	62
Amtrak On-Board Service Workers vs. Food Service Workers	74
The Truth About On-Board Service Workers' Wages, chart	79
Hecker, JayEtta Z., Director, Physical Infrastructure Issues, Government Accountability Office, responses to questions	158

AMTRAK FOOD AND BEVERAGE SERVICE

Thursday, June 9, 2005

HOUSE OF REPRESENTATIVES, COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE, SUBCOMMITTEE ON RAILROADS, WASHINGTON, D.C.

The subcommittee met, pursuant to call, at 10:00 a.m., in Room 2167, Rayburn House Office Building, Hon. Steven LaTourette [chairman of the subcommittee] presiding.

Mr. LATOURETTE. The Subcommittee will come to order.

I want to thank everybody for attending this morning. I also want to thank people for their patience. This is the second hearing that this Subcommittee will have relative to some things going on at Amtrak. I would be remiss if I did not note that the first hearing we had, we had the plane entering the air space of the Capitol and we could not have our hearing, and today we had a fire on the roof of the building. So this may be our last Amtrak hearing for a little while.

Today, this hearing centers on Amtrak's food and beverage service. As I indicated, it is the second in a series. The last hearing focused on the Acela discs, the brake discs. Mr. Crosbie, we are going to be a little generous with the five minute rule today for witnesses, and maybe at the beginning of your statement if you could just give us a little update of what is going on with the Acela and the discs, I know people would be interested in learning that.

The purpose of today's hearing is to examine an integral part of Amtrak's passenger operations—the food and beverage service provided annually to Amtrak's 24 million passengers. In the United States there are essentially four types of railroad passenger service—commuter, intercity, land cruises, and dinner excursion travel. Although most commuter trains do not provide any food or beverage service, for the remaining three types of service the various cafe, snack, and dining services are an important aspect of rail travel. Indeed, for the passengers, some form of food service is both a practical necessity and often the key social and leisure component of the rail experience.

For the railroad, the food service is an essential and challenging process that contributes little, other than good will, to the bottom line of an operation. While the food operations have never contributed positively to Amtrak revenue, Amtrak has experimented over the years with different methods of managing its food operations, trying to improve both quality of food service while at the same time trying to reduce cost. It is no easy task for any restaurant operation, especially one that is traveling on wheels.

As expenses associated with Amtrak's food and beverage operations are nearly $200 million annually when you include the cost of labor, and is the main service provided for customers other than the actual transportation itself, it is appropriate for this Subcommittee to review the current state of Amtrak's food services.

In addition, this review is timely and is warranted as the major contract supporting Amtrak's food service is scheduled to expire next year absent an agreement in the next few months to extend that contract. That contract is between Amtrak and Gate Gourmet International. Presumably, Amtrak has the option of competitively bidding a new contract if it so chooses, and we expect today we will get a status report from Amtrak as to what direction they are heading in that regard.

I would note that my preliminary review of some of the testimony today would lead me to opine that perhaps the contract that is currently in existence between Gate Gourmet and Amtrak is not a good one for Amtrak, and we hopefully can explore that with questions.

Amtrak provides various levels of food service and beverage service operations in 65 lounge or cafe cars and 83 dining cars in its fleet around the country. Prior to entering into a contract for support services with Dobbs/Gate Gourmet, Amtrak supplied food and beverage services through Amtrak's commissaries. As a result of the contract, Amtrak has outsourced its procurement of food and beverage stock as well as services supplies stock.

In addition to procuring and delivering stock, Gate Gourmet manages, operates, and maintains Amtrak-owned commissaries throughout the country, maintains and provides cleaning and laundry services, and procures, manages and maintains the operating equipment for Amtrak's employees to use in the service of food and beverage operations.

Accordingly, the Subcommittee will hear testimony today from a range of interested parties concerning Amtrak's food operations. The Amtrak Inspector General and the General Accounting Office each have reports and recommendations concerning Amtrak's management of costs and operations. Amtrak will provide an overview of current food operations, give a status and update of its contracted operations, and address concerns raised in the oversight report by the IG and GAO. Finally, Amtrak will identify other difficulties in providing cost-effective food operations.

I do want to note that to compare Amtrak's food and beverage service to an individual commercial restaurant I think is difficult, at best. There are a number of costs that Amtrak and the rest of the travel industry incur that restaurants do not, such as commissary and employee benefits for a unionized workforce. There are two expenses that are unique to Amtrak and the rest of the travel industry.

With that fact in mind, it is easy to see why the travel industry as a whole does not view food and beverage as a direct contribution to their bottom line. It is not viewed as a profit incentive, instead, it is used to drive ticket sales in an effort to increase revenues. Amtrak's food and beverage service is no different in this regard.

As I indicated, while the initial contract, in my view at least, is not a good contract from Amtrak's point of view, and there may

have been some management difficulties, and they will be identified in this hearing, I would also parenthetically note that I am impressed by the Gunn administration and the way that they have attempted to make some changes, that I hope we will hear about today, in their administration of this contract.

In addition, the Subcommittee will hear from a member of the Transportation Communications Union on behalf of Amtrak's Service Workers Council, which represents the individuals who provide service to Amtrak passengers in the cafe, dining, and sleeping car, about the extra challenges employees face in delivering services on a rolling restaurant. Additionally, the Subcommittee will receive testimony from the National Association of Railway Passengers, a passenger interest group, on their concerns about the state of Amtrak food service. And lastly, we will hear from Mr. Gary Preston of Sacramento, California, who is an actual Amtrak customer.

Again, I thank all of you for coming. I thank the members of the Subcommittee for coming today.

It is my pleasure now to yield to our distinguished Ranking Member Corrine Brown from Florida.

Ms. BROWN. Thank you, Mr. Chairman. I want to begin by thanking Chairman LaTourette for holding this hearing on Amtrak food and beverage operations.

In 1999, Amtrak contracted out its catering service to Dobbs International Services, which was later acquired by Gate Gourmet International. Gate Gourmet now manages Amtrak's 11 commissaries. At the time, Amtrak estimated that the contract would be cost-effective. Years later, the savings were never realized and Amtrak food and beverage operation is running at a net loss of $84 million.

It is important to point out, however, that Amtrak food and beverage service is a small part of Amtrak's overall budget. And while there seems to be some reforms that Amtrak should implement in the near future, such establishing performance incentives, I am concerned about Congress' role here. I do believe that we must ensure that the Federal funds that we provide Amtrak are not being wasted. However, Congress should not be micromanaging Amtrak's day-to-day operations. In fact, our attempts to manage Amtrak have thus far caused more harm than good.

For 25 years now we have criticized Amtrak because its food and beverage service was not making a profit. In the 1980s, Congress mandated that Amtrak food and beverage service break even. Amtrak responded with drastic cost-cutting measures, leading one former Amtrak CEO to say that Amtrak's food is so cheap it is not even edible.

Congress stepped in again. This time it allowed Amtrak to use up to 10 percent of its revenue on food and beverage service. That provided some relief for Amtrak, but Congress continued to pressure the railroad to contract out its food and beverage operations. Amtrak gives in, and now we're criticizing them for the very inefficiencies we created.

We have to stop micromanaging Amtrak and allow it to make its own business decisions. It may actually make sense for Amtrak to incur some losses on food and beverage service to attract more business. That is what the airlines have done. Airlines have strug-

gled for years with their food and beverage operations. Airlines have gone from offering four meals to eliminating meals, to offering snacks to outright selling meals and increasing restaurant service at airports. In 2004, United spent $6.56 per passenger on food and beverage, while American Airlines spent $6.24 per passenger, both of which are compatible with Amtrak food and beverage costs per passenger of $6.00.

But unlike the situation with Amtrak, Congress is not considering reducing Federal spending on aviation because of the airlines food and beverage losses, nor are we considering managing airline customer service operations through legislation. The fact is that these expenses are not a major cause of railroad overall financial difficulties. Years of starvation budgets is the cause.

And while I am interested in making Amtrak more efficient, what we ought to be doing here is figuring out how to invest more in our Nation's passenger rail network and holding hearings on real issues that require Congress' immediate action, rail safety, for example.

This Subcommittee has not had a hearing on rail safety since June 6, 2002, even though the number of train accidents is increasing. According to the Federal Railroad Administration, there were 3,127 rail accidents in 2004, an increase of about 400 since 2002. There have been at least 10 derailments in San Antonio, Texas since May 2004, some of which had fatalities, and several recent derailments in Southern California which warrant a congressional hearing immediately.

However, as I reviewed the hearing schedule for the next few weeks, we have three more hearings on Amtrak but I do not see anything on the schedule regarding rail safety. Mr. Chairman, can you tell me if this Subcommittee is going to have a hearing on rail safety this year?

Thank you. I am looking forward to hearing from our witnesses.

Mr. LATOURETTE. I thank the gentlelady very much. I would say for the purposes of the record, I am in receipt of the gentlelady's letter of May 26. I appreciate your letter not only on derailments but other train safety issues. I can assure the gentlelady that we will work in a bipartisan fashion to have such hearings as soon as we finish this batch of things. I appreciate your concern and also your cooperation as we move forward.

The gentleman from New York, Mr. Boehlert.

Mr. BOEHLERT. I pass, Mr. Chairman.

Mr. LATOURETTE. The gentleman from Florida, Mr. Mica.

Mr. MICA. Thank you, Mr. Chairman. I really do want to thank you. In fact, if you did not have that beard, I would probably come over and give you a kiss for holding this additional oversight hearing. I have been on the Subcommittee for I think all of my 13 years and we have tried several attempts at reform of Amtrak.

Part of the problem is not Amtrak. The biggest part of the problem is Congress and its reluctance to make significant reforms of Amtrak. But I want to thank you publicly for highlighting some of the serious operational problems.

We have focused on the problems with the Acela. You could not have a more incredible high-speed rail fiasco if you had sat down and tried to get Hollywood to produce the disaster for film. We

heard of a bungled acquisition, hundreds of millions of dollars; we heard of an attempt, after spending hundreds of millions of dollars, on high-speed rail service, and yet we have Acela which is neither high-speed, even by our Federal definition which is 120 miles an hour, I think it was going 83 miles on average per hour, which is about the same or maybe a mile faster than the Metroliner. A bungled acquisition. And buying equipment in a fashion that, if you come from the private sector, is just absolutely astounding. So you have focused on some of the problems with that beginning hearing.

Today we are going to focus again on operational shortfall. I believe, ladies and gentlemen of the Subcommittee, only if we had provided alcohol in large amounts and intoxicated some of the staff at Amtrak could they possibly blur and bungle an operation like food service with a captive audience and lose the amount of money that they have lost, I guess it is somewhere in the $140 million. We will hear more about that.

Ms. BROWN. Will the gentleman yield?

Mr. MICA. No, I will not because I want to illustrate, maybe when I am done if I have time and the Chairman will yield, but I want to illustrate the problem with Amtrak. You hear from the other side and folks that the problem is just more money, we have to put more money in it. Let me illustrate, if I may, the Amtrak food service operation. This is not what I am saying, folks, this is the GAO. It says, "This means that Amtrak spends about $2 to earn $1 in food service revenue." So this is the Amtrak method: we take in $1 and then we throw in the garbage $2. We take in $1 and then we waste $2. We take in $1, we waste $2.

Again, coming from the private sector

Ms. BROWN. Will the gentleman yield?

Mr. MICA. Not at this point, please, I am not finished. But I may yield

Mr. LATOURETTE. If you would just wait just a second, Mr. Mica. The gentleman has indicated that he will not yield. We are going to go to Mr. Blumenauer next, and then I will give the gentlelady time.

Mr. MICA. Okay. But to conclude, these are operational losses that can be resolved. I used this little waste basket as an illustration. If the staff wants to go back and get the ARC, Amtrak Reform Council, losses for 2001 of some of these routes, I could takes chunks of money, from $236 to $347, and put it in this waste basket. And these are because of operational deficiencies and losses in the system that need to be corrected.

So we have the testimony today on another incredible bungled operation. We have heard a couple of weeks ago in the last hearing of the high-speed fiasco which I described. Until we take Amtrak and truly reform it—the other thing people say is, well, all we have to do is put a little band-aid here and a little band-aid there.

Folks, that is not going to work. We are going to be back here again next year if we do not make those reforms. Somewhere we have to stop throwing money in the waste basket.

So I hope I have made my point through this illustration. I yield back the balance of my time.

Mr. LATOURETTE. I thank the gentleman. Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman. I appreciate the opportunity for this hearing. I apologize in advance, I have a mark-up across the way and so I will be coming back and forth. But my staff and I will be following this closely because I think it is very important.

I appreciated, Mr. Chairman, your thoughtful comments sort of setting the context and talking about the role that food service played as part of the overall rail experience. I also appreciated our Ranking Member, Ms. Brown's point about concerns of congressional micromanagement. I think over time the history of Congress in terms of authorizing and then not providing money, in terms of interfering with the management of Amtrak, the on again, off again, I think the unrealistic expectations and interference plays a major role. I must sympathize a little bit with Ms. Brown.

Although I think it is important for us to look at all aspects of rail transportation, and I am committed to understanding and supporting things that will make service as effective as possible, but I am thinking about the same level of scrutiny, talking about a captive audience and something that is not moving, in terms of our own restaurant and beverage service here on Capitol Hill for the House and the Senate and look at that over time. We seem to have some difficulties and yet we have a captive audience here.

And somebody pointed out to me this last week that the subsidy that was given to the monument to transportation inefficient planning and unartful contracting that is known as the "Big Dig" would have run Amtrak for a decade as opposed to the road project in Boston. And when we are talking about "Big Dig," look at our own big dig outside the Capitol and the massive cost overruns. I would wish that there would be the same zeal here on Capitol Hill on things that are simple, little, tiny construction projects that we have complete control over and yet Congress does not have its act together.

I note some small degree of irony on my part in terms of people who want to micromanage Amtrak, do not want to give it the appropriate resources, and then not spending the time and energy to get our own house in order and have the gall to talk about Amtrak's almost criminal negligence when you can just look outside the back of the Capitol, or look at our food service, or the lack of oversight for things like the "Big Dig." I think it is appropriate for us to think about.

I would be interested in the history about the rail companies before they off-loaded passenger service to Amtrak and saddled it with many of their obligations and responsibilities for their employees, for pensions, what their food service costs were in terms of a profit center. You have already mentioned the airline industry. You know, we are big partners with the airlines. We have given the airlines more Federal money since 9/11 than we have given Amtrak since 1971. And Ms. Brown again pointed out some of the concerns there.

Mr. Chairman, this is not to say that I am not supportive of the analysis. I just note a little bit of the irony in terms of what appears to me to be a double standard on the part of Congress generally for things that we have under our control, whether it is construction or it is food service. I think it is ironic.

I look forward to working with you on the whole range of rail issues, and look forward to this hearing today. If I have time remaining, I would yield to my colleague, Ms. Brown.

Mr. LATOURETTE. The gentleman has about 20 seconds left, and I think that would be a good idea.

Ms. BROWN. With 20 seconds, I would just like to say that the Chairman of the Aviation Subcommittee knows that we spend $4 billion a year on aviation, including the appropriation plus the security reinvestment. That was an interesting stunt that you just pulled. But in every news article that I have been watching, there is much discussion about what is going on in aviation and it is not any more secure since 9/11. Security is the issue here, whether it is Amtrak or aviation.

Mr. LATOURETTE. I thank the gentlelady. I agree that security is the issue in both rail and aviation. But today we are going to talk about food and beverage service.

[Laughter.]

Mr. LATOURETTE. A couple of housekeeping matters. I misspoke in my introductory remarks and apparently Mrs. Karen Preston is going to speak, and I do not want to cause a domestic difficulty. Gary Preston is not going to be the witness on our second panel. But I am assured that Karen Preston is, indeed, a real Amtrak passenger from Sacramento, California as well.

Two other things. It is the long-standing policy of the full Committee and this Subcommittee that we receive testimony well in advance, and that leads to sort of a problem that I am having. One is, we did not get testimony until late yesterday I believe from most of the witnesses on the first panel.

But that goes into the second problem, which is, prior to our Acela hearing there were news reports about the testimony, and apparently some of today's testimony has been released to news outlets again. I would remind witnesses, ask them, because you are going to be back on other hearings, to not do that. And if it is people other than witnesses, I would ask you not to do that.

As you know, testimony is revised and changes are made and the testimony that actually comes forward at a hearing may be substantially different from the testimony that is prepared even a few days before. So I would ask you to respect the rules of the Subcommittee.

It is my pleasure now to yield to the gentleman from Louisiana, Mr. Baker.

Mr. BAKER. Mr. Chairman, to advance your hearing, I have no comment to make at this time, but I will have more later.

Mr. LATOURETTE. I thank you very much. I thank the gentleman.

It is now time for our first panel. And again by way of remark, I have been advised that Ms. Hecker may have a plane to catch. But she has folks from her organization that will be here to fill in should she have to leave at about 11:30.

Our first panel consists of JayEtta Hecker, who is the Director of Physical Infrastructure Issues of the GAO; Fred Weiderhold, who is the Inspector General for Amtrak; and William Crosbie, who is the Senior Vice President at Amtrak. All three of you were present at our last hearing. I appreciated your testimony then, I appreciate your coming today.

And again, because of the scope of your observations, we are going to be a little lenient with the five minute rule. But I would ask you to sort of watch the lights as best you can and if we can stay as close to that mark as possible, I know that we would appreciate it.

Ms. Hecker, thank you for coming and we look forward to hearing from you.

TESTIMONY OF JAYETTA Z. HECKER, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, GOVERNMENT ACCOUNTABILITY OFFICE; FRED E. WEIDERHOLD, JR., INSPECTOR GENERAL, AMTRAK; WILLIAM L. CROSBIE, SENIOR VICE PRESIDENT, AMTRAK

Ms. HECKER. Thank you, Mr. Chairman, Ms. Brown, other members of the Committee. I am very pleased to be here today. I have a detailed statement, but I have tried to consolidate it in some slides to more briefly get through the key points. I think you see it above there.

The bottom line is really in the title, that our focus is that management and accountability issues are contributing factors to the unprofitability of food and beverage services. My remarks will actually focus on three areas: the incentives for cost control in the contract with the food supplier; second, Amtrak's exercise of controls over the contract; and finally, information available to monitor and control costs of food and beverage services at Amtrak.

I have a couple slides on some background and I think it is useful before I go to those three questions. The first one, as Mr. Mica said, is that Amtrak expends $2 of expenses for each $1 of revenue in food and beverage services. And this is the data for the last three years, 2002, 2003, and 2004.

The next slide actually breaks it out for each of those years, and you can see there is actually a consistent pattern over the three years of expenses consistently exceeding revenue basically on that two to one ratio.

Now the next slide actually gives you the components of Amtrak's food and beverage expenses. I think as many of you are aware, over half of the expenses are actually Amtrak labor costs. Those are the people on the train actually providing the services. The orange cut in the circle is actually two pieces of the Gate Gourmet services. The one on the bottom, the 23 percent, is the food and liquor produce cost.

So that is just the commodities that are bought or handled by Gate Gourmet through the commissaries and provided onto the trains. And then there are a series of fees that Gate Gourmet has, and those are about 15 percent of the total expenses. And then finally, that yellow wedge is all other Amtrak food and beverages.

And quickly looking through Mr. Crosbie's statement, he has not broken out that yellow piece. We did because it is very distinct, it is direct cost to Amtrak, it includes crew meals. It is different than the provision of food and beverage services. So it was our view that it made sense to break it out.

The final slide on background is some of the points that all of you have already mentioned, so I will go through it very quickly. Food and beverage service has been provided since Amtrak was

formed. Until 1999 Amtrak ran the entire operation internally. In 1999, Amtrak, actually a head of the northeast corridor business unit, signed a seven year cost-reimbursable contract with Gate Gourmet, which was Dobbs at the time, and the responsibilities were, first, to manage the 14 Amtrak commissaries, and then to handle all of the food and stocking onto the trains.

Amtrak, under the contract, would be charged for food costs, a management fee, a labor fee, as well as some other fees. And the original contract actually included numerous provisions authorizing Amtrak oversight.

Now getting to my first point about the contract, and I will try to go quickly over this because I understand Amtrak really does not have much disagreement with this. The contract not only provides little incentive, but in our view it is actually perverse incentives. The contractor is reimbursed for all costs. They can add the range of these fees on top of the food and beverage costs.

None of the fees or the guaranteed profit are tied to controlling costs or any performance features. And despite a discussion in the original contract of incentive standards and the call for them within 45 days of the contract, none of them were ever created. So that is the first point, the contract really has perverse incentives.

The second is the question of whether Amtrak has really exercised prudent management of the food and beverage contract. We have three points there. The first is that Amtrak has really never required the annual independently audited report that is called for in the contract. That would be an overview of the performance of the contract, the controls, and the exercise of the substantial independence that the contractor has. So that has never happened.

The next is perhaps even more important. They have never audited the contract purchase data to assure that the contractor passed on discounts or rebates to Amtrak. And the next slide actually shows you some of the data that was put together based on an inquiry we made to Amtrak. They basically could not tell us how many rebates or discounts they got.

And at our request, they went in and for 2002 and 2003, for a total of $90 million of purchases, the big blue circle, $6.5 million of the purchases were subject to discounts and rebates, and approximately a half a million dollars were actually credited to Amtrak. So that underscores our point that there was not really a systematic assurance that these discounts and rebates were being passed on to Amtrak.

The third point about the management oversight is our concern that Amtrak has not adequately monitored purchase prices in particular. My next slide is the result of some forensic auditing and data mining that we did of actual purchase orders and actual purchase prices paid. Basically, this limited sample, this is not representative, showed that the price of beer went from $0.43, which was actually a great deal, we agree, to $3.93 for a single 12-ounce beer. Similarly, on beef tenderloin the price ranged from about $3.00 to $6.50.

So again the prices paid varied widely. And while we understand there is some daily monitoring by Amtrak, in our view it is not systemic, it is not adequate, and it is really not controlling for these significant variations over time.

The third objective, Amtrak collects information to monitor food but it inhibits accountability. Basically, food and beverage expenses are not included in the monthly performance report or the annual consolidated financial statement. And while there is some pulled out reporting on revenue, it is not really systematically tracking, reporting, or monitoring food and beverage expenses.

I have gone over my time, so I will skip these. We had done some quick comparisons with VIA Rail, the Canadian passenger rail system, who has a very different system, the Alaska Railroad, which privatizes the whole function, and Northwest Airlines, which does detailed auditing of all of the invoices.

Based on this work, we have some recommendations under consideration which we will be forwarding to Amtrak. First, follow their own procedures for controlling payments. Utilize key controls that are actually available under the contract. Develop a written contract for the Acela food and beverage services. Improve reporting on food and beverage expenses and revenues.

And finally, the big one, particularly with the coming expiration of the contract, comprehensively review the most cost-effective solution to improving the performance of food and beverage function, not necessarily to make a profit, but to assure the most cost-effective delivery of food and beverages services on Amtrak trains.

That concludes my statement, and I will be happy to take questions. Thank you very much.

Mr. LATOURETTE. I thank you very much.

And as I indicated before, Mr. Fred Weiderhold, who is the Inspector General for Amtrak, is here. Mr. Weiderhold, thank you for coming, and we look forward to hearing from you.

Mr. WEIDERHOLD. Good morning, Mr. Chairman, and also good morning to the rest of the members of the Committee. It is a pleasure to be here. Let me give you my take on the reasons for the review, at least that the IG office undertook.

First, Amtrak's Strategic Reform Initiatives plan, which was submitted to Congress in April and accompanied the fiscal year 2006 budget request, calls for internal reform and improved operating efficiencies. I think Amtrak has to demonstrate both in its food services and in other parts of its business line that it is willing to undertake critical reviews to forward internal reform. I think that is an expectation of the Administration, I think that is an expectation of Congress, and I think, more importantly, it is an expectation of Amtrak itself that it has to take on some of these tough issues.

Second, from an IG perspective, we saw the need to conduct a systemic review to address what I would call historically weak controls, some of which JayEtta talked to, and business losses. This is what I call plugging the holes. I think there is probably about $7 million to $10 million worth of losses that are just simply waste. We have to go after that and we have to change the business model.

Finally, how do you change that business model? I think it is important to identify those opportunities that will improve the bottom line performance. But I think those options have to be viable, to Ms. Brown's comments, that you just cannot wholesale hold Amtrak accountable to a break-even standard. I happened to be around at Amtrak in the 1980s when that mandate was given and

the pendulum swung too far the other way, went to paper plates, worse than airline foods, and that is the last place that I think Amtrak should be at the end of this process.

Just some general facts on Amtrak's food and beverage operations, you have heard a few of these before. I have a slightly different take on it.

First, I think that food and beverage operations and food and beverage services at Amtrak are absolutely necessary on trains operating through more than one meal period. Currently, food and beverage service is operated on 90 percent of the 300 trains that Amtrak operates daily. It is provided on all overnight trains and most short distance trains. It is delivered via dining cars, cafe cars, lounges, or a combination thereof. It is considered by passengers to be an important part of the rail travel experience, and, indeed, it is something that differentiates Amtrak from some of its competition. At the same time, it represents about $200 million in annual expenses, and that is really the focus of what we are talking about this morning.

We conducted a report last year, I want to just synopsize that report briefly for the Committee. We looked at the financial performance of food and beverage service for fiscal year 2003. You have a chart here in front of you. You have seen some of the detail before. Basically, this shows about $80 million taken in in revenue, $162 million in expenses, for a net operating loss of about $84 million.

I would also point out that this excludes maintenance and interest for the rail cars themselves. This would add about an additional $50 million to the loss figure. So Amtrak's annual losses on food and beverage services are closer to $130 million annually.

If you took the same data, and this is basically a bar graph of the data you just saw but it makes it easier to read, but what you have here, what JayEtta spoke to, is basically showing that it takes $2.06 worth of expense that is covered by $1 of food sales.

Moving on to the core of our report. We had to benchmark against something. And I recognize, and we caveat in our report, that benchmarking against a U.S. restaurant industry may not be apples to apples. I think some people may consider it to be apples to oranges or apples to grapefruit. But we had to start somewhere and there are in fact more similarities than differences between Amtrak's food service and that of the U.S. restaurant industry.

In this chart, there are things that kind of stand out right away, if you will. Obviously, the blue bar shows labor. You see that labor is considerably more on Amtrak as a ratio against the food service dollar than it is for the U.S. restaurant industry, almost three times greater.

The other thing when we first ran this data, and what really surprised me, was the high cost of Amtrak's food and beverage stock against that revenue dollar. If you look at the limited service restaurant, which is about a $7 sale, more like a delicatessen but it is very close to Amtrak's lounge service, and the full service restaurant on the bar graph on the far right, which is about a $15 to $25 ticket, which is closer to Amtrak's full dining service, you will see a lot of consistency both in the percentage of labor and the percentage of food stock costs between both the limited service and the full service restaurants.

But what you see with Amtrak is a 50 percent higher number for their purchase of food. That surprised me quite a lot. I thought Amtrak would at least be in line with the restaurant industry with respect to the purchase of its food.

The other thing that surprised me when we did this analysis was the high carrying cost of the commissary operations. What you see there is basically $0.37 of every revenue $1.00 has to go to warehousing and handling the product.

We also attempted, the next graph, we also attempted to get at what I would call the productivity of the worker. And this is actually some good news here, because in almost every instance Amtrak's workers performed better than the restaurant. Which means that they produced a certain amount of revenue exceeding those of the restaurant experiences.

The only difference on this chart that you see, below the line are the six long distance diners that we examined. But I think that is adjusted because their staffing levels on the diners run from about four to seven persons per diner. We think that there is opportunity here for even further revenue increases, and I will talk to that more in just a moment.

This is also a slide that has caused a little bit of controversy. This is the annual labor cost per full-time equivalent employee. And let me just add a couple of caveats to this slide, if you will. First, this is adjusted to a 35-hour work week. Second, these data exclude tips but include benefits. And in the U.S. restaurant industry, as most of you know, benefits are nominal or non-existent.

Third, we recognize that there are major differences between the Amtrak model and the restaurant model here. We are not saying that the Amtrak workers need to be pushed down to that minimum wage; that is not what we are saying at all. It is an important data point among others that you have to consider when you are looking at the cost of carrying this service.

More generally I can say, when we do get to those hearings on security and safety, I have a position that there are certain crafts and skill sets inside of the company that are underpaid. The Amtrak police department, for example, basically pays wages that are considerably under market. I think there are crafts and skills inside of the company—electricians in New York, what we call the A-men that work under the wire—there are certain skills inside of Amtrak where we lose a lot of talent because we do not pay what we should be paying. Some people, I saw a couple of statements, perceive my bringing this up as being anti-labor. That is not the case at all. What I am saying is that if you are going to work this problem, you have to work all of the aspects of the cost at one time.

One of the reviews we undertook basically was where those opportunities lie for improvement. This first bar above the line, if you will, is essentially revenues into the corporation from food and beverage service. The next bar that is represented here are the costs that are out. And you see this delta that represents roughly $84 million in losses each year.

Finally, you see what I call the opportunity for savings that we are presenting to the company, is that if you move the ratio of labor and get it closer to the U.S. restaurant model, you have an opportunity to improve up to $50 million. But it is going to be very,

very difficult to get there. The point I would make here is that this ratio is also a function of revenue. It is not just the number of workers, it is not just the rate of pay, those are very important, but you cannot forget the revenue feature of the ratio proportion.

One of the things that I notice when I go over to Union Station or New York Penn or whatever, there are a lot of people that buy their foodstuffs before they get on the train. There is a line at the various establishments, at Starbucks, at Corner Bakery, they get their coffee, they get their snacks, they get their bagels and they get all that before they get onto the train and they settle into their seats.

Under some models, that might be a business that Amtrak wants to go after because we would want them to buy that foodstuffs on the Amtrak train. I think that is a missed opportunity. I think that is one of the things the company has to consider in fixing the problem at hand.

Next is the opportunity for what I would call improvement in the purchase of food and beverage supplies. Again, you have the same two bars—revenues, on the one hand, coming in, cost, on the other, going out. If you just move the ratio closer to what the U.S. restaurant industry standard is for the acquisition of food and beverage service, there is a potential net improvement of about $40 million.

One of the comments made to me yesterday was that there was a certain uniqueness to the Amtrak food product that caused it to incur cost greater than 50 percent of those costs by restaurants. I do not think that is the case at all. I think there is significant room for improvement both with the commissary contract and with the absolute cost of the foodstuffs put onto the train.

What has Amtrak done since we delivered our report last fall? I can tell you we have worked very closely with Mr. Crosbie and Mr. Gunn. They took our report very seriously. We have had a number of discussions since the report was issued and they have already begun to take steps to try to close some of the weaknesses that we have identified. They have planned the pilot test at contractor food service on a selected short distance route; they have replaced a full service diner with a modified diner lounge on at least two of the long distance trains; they immediately reduced staffing levels on the Acela Club service; and they have considered eliminating food service on one of the short distance routes.

In summary, I think that Amtrak must provide the appropriate level of food and beverage service that will retain existing passengers and possibly attract new passengers to Amtrak service while at the same time implement substantive changes in the business model. Those changes should be oriented to reduce the labor cost for each dollar of sales and to reduce the cost of the food and beverage stock for each dollar of sales.

That concludes my oral comments. Thank you.

Mr. LATOURETTE. I thank you, Mr. Weiderhold.

Mr. Crosbie, again welcome to our Subcommittee. I know that you want to talk about the food and beverage service, but maybe at the beginning of your testimony if you could give us a little update on the Acela, we would appreciate that. Welcome. We look forward to hearing from you.

Mr. CROSBIE. Thank you, Mr. Chairman, members of the Subcommittee.

On Acela, here is where we are. And these things change, I caution everybody, it is a fairly complex issue we are dealing with. I think some of the things you would be interested in, obviously, is when is the Acela going to be back, what is the solution to bringing it back, and what has changed. Right now, I can say that at some time in July you will start to see the Acela back in service. It will be gradual, as we have said before. By the fall you will have all 20 train sets back in service.

The solution we are looking at is the new Knorr disc we previously talked about. We are going through a validation and a verification process on an instrumented train on the northeast corridor right now. That is going well. We have cooperation from all parties. We continually have to remind everyone, though, to keep the legal counsels out of this and focus on getting those trains back in service.

The things that will change when it comes back. We have started to put in place a new inspection testing and maintenance procedures for whatever disc we use, including the new Knorr disc and as well the SAB Wabco disc. So that is where we are. We also have a better understanding of what may have caused the cracks. It is extremely technical, the explanation of this, and it is something that we are just beginning to understand.

Mr. LATOURETTE. I think we will wait for Mr. Oberstar to be here to explain the steel to us.

[Laughter.]

Mr. LATOURETTE. So maybe if you want to move on to food and beverage.

Mr. CROSBIE. Again, Mr. Chairman, thank you for holding this hearing. I do welcome this hearing for an opportunity to clarify the food and beverage business at Amtrak.

You have my written testimony I would like that submitted for the record, you also have a series of slides that I would like submitted for the record. I had planned on presenting the slides fully to you today, but I feel compelled, based on the GAO's written testimony, to clarify, correct, and properly characterize some of their statements. So I would like to take you through that.

Let us start by saying where we do agree. We do agree that this existing contract is not a good contract. I have met with the chairman, the CEO, and the president of Gate Gourmet and they also agree that this is not a good contract for them as well. So we certainly agree there. The current status is we are trying to manage with a contract that all parties feel is not appropriate in today's food and beverage business.

In the GAO's report, they mentioned, they mentioned it again here today, the issue of asking for audited reports. When Mr. Gunn came on board in May 2002 and on into 2003, he was definitely focused on the food and beverage business. As a matter of fact, we did, in light of that clause in the contract, we did ask our Inspector General, Mr. Weiderhold here, to do an audit of the contract. He did that audit. I have it here for you today. Let me just read a couple of key paragraphs out of that audit.

"We conducted an audit of Amtrak payments to Gate Gourmet for operation of Amtrak's nationwide commissary services. The audit project was initiated based on our risk-based audit plan and our department's request."

"We found that since food and beverage management was reorganized under your office, costs have significantly been reduced and controls have been implemented to reduce losses."

We felt at the time, and you have got to put this in the context of where Amtrak was in May 2002-2003, we had a cash crisis, we were trying to close our books for 2001, we felt that using to some degree the independence of the Inspector General was prudent. We felt that their review was thorough and accurate, and we feel that it certainly complies with the intent and spirit of that clause. And the GAO has failed to recognize that effort.

In terms of the rebates that they discuss, we feel that is very misleading, the presentation. The $90 million they quote is the entire cost of the goods purchased. The rebates refer to the $6.5 million that they had mentioned. The way the rebates are handled is the rebates come directly to Amtrak, they do not go through Gate Gourmet.

In terms of the talk about systematically analyzing and monitoring purchase prices reported by the contractor to identify variances or products with high costs, and I am quoting right from their written testimony. This is not true. We monitor food and beverage purchase prices on a daily basis at all of our commissary locations. We utilize reports entitled Purchase Comparison Report by Location, which has been provided to the GAO. This report highlights any purchase prices that varies from previous known levels.

In terms of the Heineken example, let us get the record straight on that. Use of this example is grossly misleading. Amtrak never paid $3.93 for Heineken beer. We reviewed several years of purchase records and determined that the GAO's example pertains to a single data entry error that was corrected within 40 minutes of the error. The actual price paid for over 200,000 bottles of Heineken was $0.83 per bottle.

The GAO states that the level of information Amtrak collects and uses to monitor its food and beverage service and report results to external and internal stakeholders inhibits accountability for its performance. This statement is vague and misleading. We produce reports pertaining to our food and beverage expense and revenue. Much of this information is web-based, available to internal stakeholders on an as-requested basis. Reports are provided to external stakeholders when requested, for example, our State partners.

They mention comparison with VIA Rail, that it monitors its suppliers' product prices through regular reporting. Northwest Airlines examines its actual food and beverage expenditures against its food and beverage budget every month. While this statement is completely unfounded, the fact is we do the same and have demonstrated what we do for the GAO.

In terms of the number of commissaries, we cannot seem to get that right. They say it is 14. I think we know it is 11.

There is a table in their written testimony which lays out the financials for 2002, 2003, 2004 and draws some conclusions from that. But I would submit that any conclusion you draw should look

at the cost per passenger. That is never talked about in here. Although the loss on food and beverages went up, you have to put it in the context that ridership has increased.

They make a comparison again with Northwest Airlines, that they have reduced their food costs by 4 percent. This is an incredible statement in the context in which it is stated. Amtrak has reduced its food and beverage costs by 10.8 percent over the same period. But the GAO makes no mention of this.

In terms of Gate Gourmet's budget, I want to make the record clear on this, we approve their budget. It is not a review. The GAO states that it is a review. We approve it.

They talk about incentives can also be written into a cost-plus contract to control costs and enhance performance; however, these incentives are essentially absent from Amtrak's contract with Gate Gourmet. And as I stated earlier, we certainly agree with that.

Again a comparison with Northwest Airlines. Northwest Airlines has cost-plus contract with all of its food and beverage contractors, including Gate Gourmet. Northwest's management of them is different, they state. Again, we find this statement very misleading. We perform essentially the same functions as indicated. We have never been asked about how we manage our menu changes, in this specific example.

In terms of the example of the steak, again I want to set the record straight there. The statement is very misleading. Our strip steaks are purchased nationally under a contract with Great Western Beef at a unit cost of $7.95 per pound. This produces approximately a cost per steak of $4.97. Our review of the example cited by the GAO references two emergency purchases in the retail market that were properly documented.

Mr. LATOURETTE. Mr. Crosbie, are you nearing the end do you think?

Mr. CROSBIE. I will cut it off there. We have other examples as well.

But what I want to close with is that I am deeply disturbed with the process the GAO used in preparation for this hearing. We have been providing the GAO with vast amounts of information at their request. They e-mail over to us requests for information and we send it over to them.

The very first time we got a statement of fact was last week and it was on our management accountability practices. That is the first time we saw any feedback as to what they were doing with all of the information we provided them. Tuesday of this week at 4:00 we were given an advance copy of their testimony. We went through it and we engaged in a teleconference with them. The things that I have put on the record here today were presented to them as well, yet they never changed anything.

So I am deeply disturbed with this process. I do not like handling business in this manner. I think it should be handled where if they take some numbers in, they look at them, they do not understand them or they draw some conclusions, we should have an opportunity to make sure that those conclusions are accurate.

If you would allow me a little bit more time, I would like to go through a couple of key slides in our presentation.

Mr. LATOURETTE. If you could try and get us there in about two minutes.

Mr. CROSBIE. Okay. The key item on the history I want to remind everyone about, I think everybody is getting a sense of who I am and what I stand for and my principles, and one of them is safety of our passengers, which is primary in my mind. In 1992 the FDA consent decree signed by Amtrak, I want to remind everyone, no matter what we do with the food and beverage, it involves the safety of our passengers and it is very easy to get into hot water with that.

I am just going to flip ahead here to something that the IG has certainly recognized. In terms of getting at the losses, we have to talk about the labor costs. They represent 60 percent of our costs. That is what we need to talk about.

Since 2002, as I mentioned, our corporate focus has been to reduce head count, implement budget controls. In food and beverage, reducing theft, implementing our cash registers, controlling Gate Gourmet contract, reducing food and beverage cost per passenger.

This slide gives you a sense of some of the items we have done since 2002. I will not go through every one of them in the interest of time, Mr. Chairman.

When the Acela came out of service, we had adjusted the menus on our Metroliners in terms of when the Acela was just prior to it coming out of service. We had also reduced the on-board first class attendants from three to one, and that was implemented in two phases. And you can get a sense of some of the other items that we have initiated since the new management team at Amtrak has taken over.

And that gives you a sense of the total revenue opportunity as well.

Here is just some of the things we are looking at. Combined diner/lounge to save some more money. Basically, many of these are focused at reducing our labor costs, which is where we feel we need to be focused.

In the future: We are working with Gate Gourmet, we are in a renegotiation. It will not be an extension of the existing contract. There are 12 pages we have of documentation of clauses that we certainly want modified. We have just added a new vice president of customer service who will be responsible for this area, will be the voice for the customer.

That concludes my testimony, Mr. Chairman.

Mr. LATOURETTE. I thank you, Mr. Crosbie. As you requested, your statement and your slides are already in the record and so they will be available for anybody that wants to review the proceedings here, and also it has been made available to all members.

Another housekeeping matter. I would just indicate that we invited Gate Gourmet to appear here today and they declined our invitation, which is certainly their right to do so. But we wanted everyone that is going to be mentioned today to have the opportunity to say what was his or her position.

I want to begin where you stopped before the slides. I do not know what everybody else does, but in preparation for these hearings I try to meet with anybody that wants to meet with me to go over things. I guess I am a little dismayed between the presen-

tation of Amtrak and GAO in that, Ms. Hecker, I think when I met with Amtrak officials they indicated kind of what Mr. Crosbie talked about, and that is that there was a four hour conference call to go over some of the findings that GAO had come up with.

And again, the way this thing works here is the staff will collect some information and they have to sell it to the members that this is a good idea to have a hearing, and I still think it is a good idea to have this hearing. But there are some attention-grabbers in your report that, at least from what Mr. Crosbie said today and in information that I have received over the last couple days, that I do not think are fair. And then I am going to whack you, Mr. Crosbie, and Amtrak about your contract.

But the things that I do not think are fair, the attention-grabbers that have sort of been hit upon, I think it would be horrible mismanagement if there was a fluctuation between buying a Heineken's beer for $0.43 and $3.93. Mr. Crosbie indicates that not only was that an accounting error that was corrected within 40 minutes but that GAO was advised of that in this conference call.

On page 12, there is a fluctuation on these strip steaks, which must be nice strip steaks, between $3 and $6. He has explained that today that that was an emergency. I guess they had a bunch of guys that liked beef and they ran out of beef and they had to go to the Stop-n-Shop and get some more steaks and paid more on two occasions. That is a grabber.

And then further, there is some $400,000 purchase of napkins, and it is my understanding, at least from this conference call that took place between Amtrak and GAO, that the napkins never got purchased.

Mr. CROSBIE. That is correct.

Mr. LATOURETTE. My question I guess to you, Ms. Hecker, is that in coming forward, I think the purpose of this oversight is to have oversight and chastise Amtrak for those things that they are doing wrong, but not to sensationalize on beer, steaks, and napkins, which if I were in the newspaper business that is what I would write about tomorrow, I would say beer and steaks gone amok on Amtrak's rails.

But I do not think those are good examples based upon what I know. I guess I would ask you, is what Mr. Crosbie said accurate in terms of that is how those three items at least can be explained?

Ms. HECKER. Thank you, Mr. Chairman, and I appreciate an opportunity to go to the heart of Mr. Crosbie's concern. GAO, as you know, is in the course of conducting a very comprehensive review for the Chairman of the full Committee on the large issues of Amtrak's management and performance. That review has been going on for about eight months and is focused on five key areas, two of which are cost control and financial management.

In the course of those areas, we are intensively looking across several areas and everything that we have learned that I have shared with you today are just examples across many areas of the absence of adequate internal controls to control costs. And this is in areas of maintenance, in legal areas, a number of areas we have looked at.

We did not conduct an audit of the food and beverage program. A comprehensive audit would have perhaps provided a lot more information. But in defense of specific things:

The audit report was required and it was not used.

The data on the rebates was the data they gave to us. We did not make it up; it was provided to us. And if there were rebates within actual amounts of that $90 million, it was never estimated, it was never provided to us.

On the monitoring, yes, there is a daily monitoring report. Our concern is that there was no audit trail or no documentation or no evidence of how there was any systematic tracking of trends or what kind of follow-up.

In fact, taking the examples and the long exit discussion we had, there were several changes. The $400,000 example of the napkins is deleted from the draft to the final. And while in that discussion they advised us that they believed the $3.93 was an outlier, we did not get documentation that showed that.

And similarly on the steaks, we got no evidence that showed that, oh, that was an emergency purchase and it was only done that way. These were examples done in the course of a more comprehensive review. And the examples are just what examples are, and our evidence is not based just on that.

Mr. LATOURETTE. I get that. And I would just say I know everybody is rushed for time and I know what the constraints are, and maybe you would have preferred in a more perfect world to not come and present this information today, you would have maybe preferred to be done with whatever you are doing, and I understand that.

I think, just my sort of editorial comment, in this world of 24-hour news cycles, what is sexy about the report are steaks and beers. And it makes me nervous, if, in fact, Mr. Crosbie's observations are accurate, that that would be what we are whacking Amtrak around with today.

But let me get to you, Mr. Crosbie, because I was struck by something Mr. Weiderhold said in his observations, and I am distressed by three observations the GAO has made; specifically, that there is no incentive for Gate Gourmet to reduce or contain their costs, in fact the incentives are absent from the contract; and there is no set markup that Gate receives under the contract, it is I think called "reasonable" as opposed to a percentage or tied into anything else; and Mr. Weiderhold's observation that if you take labor out of it for a minute and you just compare what I consider to be apples and apples if you are talking about buying food, why your food purchase costs and beverage costs are 50 percent higher than the full service or the limited service restaurant.

And I think that those are in fact deficiencies in the existing contract. I understand that you inherited them. But maybe you can tell us what your view is on the contract, you already said it was a bad contract, if you agree or disagree with the three things that I laid out that GAO has talked about, and if you have an explanation for why your stuff costs 50 percent more than the restaurant down the street.

Mr. CROSBIE. In terms of the contract, as I stated, the current management feels that it is not an appropriate contract. The items

that you mentioned are at the heart of the renegotiation of the contract. And I obviously cannot share the specific clauses because it would put us in a bad position in terms of negotiating with Gate Gourmet. But it does go right to the heart of where we are headed. And they agree, again, that the existing contract is not good for them as well.

In terms of the cost of our food being 50 percent higher, my understanding is that the figures include the storage of the food, and let me explain that. When we run a train, the food comes out of a commissary and we have to load it onto a train. That is in that cost. And when the train reaches its end terminal, we have to remove the food off of the train. That is in that cost as well.

That is not to say that we cannot improve. We certainly take the IG's thorough analysis seriously and we think we can improve that through the renegotiation of the contract, how we do business, at the commissaries, and on the platforms as well.

Mr. LATOURETTE. And my last question before yielding to Ms. Brown is, I think it is important to maybe know, when the decision was made to contract out this service to Gate Gourmet and sign the contract six years ago, I assume that the contract was let out for bid?

Mr. CROSBIE. Yes, it was.

Mr. LATOURETTE. And can you tell me how many people responded to your RFP to participate in the negotiations to try and gain your food service?

Mr. CROSBIE. I was not here at the time and I do not have a specific number, but I have asked this question as well and my understanding is that there were a number of firms that submitted proposals but Dobbs, now Gate Gourmet, was the only vendor that was fully compliant with the specification and could meet all the requirements. So it was tendered, it was a competitive bid, and the final award was negotiated.

Mr. LATOURETTE. All right. I thank you.

Ms. Brown.

Ms. BROWN. Thank you, Mr. Chairman. Let me just note that I had an experience just this past weekend with Amtrak in that my mother was going to Lakeland, Florida from Jacksonville. I put her on the Amtrak train, her and her friend, and there is a lot of congestion between Jacksonville and Orlando to Lakeland and safety is an issue and I certainly did not want her out there driving, but the important thing is the food and beverage.

My mother, we just discovered, is a diabetic, so it was very important for her to be able to get that hot meal on the train in that period of time from Jacksonville to Orlando. So that is another factor we have to consider when people take trains is the health aspect of this travel.

Mr. Crosbie, how much time did Amtrak give you to review the response to the GAO study on foods and beverage operations? And do you think it was an adequate amount of time? Also, in looking at page 3, and I would like for you to turn to that in the report, I did not know that Amtrak people liked Heineken beer so much, but the point is this discrepancy is still in this study.

Mr. CROSBIE. Firstly, let me say, as I closed out my oral testimony, this is not the way I like to do business. It is not my style

at all. I would prefer to have opportunities to look at things, comment on them, and then at the end of the day, if the parties agree to disagree, then that is fine. But I do not feel that Amtrak's staff was given a proper opportunity here.

We got a statement of fact, it was part of a larger statement of fact on the management and accountability audit the GAO is doing, as I said, we got that last week. When we saw the testimony on Tuesday, staff scrambled, literally dropped everything. And realizing that there was some very misleading and grossly misstated items in the testimony, we agreed to a conference call on Tuesday. We spent a number of hours going through that with the GAO and here we are today with basically the same written testimony.

And that is very concerning to me, that process. Because I certainly, as someone who is still relatively new to Amtrak and still understanding the business, I welcome audits. I welcome audits from our Inspector General, from the GAO. I welcome input to help us improve things at Amtrak. I was brought in here to help fix Amtrak.

Ms. BROWN. I want to commend you. I still have real issues with us not talking concerning safety but grandstanding about items that do not necessarily reflect the progress that Amtrak has made about cleaning up these discrepancies. But I want to go back to the comparison between the labor in the restaurants.

To the first presenter, you talked about many of the people that work in the restaurant industry work 35 hours and they have no benefits, they have no health care. Of course, we all pay for that in the end. But the Amtrak employees work a significant amount of hours, it looks like 49 to 64 hours, and they are not reimbursed for that. Can you explain that to me?

Mr. WEIDERHOLD. I do not know if that is correct or not, Ms. Brown. The chart that is presented here before you we adjusted based upon actual data from payroll. In trying to get to the best comparison we could, we adjusted the Amtrak bars, if you will, there to 35 hours to correspond with the restaurant experience. The actual Amtrak number is probably closer with benefits to be like $60,000 thereabouts, $58,000-60,000.

But again, I think you point out that there are important differences to recognize between the two types of workers. I went to this simply because the skill sets around a lot of the food service workers are very much the same.

I think there are a number of employees who work on our trains in this craft who are very happy to have these jobs because of the pay and because of the benefits. I think the kinds of things that we are looking for, I think about 70 percent of these costs also have not come out yet in the testimony so far, but about 70 percent of the cost that Amtrak incurs on labor for food services is on our long distance trains.

And I do not think you have heard anyone here this morning talk about the need to remove that service. In fact, it is very important, as you point out in that Florida experience, that you have meal service there. So I think this is not necessarily a conundrum, but I think it is a real challenge for the company to kind of tackle this.

When the airlines got in trouble on a number of flights they just took food service away. When I first presented these data to our board, their first reaction was get rid of it, you lose $84 million a year. And that is at first blush, I understand that, but at the same time you have to look at what it is on a train and on a train food service is something that is different.

That does not mean that on selected short distance routes with a particular criteria where you do not pass through a meal period or whatever that we should consider if food service may just be too much to bear. Maybe that example I gave about people getting their food and beverage on the platform or in the station before they get on the train may be what is necessary for some short distance trains; I do not know.

I am encouraging the company to keep all the options on the table. I think it is important to keep it, I think it is important to differentiate it, I think it is important to get to a better business model, because right now what we pay for food, the whole kit and caboodle is just too expensive and it needs to be better managed.

Ms. BROWN. Thank you. As I travel the airline industry every weekend, they have taken the pretzels away I understand at this point. I yield back the balance of my time.

Mr. LATOURETTE. I thank the gentlelady. Mr. Mica.

Mr. MICA. It is not the pretzels, it is the peanuts because they got sued.

Ms. BROWN. I get pretzels on mine, not peanuts.

Mr. MICA. Yes, it is the pretzels that you have, not peanuts because of overzealous lawsuits.

Mr. Weiderhold, Ms. Hecker, and Mr. Crosbie, I have a copy of the 1982 law, and I think somebody cited it here, and there is another cite which I guess is supposed to be still the law of the land: "Beginning October 1, 1982, food and beverage services shall be provided on-board Amtrak trains only if the revenues from such service are equal to or greater than the total cost of services as computed on an annual basis." Is that still the law, Mr. Weiderhold?

Mr. WEIDERHOLD. That was shown to me yesterday, Congressman.

Mr. MICA. Is it the law?

Mr. WEIDERHOLD. That is the current law that is on the books.

Mr. MICA. Ms. Hecker, is that the law as you understand it?

Ms. HECKER. I believe so.

Mr. MICA. Okay. Mr. Crosbie, are you familiar with this requirement by law, by statute? Is this out of date? Maybe I am wrong.

Mr. CROSBIE. I am familiar with it.

Mr. MICA. Is this the law?

Mr. CROSBIE. It is an item in the law.

Mr. MICA. Okay. It is the law and the law is actually being violated by not only the terms but the performance of the contract.

Ms. Crosbie, was that contract a sole source or was it competitively bid?

Mr. CROSBIE. I want to deal back with the law again, please. For the last 24 years of the law there has never been an indication that Congress intended the cost be anything other than cost of the food

and the cost of the commissary operations. And we cover those costs.

Mr. MICA. But it is still the law. It has never been

Mr. CROSBIE. And that is our interpretation of that.

Mr. MICA. Okay. Was the contract a sole source contract or was the contract bid, do you know?

Mr. CROSBIE. I had testified earlier that the contract was competitively bid. There were a number of proposals submitted. Dobbs, and now Gate Gourmet, was the only contractor that was qualified.

Mr. MICA. So they were given the contract. Okay. You answered my question. Thank you.

Mr. CROSBIE. The final award was negotiated. So it was competitively bid.

Mr. MICA. Okay. Thank you for clarifying that.

Ms. Hecker or Mr. Weiderhold, there have been reports that some 125 food service Amtrak personnel and 250 conductors were either let go or terminated because of missing funds or problems with funds related to food service. Do either of you know anything about that? Theft, basically.

Mr. WEIDERHOLD. Yes, sir. Those numbers are pretty correct. My office, in the last three years in particular, conducted—conductors do not sell food, so the investigations that we have done that involved conductors relate to cash fare sales, and there were in excess of 200 employees who we have removed from service for improper handling of cash fares. And then for the food service, for predominately the lead service attendants who handled cash, there was an addition 100 plus, 125.

Mr. MICA. Okay. We do not want to swat at flies and miss the elephants. Mr. Crosbie, did we lose $80 million, in that range, in providing passenger food service on Amtrak?

Mr. CROSBIE. Yes, it was in that range.

Mr. MICA. And then would you also agree that we lost some other money, maybe there is some dispute, but somewhere in the $50 million to $60 million range as calculated by the review in capital support or support of providing that food service?

Mr. CROSBIE. I would not agree with that.

Mr. MICA. You would not agree with that. Okay, what would you say it cost to provide that? I mean, the tooth fairy did not bring the food in and put it on the train. Was it $20 million, $30 million? I do not know.

Mr. CROSBIE. The loss of $80 million or thereabouts includes that, if I understand what you are saying. I am not sure I understand.

Mr. MICA. The total that was given to me—where were those figures, did you give them to us?

Mr. CROSBIE. The losses excluding maintenance and interest payments are $84 million, and then those maintenance and interest payments are close to $50 million a year.

Mr. MICA. On top. But did you not quote around $130 million total loss?

Mr. CROSBIE. The $50 million plus the $80 million is the $130 million. No, I do not dispute that.

Mr. MICA. You do not. Okay.

Well again, the bottle of beer they paid $3.00 for at one point and $0.80 cents at another point, or a steak $3 or $6, I do not give a hoot about that. We lost somewhere between $120 and $130 million a year consistently for three years, which adds up to somewhere in the range of a third of a billion dollars. There are so many good people, hard working people at Amtrak that do a great job every day.

That is not the problem. It is the administration and management and the oversight. Talk about micromanaging, this is not micromanaging when you lose a third of a billion dollars in three years. That is not loose change, is it, Ms. Hecker? You said I think $2.06 is the amount lost for every $1 of revenue coming in?

Ms. HECKER. We just rounded it off to basically $2 of expenses for every $1 of revenue. I think Fred used the $2.06 figure.

Mr. MICA. Again, I think we have got to remember who is paying for this, and that is the taxpayer. Last week I met a single mother who had three jobs and she has two children. She was showing me how much she pays in taxes and sends up here. Boy, she must really be happy today when she finds out that a third of a billion dollars in three years goes to subsidize this kind of losing operation. This is just on food service. We will not get into operation of high-speed service or long distance service.

Mr. Crosbie, finally, this does need better management. This does need a better contract.

Also, Mr. Crosbie, could you tell me if there is any documentation prior to when we started this investigation that would indicate that Amtrak was prepared to renew this contract? If I go back and do a search of your records, can I find anything that prior to the time of your being notified about this hearing and this situation, is there documentation somewhere in Amtrak that said they were going to renew this contract?

Mr. CROSBIE. I am not sure I understand your question. But we certainly

Mr. MICA. I have been told that you guys were ready to renew this until

Mr. CROSBIE. No, it is not a renewal, and I stated that earlier, it is a renegotiation. We met, I personally met with senior level

Mr. MICA. Do you have any evidence, Mr. Crosbie, to

Mr. CROSBIE. I would like to finish please.

Mr. MICA. Go ahead. And then, if we could, I would like Mr. Weiderhold to respond. Go ahead, Mr. Crosbie.

Mr. CROSBIE. In April, I met with the senior executives of Gate Gourmet and we advised them of a number of things, and one is the existing contract would not be renewed. We would be willing to look at renegotiating a contract with them.

One of the key things I think you want to keep in mind is even with the existing contract, not that Amtrak is currently contemplating this, but both parties have the ability with 180 days of notice to exit the contract. So we put them on notice that the existing contract is not going to be renewed and that there would be a substantial change in how we are going to do business, and they agreed.

Now, they did not specify the parts specifically that they agreed with, but they did agree they felt that the current business model did not work.

Mr. MICA. Thank you. My time is about up. Mr. Weiderhold, could you respond?

Mr. WEIDERHOLD. Yes. I think that management did, after we issued our audit report, did look at the idea because the time of the contract, the first contract, was running out and so there was talk inside of the company about renewing the contract. But I think that we had raised for management, and they were well aware themselves, that there were some terms and conditions in that contract that certainly needed revision, and, as JayEtta commented, there were also, if anything, some disincentives in the contract for them to run that business more efficiently.

My concern really, quite frankly, was putting all the eggs in one basket with one vendor and possibly looking at the need to look at other people who may be able to step in the shoes of this particular vendor. I just wanted the company to keep all the options open.

Mr. MICA. I thank you. I yield back, Mr. Chairman.

Mr. LATOURETTE. I thank the gentleman.

Ms. Johnson.

Ms. JOHNSON. Thank you very much, Mr. Chairman. Amtrak is not a huge factor in my area, so there are a number of questions I might have concerning management evaluations and efficiency. Is that done by job description?

Mr. CROSBIE. You mean evaluation of the employees themselves?

Ms. JOHNSON. Yes, who does that for them?

Mr. CROSBIE. We have an internal policy that specifies really two things. This is currently under review and we are revising it and hope to get it before our board to change some of the changes we want. But the current system is every year, if you are talking about management, okay, is to set goals and objectives that is specific to the individual, that is early in the fiscal year that is done, and throughout the year a supervisor would meet with the employees to see how they are doing with those goals and objectives, and then at the end of the year there is a written review of the employee.

Ms. JOHNSON. What is your incidence of termination or plans for improvement? Do you have such a plan? What I am getting at is, is your staff pretty stable, or are there times when you find that someone is inefficient and you have to terminate?

Mr. CROSBIE. Absolutely. Certainly since the new management team has been brought in, since Mr. Gunn joined me in 2002, there has been a substantial change at all levels of management within the company.

Ms. JOHNSON. You mentioned earlier that your biggest cost that troubled you was the cost of staff.

Mr. CROSBIE. What I said was in terms of reducing that $84 million loss, absolutely we have to manage this contract better and all the future contracts, as they should be. And I think we all agree on that.

But in terms of reducing the loss, the financial loss, the item you have to get at, and we have said this in our Strategic Reforms Initiatives that we have submitted as part of our fiscal year 2006

grant application, is the labor costs. At the end of the day, that is the item that you need to look at.

There were comparisons drawn by the GAO to VIA Rail Canada, a substantially different operation, and the Alaska Railroad. The Alaska Railroad is a really good example. We have 13 unions at Amtrak, they have 5. Some of the items that we have brought up in our Strategic Reform Initiatives plan, including railroad retirement, moving it to social security. Alaska Railroad is on social security. The Railway Labor Act, they are not part of the Railway Labor Act. FILA, they do not have to be part of FILA.

So you have got to be careful when you are drawing these comparisons. But if you want to get at that loss, you have to deal with the labor costs, and the labor costs can be dealt with by reducing the number of people serving the food or it can be dealt with by looking at the cost per hour, if you will.

Ms. JOHNSON. Have you looked at privatization of the food service?

Mr. CROSBIE. We are looking at that as one of our options. We are looking at all options, frankly, everything from elimination, modifications to the way we do it today using our labor workforce, to contracting out the entire operation. We would pick a route first, for example, we would not do this in one grand fell swoop, we would pick a route to deal with that.

I would mention, though, we attempted to do that with the Hiawatha service and there were no bidders. This is an industry, I have got to caution everybody, that is not a strong industry. I mentioned earlier the FDA issues and compliance with the FDA requirements. When I say be careful, if we bring in an outside contractor, at the end of the day Amtrak will be responsible and if the contractor does not comply with the FDA requirements and somebody gets hurt, those are the things we have to I think consider.

Ms. JOHNSON. Well, you have had a number of accidents. We have had some in Texas. In Texas, it is understandable why we do not use Amtrak as much. Our distances are very spacious. I think Amtrak comes through Dallas maybe twice a week or something. It does not move fast enough to get the people where they want to go there. If they are on vacation, that is something different.

But it is not Amtrak's fault; it is the size of the State. But even with the small amount of Amtrak we have, we have had some accidents. What is the major cause of the accidents?

Mr. CROSBIE. The major cause, I do not have any specifics on the ones in Texas, but the major cause in the last few years has been track related and the maintenance, associated with the maintenance of the track, buckling of the track, for example. That, in my professional opinion, that is what I see as one of the major causes.

In terms of the speed, I just wanted to address in terms of the speed at which Amtrak operates, I think everyone will recall we operate over many of the host or freight railroads, and this speaks to the condition of the freight railroads and the freight infrastructure and the freight congestion that is out there. We have talked about that, Mr. Gunn has certainly talked about that in the past and it is an issue that needs to be addressed if we are going to have a viable transportation system.

Ms. JOHNSON. Thank you. I know my time is moving. But I am asking these questions in a roundabout way because it does not appear to me that you are over-staffed. Maybe you are, but it does not seem that way. And you are talking about cutting the cost, will you also cut the quality?

Mr. CROSBIE. I certainly do not want to cut the quality, if you are talking about in terms of the food served on the trains

Ms. JOHNSON. Performance and quality of service.

Mr. CROSBIE. And the quality of service, I think we should be improving the quality of our service. And it is not just Amtrak and the example that you are using in your State. It involves our partners, the host railroads. We are constantly reminding them that there are people on these trains, it is not just a piece of steel running up and down the track. And even if they are only on vacation, it is still important to them to get to their destination on time.

Ms. JOHNSON. Somehow I am not getting what I am looking for. What I am trying to arrive at is, I guess maybe I need to read your strategic plan, is the ratio of staff, I have a feeling that if you cut the pay too much, you get what you pay for and I am not certain that is where you get the best investment is cutting staff. Maybe so. Are you aware how the airlines have changed the food service?

Mr. CROSBIE. I am aware of it, yes.

Ms. JOHNSON. So Amtrak might need to do some similar type.

Mr. CROSBIE. In the travel industry, and everybody needs to remind themselves again that we are in the travel business, and with train travel food and beverage is a key part of what the customer is paying for. If you eliminate the food and beverage, for example, on the long distance trains, if you just got rid of it

Ms. JOHNSON. They have not eliminated it. They sell it in the coach class.

Mr. CROSBIE. My point is, if you eliminated that, there would also be a substantial impact to the ticket revenue to get on the train because people would go elsewhere. Why do you want to get on a train if you are not going to get food and beverage on the train. I think that is a little bit of what you are getting at.

Ms. JOHNSON. Well, I was trying to get at some ways you might reduce your costs and still maintain quality service.

Mr. CROSBIE. And on that, as I said, we are looking at all options, everything from elimination to how we currently do the business, the cost of doing that, to contracting it out. We have not decided on any one. There is no magic silver bullet to this. And that is what I think everybody needs to understand, is that this was never intended to be a profit center. It is part of the amenities that we need to offer when a customer wants to travel on our service.

They expect, if it is a long distance train, when it is dinner time, they expect to be served dinner. We absolutely need to reduce the cost of doing that. It will never be profitable. No railroad in the world that serves food and beverage, this has never been profitable for any railroad in the world. And that has been backed up by many people that have analyzed this.

Ms. JOHNSON. Thank you very much, Mr. Chairman.

Mr. LATOURETTE. I thank you very much.

We are going to go to Mr. Baker next. But, Ms. Hecker, I see we have passed the 11:30 mark. I have been giving each member eight or nine minutes. Are you okay?

Ms. HECKER. I think it is important

Mr. LATOURETTE. I do, too, but I just wanted to check with you. Mr. Baker.

Mr. BAKER. Thank you. I shall move as quickly as possible to take advantage of my eight or nine minutes. Mr. Weiderhold, can you tell me if Amtrak is compliant with Sarbanes-Oxley or are they statutorily exempt?

Mr. WEIDERHOLD. They are statutorily exempt.

Mr. BAKER. Do they have to register with the SEC?

Mr. WEIDERHOLD. No, sir, they do not.

Mr. BAKER. Are they, in your opinion, GAAP compliant?

Mr. WEIDERHOLD. They are GAAP compliant, fully.

Mr. BAKER. Do they have annual shareholder meetings? I know they had one recently, but have they over the period of time had annual shareholder meetings?

Mr. WEIDERHOLD. I am not sure.

Mr. BAKER. No, they have not. Thank you. Did you, in your conduct of your P&L statement of 2003, have you done this for other reporting periods?

Mr. WEIDERHOLD. Yes, sir. We have looked at other ones.

Mr. BAKER. Which ones, specifically?

Mr. WEIDERHOLD. We have looked at 2004 after the company did 2004. The numbers are remarkably the same from year to year.

Mr. BAKER. I am shocked. Now how were these figures determined? Did you engage an outside forensic accountant?

Mr. WEIDERHOLD. No, sir. We are fully capable of it. I have CPAs on my staff.

Mr. BAKER. I understand. I am just asking for resources. And you, therefore, did not engage any outside auditor?

Mr. WEIDERHOLD. No, sir.

Mr. BAKER. And in establishing the line items reportable in this one-page summary, did you do an audit of invoice accounts?

Mr. WEIDERHOLD. We sampled, certainly.

Mr. BAKER. Sampled some. Statistically significant?

Mr. WEIDERHOLD. I am confident in the numbers, sir.

Mr. BAKER. Did you do any analysis of the rebate or refunds that were do?

Mr. WEIDERHOLD. Not with respect to the

Mr. BAKER. Did you do a cash accounts analysis?

Mr. WEIDERHOLD. I would have to go back and look at the work papers, sir.

Mr. BAKER. Over what period of time did you engage in this examination?

Mr. WEIDERHOLD. The review that you are holding up right there is what was done under the auspices of what we call an inspections and evaluations unit. It was done over a period of a few months, sir.

Mr. BAKER. Okay. Great. Can you tell me today as a professional, are you able to certify for the Committee that the statement you have provided is a true and accurate statement of financial condition as of its date of preparation?

Mr. WEIDERHOLD. Based upon P&L for food and beverage service, I think that is a reasonable and accurate

Mr. BAKER. But you relied to a great extent on the numbers provided to you by Amtrak sources; is that correct?

Mr. WEIDERHOLD. Yes, sir. But we know where to look for the data within Amtrak systems.

Mr. BAKER. So you did a little better job than the GAO is saying in their statement? Because they are telling me they had to rely on the representations made by Amtrak in preparing their conclusions as to their findings.

Mr. WEIDERHOLD. Actually, you just struck on something that is very important, and that is it is sometimes very difficult to get at financial data inside of a company because of legacy systems.

Mr. BAKER. I will restate my question. Based on that statement, is it a true and accurate statement of financial condition as of its date of preparation?

Mr. WEIDERHOLD. That P&L for food and beverage service, I have high confidence level on that P&L, sir.

Mr. BAKER. Ms. Hecker, I want to turn to you for a moment. In Mr. Crosbie's statement he goes on to say, repetitively, the primary purpose of food and beverage service is to enhance ticket sales and ridership. Did you find in your examination that passengers were making reservations to have dinner on Amtrak?

Ms. HECKER. We have no information about that.

Mr. BAKER. You did not look at that, okay. He goes on to say there is significant regulatory and statutory hurdles for Amtrak, or any other entity of any size and reach of Amtrak, to ever break even on a consistent basis, ever, let alone ever make a profit. Would you agree with that perspective, the food and service management perspective?

Ms. HECKER. I think we found that with Alaska Railroad the contractor is making a profit and Alaska is sharing in that profit.

Mr. BAKER. So you would disagree with his conclusion on that?

Ms. HECKER. That is our understanding of that.

Mr. BAKER. And so when he goes on to say that comparing Amtrak's food and beverage service to that of a traditional, standalone restaurant is like comparing apples to oranges, that would not be true when we are looking at acquisition of inventory and supplies; would that be the case? It does not matter where they go, you are going to buy them at a fixed location and move them to the train.

Ms. HECKER. But it has to move more often for Amtrak than a fixed location single restaurant.

Mr. BAKER. Understood. But when you acquire it, you enter into a contract with the vendor to provide a box of apples, that is not on the train where the deal occurs, that is in a sales of a vendor location. The cost of delivery after that is an additional cost, but the cost of acquisition of the inventory itself ought to be exactly comparable.

Ms. HECKER. One would think so.

Mr. BAKER. Okay. Mr. Crosbie goes on to say that Amtrak plans to contract out, willingly to study, but the Railway Labor Act may mandate to pay into the Railroad Retirement System, unless the National Mediation Board declares otherwise. The least expensive alternative would be to engage a vendor to use independent con-

tractors instead of employees; however, no such company currently exists in the food service industry. Are you familiar with the RailPac's Special Report of 2004, Ms. Hecker?

Ms. HECKER. No, I am not, sir.

Mr. BAKER. Okay. Let me just give the highlights to get it into the record. I will provide this for the Committee should it need it. This started three years ago from the date of publication, which on the front page is November 2004.

So prior to the report dated 2004, Chef Mario, who is the owner of Party Picnic Specialists on the San Joaquin line and the Capital Corridor line in northern California, engaged in a special contract with CalTran's Amtrak for the purpose of providing food service on those lines. The PPS contract, and I am reading from the record, requires Chef Mario to pass frequent Food and Drug Administration inspections, that is apparently a new thing going on over there, and certain spec checks to ensure he delivers the right food for the right price.

So he is apparently being watched by Amtrak. "When we took radical steps like discontinuing attendant-served meals, we made detailed presentations about the economics involved in the alternatives. RailPac," that is an interesting group I think, "are regular attendees and contributors at this meeting."

Here is the point I am trying to get to. Mr. Crosbie made it clear over and over again in his statements today here and in his written testimony they cannot make a profit, they cannot get close, even though Federal statute requires them to do that in order to be in the food business, which is a minor problem. On the San Joaquin line a new pork loin dish costs $7.24 compared to its sales price of $9, representing a 25 percent markup.

Not to take pork loin as the only contributing factor here. "In fiscal year ending September 30," I would believe that November, "Amtrak will report a profit," profit, a word that does not consist with Amtrak often, "of about 23 percent, with revenues of $1.7 million and costs of $1.4 million." Ridership was down a bit, Chef Mario was worried, but he said we squeaked out a profit.

My point in bringing this to your attention, and by the way, I have always found those GAO guys to be wild and crazy people who are irresponsible with their financial conclusions. But despite that, I am going to be confident that your study judgement in this matter will be very helpful to the Committee. If the Amtrak-CalTran-Party Picnic Specialist example can be done here, is there any reason in your mind why on selected short haul routes it could not be done elsewhere?

Ms. HECKER. That sounds reasonable. It is not something we have studied.

Mr. BAKER. I know Mr. Crosbie in his testimony this morning indicated he welcomes studies and audits. If we are going to extend another $60 million, $80 million, $100 million, $2 billion, what in your judgement would it require to have, say, a three year forensic accounting audit to get all the misrepresentation about facts out of the way? I think a really good audit would help this Committee, the public, and everybody else come to a conclusion.

I am familiar with a forensic accounting audit done on a small corporation just recently that was engaged for about $6 million. If

we provided, say, $8 million or $10 million for a forensic accounting audit for either you or the Inspector General, or for everybody to be engaged in, would that be helpful for all of us to have a better understanding about Amtrak's true condition?

Ms. HECKER. We certainly agree. And the tentative conclusion of the larger report is that we believe that should be done.

Mr. BAKER. I thank the gentlelady. Mr. Chairman, I yield back. I think I am right on my nine minutes.

Mr. LATOURETTE. You are actually at eight, if you want another minute.

Mr. BAKER. I will take it, and I appreciate the Chairman's courtesy. Let me say, Mr. Crosbie, I have gone on and I wanted to get their positions on the record. Would you like to take 40 seconds?

Mr. CROSBIE. In terms of the CalTran operation, again, we welcome input and

Mr. BAKER. Are you familiar with it?

Mr. CROSBIE. I am not familiar with the exact thing you are holding. But that operation is one item, it does not involve any labor, and there is no commissary. So you have got to be careful drawing the comparison

Mr. BAKER. This is a non-attendant meal service. There is no attendant involved in providing the meals, once prepared, to the passengers. This is a turn-key, vendor-provided meal service turning a profit. You said it cannot be done. I will send this to you so your folks can take it apart.

Mr. CROSBIE. Those are some of the things that we are looking at, the model that

Mr. BAKER. But I do not understand why the corporation, forget the profit and loss, you are not complying with your own contractual obligations for reporting in a timely manner, you do not have annual shareholder meetings, you are not compliant with Sarbanes-Oxley. This is a public operating company utilizing taxpayer subsidy to keep yourself alive and you are not meeting your statutory obligations as required by the Congress or by anybody else.

Mr. CROSBIE. On Sarbanes-Oxley, we are not required to comply with that.

Mr. BAKER. I know that, because you have an exemption. I was on that Committee that helped write it; do not go there. But my point is you are not meeting the corporate governance standards that every other public operating company has to meet.

Mr. CROSBIE. We disagree with that.

Mr. BAKER. Well, that is just my opinion. Thank you, Mr. Chairman.

Mr. LATOURETTE. I thank you very much. I want to thank all of you for coming. Ms. Hecker, we appreciate your staying past the time we thought you needed to leave. You all go with our thanks.

Did you have a question you wanted to ask, Ms. Brown?

Ms. BROWN. Yes. Before you leave, I do have a follow-up question. You mentioned the Alaska Railroad.

Ms. HECKER. Yes.

Ms. BROWN. Can you tell me how many people it serves and whether or not it gets government subsidy in comparison to Amtrak and how many people they serve?

Ms. HECKER. I do not have the number of passengers it serves. Our analysis was on the distinct contract provisions, that their approach was to have the entire operation handled by a contractor and the contractor was guaranteed a 5 percent profit, and any profits over that would be shared between the Alaska Railroad

Mr. CROSBIE. The key item that she just mentioned is that they are guaranteed a 5 percent profit.

Ms. BROWN. Yes. But when you are talking about serving 400,000 people with 722 workers as opposed to serving 25 million passengers, it is a big difference. It just does not necessarily mean that you can duplicate that model. Would you speak to that, Mr. Crosbie?

Mr. CROSBIE. The comparisons, in looking at what companies to draw comparisons to, I think it is to some degree appropriate to look at north of the border, if you will, to VIA Rail Canada and the Alaska Railroad because they are in our business, and I think it is appropriate to look at what the airlines are doing as well.

But you have to understand the differences, things like you just pointed out. You have to get to that and understand the labor agreements, the pension plans, and make sure that you are drawing fair and accurate comparisons. And as I submitted earlier, I question if that was done. The VIA Rail Canada one, it is one train on the long distance going across that country. That is not even close to one of our divisions, to your point. It does not even compare in scale to the operation we run.

Ms. BROWN. I have a couple of quick questions on the IG report. I understand that shortly after

Mr. LATOURETTE. Can I ask you, do you have any questions for Ms. Hecker?

Ms. BROWN. No.

Mr. LATOURETTE. We will let you go with our thanks, Ms. Hecker. Thank you very much.

Ms. BROWN. I understand that shortly after he arrived, David Gunn asked you to examine the company food and beverage service. At the conclusion of the audit, to whom did you report this finding?

Mr. WEIDERHOLD. Back to management.

Ms. BROWN. You did?

Mr. WEIDERHOLD. Absolutely.

Ms. BROWN. Were there other audits done before you?

Mr. WEIDERHOLD. We do audits of different aspects of food and beverage service. We undertook the systematic review only last year simply because of the results of the other audits.

Ms. BROWN. Did you report this finding to the board?

Mr. WEIDERHOLD. Yes, I did.

Ms. BROWN. Is it fair to say Amtrak's board of directors, Amtrak's stakeholders were aware of David Gunn's request and your work on food and beverage service? Did they know about it? Did they participate? Did they make recommendations?

Mr. WEIDERHOLD. Yes, ma'am. That is just our protocol. That is the way we do business.

Ms. BROWN. Given your extensive examination of Amtrak food and beverage service, how would you judge the current management handling of the existing contract versus the previous manage-

ment? Because I assume that the purpose of this hearing is to find out what has happened in the past and how we can correct it and move forward so we can move into something that really matters, which is safety.

Mr. WEIDERHOLD. I think you hit on a couple points real fast. One is, the current contract is drawing to a close, and so history is history. Certainly, with the current management, I think they are aware, very painfully aware of the deficiencies in that contract.

There were also other events that kind of converged at the same time. At the time the contract was entered into in 1999, Amtrak had an inventory control system that was non-Y2K compliant. So there was a convergence of some things that happened that actually made administration of the contract very difficult and problematic.

It needs to be changed. It needs to be renegotiated. It needs to be revised. I think management is very much aware of that. And I am very much in favor of the direction you want to head with respect to safety and security issues.

Ms. BROWN. Have you done some review on the safety issue?

Mr. WEIDERHOLD. We constantly do reviews on safety and security matters.

Ms. BROWN. And so you would be ready to present it whenever we can schedule a hearing?

Mr. WEIDERHOLD. Yes, ma'am.

Ms. BROWN. In closing, are there any statutory provisions preventing Amtrak from modifying or eliminating food service from any of its routes? Is there anything that Congress has to do to ensure some of these internal reforms be implemented by Amtrak, or is Amtrak able to make these reforms itself?

Mr. WEIDERHOLD. I do not think there is a statutory impediment to a lot of the reforms that need to be made. I think they can be done internally. I think that is what Mr. Crosbie has been trying to explain this morning, is that they want to look at those kinds of options. Congress addressed this issue of food and beverage service back in the 1980s and, as you point out, when a dictum was given, the pendulum swung too far. I do not think any of us want to go there again. But, certainly, change is in order.

Mr. CROSBIE. I would add

Ms. BROWN. Yes, sir?

Mr. CROSBIE. Certainly, as we have laid out in our Strategic Reform Initiatives plan some key items. Amtrak, the management of Amtrak is not broken. And when they talk about the model being broken, we need to look at the cost, as I mentioned earlier, of labor, the burden we have of that, Railroad Retirement, FILA could be put into that category as well.

So there are items which we have laid out in our Strategic Reform Initiatives that Congress should take seriously, take to heart, if they want to fix what they perceive to be as broken. The issue here is we are managing within the current rules of engagement and it is very clear how things work once you get to the numbers. If you want to change the end result, you have got to change the rules of engagement.

Ms. BROWN. Well, on Monday, at 10:00, I am going to board Amtrak. I am going to take a field trip to Baltimore and I am going

to sample what kind of food is available, what kind of refreshments, and I will report back to the Committee.

Mr. LATOURETTE. I hope the gentlelady has a safe trip. And I would ask for a $0.43 Heineken, if you could do that for me.

[Laughter.]

Mr. LATOURETTE. Again, I want to thank you. I do want to clear up one more thing before I let you go, and I want to thank you for your patience and listening to all of our questions.

But a couple of times there have been references to this statute. I want to be crystal clear, and that is, the section of the United States Code that indicates that Amtrak may not offer food and beverage service that does not break even or that loses money, you indicated I think, Mr. Crosbie, but I want it to be real clear on the record, it is your interpretation at Amtrak that that exists for the cost of the food and beverage and you are covering those costs, is that right?

Mr. CROSBIE. The food and beverage and the commissary, and we are covering those costs. The labor to serve it, our interpretation, is not in that.

Mr. LATOURETTE. Very good. You both go with our thanks.

Ms. BROWN. Mr. Chairman, I would ask unanimous consent for the record to remain open for 30 days for members to submit additional questions.

Mr. LATOURETTE. Without objection.

We will move to our second panel. I want to welcome our second panel today. As I indicated earlier, Dan L. Biggs, the International Vice President for the Transportation Communications Union, is with us; Ross Capon, the Executive Director of the National Association of Rail Passengers; and we have both the Prestons, Gary and Karen Preston from Sacramento, California, who I understand after a train experience got hold of the Chairman of this Committee, and by matrimonial agreement I believe, it is Mrs. Preston who is going to present the five minutes of testimony.

We appreciate your being here. You have sort of seen how it goes. There are lights in front of you that go from green to yellow to red. Your full statements are included in the record. We would ask you to be as mindful of the lights as you can and try to get it to about five minutes, but if you have something that you need to tell us that goes beyond that, we understand. Welcome to you all.

Mr. Biggs, we will begin with you.

TESTIMONY OF DAN L. BIGGS, INTERNATIONAL VICE PRESIDENT, TRANSPORTATION COMMUNICATIONS UNION; ROSS CAPON, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF RAIL PASSENGERS; KAREN PRESTON, AMTRAK PASSENGER FROM SACRAMENTO, CALIFORNIA

Mr. BIGGS. Thank you, Mr. Chairman. I am a Vice President of the Transportation Communications Union and working with the Amtrak Service Workers Council which is the collective bargaining agent for the men and women who work in customer service on board Amtrak trains. The Amtrak Service Workers Council is comprised of the Transport Workers Union of America, the Hotel Employees and Restaurant Employees Union, and TCU. I thank you

for this opportunity to present our views about Amtrak food and beverage service.

Amtrak was created three decades ago to revitalize rail passenger service. But its inability to secure adequate and stable Federal funding has led it to struggle just to survive. To manage any aspect of its operations, Amtrak needs stable, reasonable funding and strong long-term investment. The Service Workers Council salutes the Chairman and Ranking Members of this Subcommittee and of the full Committee, and other Committee members for their support for H.R. 1630 and H.R. 1631, legislation that can provide Amtrak the resources it needs to evolve into an efficient, modern rail passenger system.

This year, facing yet another financial crisis, Amtrak management has authored a Federal grant request that includes some desperate and ill-conceived measures, including its announcement that it will seek to contract out food and beverage service. More than 20 years ago Congress called upon Amtrak to break even on its food costs. It also amended the Rail Passenger Services Act to remove labor protection from employees working in food and beverage.

Back then, Amtrak said that it would explore contracting out that service. And, indeed, over the years, Amtrak has tried to do so, sometimes resulting in our members losing their jobs. All of its efforts, however, have either failed to get off the ground or have done nothing to help the company's bottom line.

Examples of those failed efforts are detailed in my written statement and include an attempt to contract out the use of food carts on the trains, an attempt to use vending machines, the contracting out of commissaries, and the inability by Amtrak or the States of Maine and North Carolina to secure vendors to operate cafe cars even on short routes without the need for ongoing subsidies to the vendors.

Amtrak is now turning a blind eye on that history, certainly at least the IG is, and it is attempting to justify its new call to contract out food service by comparing onboard employees' wages to those of workers in the restaurant industry, a comparison which completely misses the mark.

Onboard attendants are responsible for the safety of the riding public. Employees are trained in emergency evacuation procedures and in fire suppression. They get Red Cross first aid training, special training to assist passengers with disabilities, and they are trained to handle bomb threats and suspect packages. They comply with U.S. FDA regulations governing Amtrak food service. This fat manual right here is an onboard employee's handbook. That is what it looks like.

In addition, attached to my written statement are exhibits further identifying rules and regulations unique to onboard employees. And the work itself is uniquely demanding. Employees are subject to incurring injuries, both minor and major, that come from working aboard moving trains. Thankfully, train derailments are rare, but all onboard employees are mindful of the plaque in Washington Union Station that honors those employees who have lost their lives on the job.

Unlike restaurant workers, onboard employees do not make overtime pay after working 8 hours in a day or even 40 hours in a week. It is common for onboard attendants to work 17 or 18 hour days. But overtime pay for them kicks in only after they have worked 185 hours in a month. In negotiations, the Service Workers Council has asked Amtrak for overtime pay after 16 hours of work in a day, and Amtrak has said that it could not afford it.

Our members not only work away from their homes, but their schedules are erratic. Up to 20 percent of these employees are on extra boards with no established rest days, and they are subject to call for assignment at any time.

In addition, their hourly rates of pay are designed to cover the many hours for which these employees receive no compensation whatsoever. A look at schedules for service attendants, as an example, shows that on the Capitol Limited and the Cardinal they are paid 29 hours and 15 minutes per trip, but they are required to spend an additional 21 hours and 40 minutes of unpaid time on the trains or at away-from-home terminals—that is, 42 percent of the employee's time is unpaid. On other trains, the percentage of unpaid time is similar.

In negotiations, Amtrak management has preferred to grant incremental wage increases rather than to agree to work rule changes such as overtime pay after 16 hours of work, or payment for more of the time on the job that is currently unpaid. For anyone familiar with these matters to now tell us that those pay rates are excessive compared to restaurant workers is to stand that bargaining history on its head.

The current desperate efforts by cash-strapped managers at Amtrak to justify contracting out food service belies those unique working conditions of its trained and specialized onboard workforce. It also completely ignores the failed attempts to contract out this service in the past. In other words, Amtrak's argument in this regard reflects Amtrak's current problems, not any solution to those problems. Thank you, Mr. Chairman.

Mr. LATOURETTE. I thank you very much, Mr. Biggs.

Mr. Capon, welcome. We look forward to hearing from you.

Mr. CAPON. Thank you, Mr. Chairman. We appreciate the opportunity to appear. The first thing I would like to say is actually to quote the most important sentence from Mr. Crosbie's statement, which may be the most important sentence of the morning, and that is, it is the primary purpose of food service on the trains to enhance ticket sales and ridership, not serve as a profit center. We hope that the focus that Amtrak will carry going forward is on increasing sales of food and encouraging use of the service, not on downgrading it.

The answer to the question how much money did you lose on food service, is it the $84 million that Mr. Weiderhold showed, there is really no way to prove it without killing the railroad. And by that I mean, the only way you know is by how much ticket revenue did that food service drive. The only way to really tell for sure is to get rid of food service and see what happens. And I do not think we want to do that.

There are two specific issues that were referenced earlier today that I would like to shed some light on. One is the comments about

Chef Mario, which I do not believe were accurate. Chef Mario, to my understanding, is a vendor who provides a couple of items that are among the many items that are sold on the San Joaquin by Amtrak employees. That is all he is; he is a vendor selling a couple of items. If he is not making a profit on that, shame on him.

Also, we have heard a lot about the Alaska Railroad that is pretty irrelevant to Amtrak. The Alaska Railroad's major train is a 12-hour run, it is a daylight run, it is through some of the most spectacular scenery on the planet. They are spoon-fed shiploads of cruise passengers.

There may be some lessons in the details of their contract or something, but what I have heard today and in the past about Alaska Railroad in Amtrak discussions is completely irrelevant. The obvious lessons that people are trying to draw from it are just not relevant to Amtrak.

We think a more aggressive food service should be available than Mr. Weiderhold does. He said that food service should be provided if a train passes through more than one meal period. We think, as I say in the first paragraph of our written statement, that snack bar services should be provided, period, except where demand has been proven not to exist, and proof should include use of creative thinking, outside the box methods, to encourage sales.

At the bottom of page three of my statement, we talk about some of the best practices that exist on Amtrak today which we think could be more widely replicated. California is a good place to look. They have been innovative on those trains in promoting food sales through various means, like window stickers that tell passengers that the food service is available, through other signage, through digital message boards, and through announcements on the public address system. So there are ways to improve the food service delivery to get more sales.

I do think that in general the quality of food that is sold on Amtrak is very good. It is far above what Silvio Conte, the late Congressman from Massachusetts, commented on in 1982 when he told an Amtrak witness, "I bought one of your ham and eggs, dropped it, and smashed my toe." The dining car food, I have found it pretty uniformly very good. The snack bar selections are somewhat more variable.

I think, frankly, where States have been doing oversight, and perhaps providing funds, they have been better. I think the menus in California are probably better than the menus on the New York-Albany trains, menus that are about to disappear. And that is where we think that more effort could be looked at in terms of improving menus before the service is dropped.

A train can travel through just one meal hour yet providing food service is still an important thing. Congresswoman Brown mentioned medical reasons why people need to have access to food. Also, trains have been known to run late. So a train that starts out with the intention of running through only one meal hour might actually run through more than one.

So, clearly, we believe that there is a responsibility to provide the food service efficiently, but there is also a responsibility to make sure that the employees have the right incentives to sell. And as

I discuss in my written testimony, it is not completely clear that that has been done.

It has been a long morning, I will leave it there. Thank you very much for your attention.

Mr. LATOURETTE. Mr. Capon, I thank you very much.

Mr. and Mrs. Preston, we welcome you. Mrs. Preston, we look forward to hearing from you.

Mrs. PRESTON. Thank you, and thank you for inviting us to be here. We experienced a trip that was a combination of mechanical and service failures that we believe placed our health and safety and the health and safety of several hundred passengers in jeopardy.

After many years of having both of our parents tell us how wonderful train travel was, we were looking forward to our first interstate travel and we chose to do a trip last Christmas. Unfortunately, what we experienced was 18.5 hours where we had no access to food, we experienced a night in a snowy mountain area where it was snowing where we had no heat all night long, and we had no access to onboard toilets. This horrendous experience happened to us on the trip from Seattle to Sacramento on December 29th.

We were supposed to have boarded the train in Seattle. Unfortunately, the train never made it there the day before and we were bussed down to Portland. When we got there around noon, of course it was around lunch time, and even though we should have already been on board for hours and had access to lunch, we were told we would not be able to board the train for approximately two hours and, therefore, our first meal would be delayed. We chose to go off-site from Amtrak in order to purchase a lunch prior to then.

When we finally did get on board the train we were told that all meal service for the remainder of the trip that day would be delayed, and we were not able to secure dinner reservations until 9:00 p.m. We also noted that immediately upon leaving the Portland station we were having intermittent power outages in all of the cars. We were hearing messages over the PA system that whenever these power outages occurred food service was being interrupted because they could not cook food or run the cash registers.

At 8:30 we arrived in Chemult, Oregon, and at that point the power did not come back on. We were told shortly thereafter that all remaining food service for the day would be canceled and that any pending dinner reservations were going to be canceled and the snack bar was going to be closed.

There were other announcements at that time. It was at that point we were advised that the heat was going to be out, and we were also asked to not use the toilets because they required electricity as well. Several of us went to the dining car, myself included, and we were directed to speak to the supervisor.

We asked the supervisor for some food because it had been a long time since lunch and we had the whole night to get through, and we were told that we could not have any food. We asked for just plain rolls and the cold salads that would have been served to us anyway, and the dining car supervisor told us that unless we had

a medical condition that required us to eat, we could not have any food, even a cold piece of bread.

At some point, they finally decided that we would continue on because the engines were working and we would continue on to Klamath Falls, although we would not have any heat or electricity in the car. When we arrived in Klamath Falls, again, it was a very snowy area, it was snowing and we got there approximately 90 minutes later. There were no announcements about how long we would be there, what kind of services that we could expect, or whether we were able to get off of the train to go into the station to use the bathrooms.

About 4:00 a.m. a very frustrated passenger in our car called the 800 Amtrak number, calling here to the East Coast to try and find out what was going on on our train on the West Coast. What we learned at that point is that we had been declared a disaster and that the Red Cross was coming and that buses had also been ordered and were scheduled to arrive between 6:00 and 7:00 a.m.

About 5:00 a.m. the Red Cross did arrive and we did receive some blankets at that point as well as some hot drinks and a donut. The buses that were to arrive between 6:00 and 7:00 did not start coming until 7:30 and at that point only two buses arrived. We were also told that it would require 10 buses to transport all of the passengers. The last bus, which is the one we ended up on, did not arrive until 10:30.

All of this time we were still not being given any food from the train. And because the train track was several blocks from the business area in town, we were also advised that we should not go into town to purchase food because the buses were supposed to arrive any minute and we did not want to miss the bus.

We were also told during the night by a staff member in the station that a hot meal would be provided to us when the buses arrived, that they would take us for a hot meal. When we boarded our bus about 10:30 and asked our driver about the arrangements for food, we were advised that food was being taken to a roadside rest area in Redding, California, which was still a several hour drive away. By the time we finally got to where the food was it was 3:00 in the afternoon and our promised hot meal was a cold sandwich and a bottle of water.

There are many more details that are outlined in the letter that we sent to Amtrak as part of our complaint, and you will certainly have those to read.

What we think should have happened is that we should have been able to have boarded the train immediately in Portland when we arrived and been able to purchase lunch. We also believe that the dining car should have the capacity and be open for the required number of hours it is needed to serve the passengers. When we book a trip we fully expect that there is going to be food service available, and it should be available to us.

Despite the power outage, there should have been some provision for food. We do not understand why no provisions were made to have groceries brought to the train. Surely some peanut butter sandwiches could have been made and provided for us.

We also think that there should have been better communication. We should not have had to call the East Coast to find out what was

happening on our train. We were also very angry that the Red Cross had to be called and utilize our charitable dollars to fix a mistake that we believe Amtrak should have been able to fix. We did request that Amtrak reimburse the Klamath Falls Red Cross, although we have not received any information that has happened.

We also believe that when a train is traveling through any area where there is excessive cold or excessive heat that there should be immediate provisions for protecting the passengers' health and safety. There were many young children, elderly people, and disabled people on board the train who should not have been forced to go through a whole night without any way of getting warm.

And above all, we think that the staff should have the ability to think creatively and to problem-solve and to implement solutions. They should not have to refer to some manual on how to protect the safety and the well-being of the passengers. Thank you.

Mr. LATOURETTE. I thank you very much. I guess I will start with you, Mrs. Preston. Did you receive a response back from Amtrak?

Mrs. PRESTON. Yes, we did receive a letter from the customer service department expressing their apologies that we were disappointed with the trip. Her letter also indicated that she was sure that the staff had done their very best and that she was sorry that we were upset that it took the Red Cross so long to respond.

Mr. LATOURETTE. I will tell you what I think Ms. Brown and I will do. I think the fellow from Amtrak has left the room, but not the building. If you and your husband want to work with the staff of the Subcommittee and you require a better response, we will see that we get you one. We appreciate your coming here and telling us your story.

Ms. Brown and I were on a train that was supposed to take two hours and it wound up taking six. We did not have your nightmarish experience and we did not have snow, we had French people on strike that laid across the tracks to keep us from going to where we wanted to go. But it is the same type of thing and we recognize how frustrating that can be.

Mr. Capon, I agree with you about the Alaska Railroad story. You I do not think were with us at our first hearing this year, but we had a fellow from the Colorado Railcar Company who has now sold some cars up to the Alaska Railroad and those people really are tourists. They are getting off the cruise ships, as you say, and driving through the mountains and I am sure having pretty nice meals. But that is an apples to oranges calculation to me and did not impress me.

Mr. Biggs, I think you did a great job in outlining the fact that if you look at what Amtrak employees are required to do, not just the manual but the actual hours that they are on the train, the fact that they do more than serve food, I really think it is not fair, and I tried to get at that with the GAO report. I am all for fair comparisons, and if somebody is doing something wrong they should be held to task, that is our job.

But to compare a waitress in a Bob Evans with someone who is serving food on an Amtrak train, I do not think it is a fair comparison. I think you have done a good job of outlining that.

I do have a couple of questions. Again, in preparation for this hearing some issues came up, and maybe you know about them or maybe you do not. One is, I think Mr. Crosbie talked about the conversion. It sort of boggles the mind that money for food would be collected, that the cash register was a cigar box in a lot of cases, is my understanding, and now they have moved to cash registers.

But I understand that even with the improvement to cash registers, and somebody focused on theft, somebody was talking about theft earlier, that at the end of the shift or the run or whatever it is, the employee in charge of the cash register is still tasked with taking the money out of the cash register and taking it back to his or her hotel room until the next day's transactions. In my mind, that not only invites difficulties but it sets up the employee to become a target, if you will. I would think having maybe a lockbox or a bank drop or something like that.

So my question to you, Mr. Biggs, is that true? Is that how it works now?

Mr. BIGGS. It is not supposed to work that way. At the end of each line, Amtrak does have employees that are effectively cashiers who are supposed to collect the revenues both from the onboard attendants and from conductors who might have ticket sales.

However, really because of Amtrak trying to economize or cut back, when you have a late train situation it might close down that cashier's cage effectively and not hold those people. And then you have that situation that is really quite awful for an onboard attendant, because if something happens to that money, Amtrak will tell them they are responsible if they get robbed or something, if they did not take good care of it. It is a way that Amtrak I think feels forced to economize. But it is a mistake and they should not do it.

Mr. LATOURETTE. I tend to agree with you. The other observation that came to my attention, I think where Amtrak really is not right at this hearing we have had today is when they attempt to explain this bad contract that they have with Gate, and then the fact that they are paying 50 percent more for the food. I think that is a fair comparison in that, I do not know if I would use Mr. Baker's example of a box of apples, but a box of apples should cost whatever a box of apples cost, aside from the transport to the train. Anyway.

What has come to my attention is that Amtrak under this contract eats spoilage. In other words, if you have some milk that is delivered to the train and the expiration date is June 9th and you cannot use it, that they eat the spoilage and that is part of the cost of doing business.

An allegation has been made that one of the difficulties with this vendor is that there is a high incidence of spoilage or items delivered trackside, trainside that are right on the edge. When I go into the grocery store, for instance, I do not ever get the milk out front because I know that is going to expire tomorrow or the next day, I dig in the back. It probably makes them real mad at the grocery store, but I get the stuff that expires two weeks from now. Have you received any observations or do you have any observations from your members relative to the issue of spoilage?

Mr. BIGGS. Our members work right alongside the workers from the vendors so we get a lot of anecdotes and we also talk to the

managers. My particular union used to represent Amtrak commissary workers, so we lost 300 jobs. So we had a stake in this and we are always interested did this experiment that we opposed work in the end. We get all this information from people that it has not, that it has been a managerial disaster and a financial disaster, that Amtrak lost a significant amount of control over its stock and inventory of food, that sort of thing.

But to go back to 1999, really what Amtrak told us at that time when they said they were being forced to contract out these commissaries—they call it the commissaries closings because their view was because of not having enough capital funding they could not literally keep the physical facilities open and put in the long term investment that was needed because they were dilapidated, falling apart, that sort of thing. I think that is what pushed them into this contract, quite frankly.

And the kind of details that you just asked about about spoilage, I do not know. I hear anecdotes that, yes, that is a problem, that there is a problem that they do not get full credit for items that are turned in at the end of a trip that were not sold, that sort of thing.

My union, TCU, did go to Amtrak several times and say, look, we are hearing that you do not make money on this venture, bring the work back in-house, we believe that we can perform the work in terms of labor costs for the same cost as the vendor, and they said that is probably true that labor costs are competitive with this vendor in this contract operation, but we no longer have managers capable of supervising the operation. That is effectively the answer that we got.

Mr. LATOURETTE. I forgot to ask Mr. Crosbie, and under Ms. Brown's unanimous consent request, maybe I will just send them a quick note with the question. But prior to the engagement of this contract, the contracting out of the commissary service, do you through your union have any figures on what the relative profits and/or losses were in the food service business on Amtrak when it was Amtrak commissaries?

Mr. BIGGS. Not with me. I might have it in my files.

Mr. LATOURETTE. If you could look and maybe drop us a note and I will follow up with a more formal letter, and I am going to ask Mr. Crosbie the same thing, because I think that would be apples to apples. Whether or not the contract provisions have been enforced the way that they should be enforced, and management at Amtrak has exercised the oversight that they should have exercised, I do think that, you called it an experiment, I do think it would be worthwhile for this Subcommittee to go back and look at apples to apples and see how that experiment has fared.

My experience, quite frankly, is that, and I know I represent the party of privatization, but my experience has been that a lot of these privatization activities wind up costing more rather than less. I would be interested to see if you have those figures.

Ms. Brown.

Ms. BROWN. Thank you, Mr. Chairman.

Let me just say, Mr. and Mrs. Preston, I am sorry about your horrible experience. The Chairman told you about an experience that we had on the train and a trip taking six hours that should

have taken two hours. But I told you about the great experience that I had with my mother last weekend, she being diabetic.

I guess my question to you, though, did you send a copy of your letter to the Amtrak board? It seems like someone should have offered something. Usually, when you have these horrible experiences on the airline, you have to sit on the runway for six hours, they do something.

Mr. PRESTON. Yes, they certainly did do something. We did include several members of the board, including Mr. Crosbie and Mr. Weiderhold who are here, but did not receive anything back from either of them. But through their customer service, we did receive a full refund. But that was not the point of our letter nor the point we were trying to make.

Ms. BROWN. Right. Well I was just sitting up here thinking that maybe you did not receive anything. But it is good to know that you did receive a refund.

Mr. PRESTON. We did. But that was not the point.

Ms. BROWN. Yes. I understand. I had a terrible experience this morning at McDonald's. I went there for coffee and I bought a McGriddle and I got home and I had sausage biscuits. If you do not check right there at that point, you have got a problem. But thank you.

Mr. Biggs, there was a comparison between the food service workers and the restaurant workers. You mentioned something about safety and security, and of course I am very interested in security. Can you elaborate a little bit more in that area?

Mr. BIGGS. I think some of the things in the written testimony and that I mentioned previously that onboard employees are required to be trained for, to know what they are doing in a situation. Emergency evacuation, very important. Fire suppression just does not mean knowing how to use a fire extinguisher. It means knowing each piece of equipment and where the blower switches are and how to get to them quickly and turn them off. How to use emergency exits for people, that sort of thing. Employees get Red Cross first aid training, CPR.

There is some homeland security training in terms of bomb threats and suspect packages, there should be more. Our members want more and we have been asking for more. Lots of updates in terms of the FDA regulations, people are always getting training in terms of bacterial control, being careful about cross-contamination.

But instead of just listing regs, if I could for a moment turn to something here. This is in the attachment to my testimony. This is about real events and real people. It is under section 4A of what is really the second attachment. It talks about some of the derailments that happened at Amtrak and some of the actions that employees took. I will just very quickly go through a few of them.

An April 2002 auto train derailment. An employee named Reggie Jackson climbed on top of a car where he had heard screaming, popped open the windows, helped passengers to safety. James Pierce, on the same train, pulled out an emergency window and pulled people out through the window to safety and then spent the rest of his time handing out bandages to people who had cuts and bruises.

A 2001 derailment on the Zephyr in Iowa. An employee named Jimmy Coleman received a citation for having assisted more than 80 people to evacuate the train and also providing them comfort and security. And there are more of those, the list goes on. But those are real things that these people are trained to do and that they do.

Ms. BROWN. Just one other question. You noted that the onboard service workers are not paid for their real time on the train. Can you explain that to me because I was trying to ask somebody earlier about that?

Mr. BIGGS. Yes. On every employee's work schedule they have time on the outbound trip, and then they lay over at an away-from-home terminal, not their home base, and then they come back on the inbound trip. And in all three times there are times they are not paid. On the outbound trip, they will have a down time where they can go to a sleeping car or something and they are not paid for that. On the outbound trip they are not paid for virtually their whole layover. And on the inbound trip, they are not paid again.

If you add up all those times, it is very common that employees, in terms of the actual time required to be on the job, are not paid for anywhere from 35 to 42 percent of their time.

I have a chart that the chairman of the Amtrak Service Workers Council did. It is actually very nice looking. You can see it probably from there. If I could make the chart a part of the record, Mr. Chairman, I would. But what it shows is that if you look at the full rate of pay, which is what the most senior service attendant would make, of $18.86 an hour and not considering any other factors but only considering the unpaid time, let us say, on the Cardinal or the Capitol Limited, that translates into a real hourly wage of $10.83. So that is the kind of impact just that one factor has on those wages.

Ms. BROWN. My last question. Mr. Capon, in the past Amtrak has instituted various cost-cutting measures from lowering the quality of the food to increasing meal prices, and most recently Amtrak eliminated food service from New York to Albany. How do these changes impact your membership and/or Amtrak ticket sales?

Mr. CAPON. The New York-Albany change is scheduled to begin July 1st. The one that they just implemented was the elimination of hot meals on Metroliner First Class. And I would have to disagree with Mr. Crosbie's earlier statement about not downgrading quality. No hot meals is certainly an example of downgrading quality. And since they just began it last week, I guess we will find out quickly enough whether people still think it is worthwhile to spend the extra money for Metroliner First Class.

On the short distance runs, obviously, it is possible for people to grab something before they get on the train, if the place is open. Apparently, the snack bar in Albany does not open until after the first or second morning departures have already left. For people that have diabetic or other medical conditions, lack of on-board food service may constitute a reason to travel a different way.

It is hard to say how many people will be driven off. They are running right now from New York to Harrisburg, which is three hours or so, and that is with no food service at all. If they can fix all their problems with internal controls and cost controls and ev-

erything and figure out a model of efficiency for delivering food, we would like them to try to put the meals back there and see if that has a net positive effect, because you never know until you try.

We know that on very short runs in California, with the very innovative approach, the food service is very popular and very well used and I think is part of the reason that ridership has skyrocketed on the California corridors. So we would like to see that tried in the East as well.

Ms. BROWN. My time has expired, Mr. Chairman.

Mr. LATOURETTE. I thank the gentlelady. Ms. Brown and I have six minutes to get ourselves over to the floor to vote on the last vote of the day. We want to thank you very much for participating in today's hearing. The record will be kept open if you have any additional observations you would like to make. And we may send a couple of follow up questions to you, Mr. Biggs.

But thank you very much.

This subcommittee is adjourned.

[Whereupon, at 12:40 p.m., the subcommittee was adjourned.]

Statement of
Daniel Biggs, Vice President, Transportation Communications Union

on behalf of
Amtrak Service Workers Council (ASWC)

---

before the
U.S. House of Representatives
Committee on Transportation and Infrastructure
Subcommittee on Railroads

Hearing on Amtrak Food and Beverage Services
June 9, 2005

Mr. Chairman, my name is Daniel Biggs. I serve as a Vice President of the Transportation Communications Union (TCU). I am assigned by TCU to work with the Amtrak Service Workers Council which is the collective bargaining agent for the 1,900 men and women who provide service to customers on board Amtrak trains in the café and dining cars, as well as in the sleeping and coach cars. The Amtrak Service Workers Council is comprised of three unions: the Transport Workers Union of America (TWU), the Hotel Employees & Restaurant Employees Union (Unite Here), and TCU.

On behalf of the Amtrak Service Workers Council, I am grateful for this opportunity to to present our views concerning Amtrak food and beverage service.

In Amtrak's April, 2005 federal grant request for fiscal year 2006, the company announced that it would be experimenting with food service levels to reduce costs. In May Amtrak announced that, effective July 1, 2005, it would be eliminating food service on the Empire Service trains that operate between New York City and Albany, and perhaps on some other routes later.

There are no statutory restrictions preventing Amtrak from modifying, or even eliminating, food service from any of its routes. Last year Amtrak eliminated dining car service on the *Cardinal* where it is now utilizing café service only, with a more limited food selection. On trains where dining cars are operating, staffing is as low as it has ever been. Over the years, Amtrak has tried to reduce food service costs by switching from metal to plastic dinnerware, from cloth to vinyl table cloths, and from linen to paper napkins. It has also experimented with menu prices. Amtrak has tried using a "standardized menu" so that all of the food on all of the trains was the same. At other times, it experimented with regional, specialty entrees. During much of the 1980's Amtrak tried using nothing but pre-plated, microwave-able meals, leading former Amtrak CEO W. Graham Claytor to lament in 1991 that "In trying to make food service cheap, we made some of it inedible."

The natural barrier facing Amtrak management is that passengers are not cargo, and people demand food and drink that is safe, and hopefully fresh and nutritious. They want clean and sanitary conditions, as well as accommodations for their handicaps and special dietary needs. They want experienced attendants who can answer their questions and assist them. They want

their eating experience on the train to be convenient and pleasurable. And they want all of that at prices which they can afford and are willing to pay. If they don't get those things, some passengers will be driven off the trains if they have a viable transportation alternative, and some may resort to bringing their own quantities of food and drink onto the trains which could lead to a host of other problems, including another infestation of rodents such as Amtrak faced in the late 1980's.

Food service is an essential component of rail travel, and everyone can agree that it should be managed as efficiently as possible. Downgrading food service in some wholesale fashion, however, would only lead to lower ridership and ticketing revenue, and add to Amtrak's problems. Amtrak was created three decades ago to revitalize intercity passenger rail service, but its inability to secure stable and adequate federal funding has led it to struggle just to remain in operation. This year, facing another financial crisis, Amtrak management has authored a federal grant request that in part scapegoats its employees and in part grabs at quick-hitting, cost-cutting measures that are likely to be self-defeating. It just did not make sense for Amtrak to announce a major cost-cutting initiative for food service with no apparent analysis of the company's previous experiments in downgrading food service or of how passenger demographics, trip length and reason for travel affect the type of food products that need to be provided.

To manage its operations, Amtrak needs stable, reasonable funding for operations and strong, long term investment. The Amtrak Service Workers Council salutes Chairman Don Young, Ranking Member Jim Oberstar, Railroad Subcommittee Chairman Steve LaTourette,

Ranking Member Corrine Brown, and other members of this Committee for their support of H.R. 1630 and H.R. 1631, legislation that can provide Amtrak the resources it needs to evolve into an efficient, modern national intercity passenger system. Frantic efforts to slash food service costs, privatization schemes, or blaming Amtrak workers reflects Amtrak's problems, not any solution.

For the unions within the Amtrak Service Workers Council and the other unions at Amtrak, the most disturbing part of Amtrak's grant request was the assault on employees' pensions, working conditions and job security. Amtrak went so far as to propose that Congress take new employees out of a railroad retirement system that is healthy and well-funded. Amtrak also asked Congress to amend the Railway Labor Act to allow Amtrak labor contracts to expire so that the Company could more easily impose work rule changes on its employees, a request that is downright dumbfounding for those of us representing On Board Service employees.

First of all, the Amtrak Service Workers Council has always been able to reach voluntary agreements with Amtrak, even though it has been excruciatingly difficult to negotiate with a company that is chronically short of funds.

Secondly, we wonder what possible new work rules Amtrak may be imagining. It is common today for On Board attendants to work 16, 17 or 18 hours a day. These employees do not make overtime pay after working 40 hours in a week, as has been the national standard in our country for decades. Overtime pay for them kicks in only after they have worked 185 hours in a month. In our most recent round of negotiations, the Service Workers Council asked for overtime

pay after 16 hours of work in a day, and Amtrak said: "absolutely not; we cannot afford it." We asked Amtrak to pay employees who were technically off duty but were trapped on a train that was late arriving to its final destination. Again, Amtrak said that it could not afford to do so. Our members work erratic schedules, with up to 20 percent of employees on extra boards with no regularly established rest days, and yet our contract only guarantees employees four (4) days off per month at their home base. We tried to increase that number, and Amtrak again said that it could not agree.

I recently took a grievance to arbitration involving employees assigned to the lounge car from Jacksonville, Florida to New York City, and return. Amtrak had previously removed dining car service from that train and, in May 2002, Amtrak also removed the car where employees slept. It established new schedules for the Lounge Car attendants to report for work in Jacksonville at 2:30 a.m. and work an 18 ½ hour shift northbound without a rest break until released at 9:20 p.m. in New York. The next morning they were required to report back at 5:00 a.m. and work 20 hours and 43 minutes southbound, again without a rest break or any place in which to rest. The Amtrak Service Workers Council demanded that Amtrak provide those employees with rest time or break up the work schedule into several segments to be worked by different employees – providing a relief employee out of Washington, D.C., for example, where the train stops and Amtrak has a crew base. Amtrak would not agree, and a grievance was progressed to arbitration.

The arbitrator ruled that our labor contract did not clearly require Amtrak to provide

mandatory rest time on that train. However, the arbitrator was clearly appalled by the schedules, and he asked the Company and the Union to meet and confer over the application of the work rule governing mandatory rest time on the trains.

Amtrak argued that the long schedule without rest time could not be held to violate our contract, or past practice, because it was not significantly worse than the work schedules of hundreds of other On Board employees. After the arbitration award was issued, Amtrak advised us that the schedules on that train had been changed so that employees now worked only – only – 16 ½ hours without a rest break on the outbound trip, and only 17 hours without a break on the return trip, and that such schedules are "consistent with existing assignments on other trains."

That anecdote provides a pretty good picture of working conditions for On Board Service employees. It is difficult to imagine that Amtrak managers seriously believe that getting out of the Railway Labor Act would allow them to work employees in excess of their current 16 and 18 hour days. What changes, then, is Amtrak seeking? Does management wish to reduce our members' pay? On paper, Service Attendants working in the dining cars make $18.86 per hour. That rate is what we call the "full" rate of pay. In reality, nearly half of all Service Attendants are paid less than that, because they are subject to entry rate rules which begin at 75 percent of the full rate of pay. More significantly, the pay rates incorporate a type of built-in premium to help cover the many hours that employees spend away from home on their jobs for which they receive no compensation whatsoever. For example, when we looked at schedules in effect during our last negotiations, we found that Service Attendants on the *Capitol Limited* and the *Cardinal* were

paid 29 hours and 15 minutes per trip, but they were required to spend an additional 21 hours and 40 minutes of unpaid time on the trains or at away from home terminals – that is, more than 42 percent of their total time on the job was unpaid. On the *City of New Orleans* a Service Attendant was not paid for 39 percent of his or her time. On the *Silver Star*, the *Palmetto* and the *Sunset Limited*, 36 percent of the time was unpaid. On the *Texas Eagle* it was 32 percent, and on the *Southwest Chief*, 43 percent of the total time was unpaid. Attached you will find an exhibit detailing this information.

In our most recent negotiations, as in many prior bargaining rounds, Amtrak management found it preferable to grant incremental wage increases rather than to agree to work rule changes such as overtime pay after 16 hours of work, or payment for some of the time on the job that is currently unpaid. For anyone knowledgeable of these matters to now argue that pay rates for these employees are excessive, is to stand that bargaining history on its head, as well as to ignore the real working conditions of what is a specialized and highly trained work force.

Attached to this testimony are two documents prepared by the Chairman of the Amtrak Service Workers Council, Gary Maslanka, Railroad Division Director of the Transport Workers Union of America. One document provides an outline of rules, regulations and required training governing On Board employees in the areas of passenger safety, train security, and customer service. The other document highlights the fact that On Board employees must adhere to such regulations and policies that simply do not apply to general food service workers in restaurants. Additional materials and backup materials on these matters can be provided at the Committee's

request.

On Board attendants are part of a team responsible for the safety of the riding public, and they are trained in food temperature control, bacterial hazards, cross contamination avoidance, and the overall sanitary handling of food supplies. Any employee found to have violated U.S. Food & Drug Administration regulations governing Amtrak food service is counseled, disciplined or dismissed. Employees are trained in emergency evacuation procedures and in fire suppression, as well as in risk avoidance of communicable diseases and blood borne pathogens. They are trained to handle bomb threats. They get Red Cross First Aid training and training to assist passengers with disabilities. Many have been trained to use defibrillators.

Likening Amtrak On Board employees to general food service workers misses the mark completely. These employees not only work on the road, away from their homes, but the work itself is uniquely demanding. On Board employees are branded with ever-present bruises that come from being jostled around in confined work spaces among metal counters, table tops and equipment. The turnover among newly hired employees during training and their first months on the job is astronomical, because so many simply cannot handle the physical requirements. And there is a certain physical danger involved with working on moving trains. Employees who do not quickly learn how to brace themselves properly while helping a handicapped passenger or holding a tray of food in their arms, are likely to hurt themselves or others during the jerking motion of the trains. Thankfully train derailments are rare, but even one in a person's career brings to mind the plaque in Washington Union Station that honors those Amtrak employees

who have lost their lives on the job.

Amtrak 's federal grant request pointed to contracting out food and beverage service as a solution to the current costs of providing food service. We believe that any such effort is destined to fail. Amtrak has made a number of attempts to contract out food service in the past, oftentimes resulting in our members losing their jobs. Those efforts, however, have either failed to get off the ground or have done nothing to help the company's bottom line.

For example, in 1992 a restaurateur in Chicago won a bid on a Request For Proposals (RFP) offered by Amtrak to serve food and beverages from carts aboard the *Hiawatha* trains from Chicago to Milwaukee, a short 90 minute run. The RFP stated that if the service proved successful, it would likely be expanded to other trains. However, the vendor canceled out before the service ever got started. At the time, he stated that the slim chance of making a profit was outweighed by the high cost of insurance for providing alcoholic beverages to the public and insuring against injuries to passengers that might be caused by the metal carts during sudden train stops or derailments.

Amtrak has also tried putting vending machines on the trains. In 1997 the company announced that by Labor Day, 1998 it would have vending machines in service on all of the Chicago Hub trains traveling to Grand Rapids, Detroit, St. Louis, Milwaukee and Toronto. Savings were to come from eliminating the attendants who staffed the café cars on those routes. Amtrak remodeled cars to accommodate the new machines and initially put them into service on

the trains to Grand Rapids. That also turned out to be the last route for the vending machines. The project was abandoned 18 months later, amidst a host of problems. The rocking of the trains sometimes caused the machines to malfunction. Some passengers complained about the quality of the food and of the absence of beer and wine. Sales were substantially less than expected, and Amtrak soon found itself subsidizing the vendor for its losses, contrary to original expectations.

Amtrak's biggest venture into contracting out in recent years directly involved my union, and TCU members lost approximately 300 jobs in 1999 when commissaries in 11 different cities were contracted out. In our talks with Amtrak leading up to this change, the company always referred to the project as the commissary "closings" and explained to us that the greatest part of its projected savings would result from Amtrak being able to abandon its commissary facilities, many of which were dilapidated and in need of significant capital investment or replacement. Amtrak said that, due to insufficient federal funding, it did not have the money to make the necessary long-term capital improvements. Amtrak assured TCU that the vendor would station its supplies off the property and only use Amtrak facilities in some incidental fashion. That, however, has not proven to be the reality. Amtrak has continued to maintain most of those facilities and the contractor uses them.

Amtrak had announced in 1999 that its seven year deal with Dobbs International to take over commissary services would save $28 million. However, we have been told by our members who work alongside the vendor's employees, and by some Amtrak managers, that the venture has been a financial and managerial disaster. Amtrak has lost a significant amount of control over

its inventory and food selection. Meanwhile, the vendor appears to overstock trains and to fail to always give Amtrak full credit for items that are not sold or are condemned. We believe from the chorus of anecdotal reports that we have received that Amtrak has saved little or nothing.

During the past several years, TCU has on a number of occasions broached with Amtrak the issue of bringing the commissary work back in house. Amtrak has not responded to our overtures, except for off-the-record comments that even if our members could do the work for an equal or lesser cost of labor, Amtrak does not now have managers capable of overseeing the operation, and that it would be too painful to acknowledge its mistake. TCU and the Amtrak Service Workers Council would welcome a full report and public disclosure of this matter.

It is also instructive to look at the food service that has been contracted to a caterer on the Downeaster trains since their inception in late 2001. While the Downeaster service -- operating between Portland, Maine and Boston -- is technically part of the Amtrak system, train operations are subsidized by the state of Maine which contracts with Amtrak to operate the train, but not to provide food and beverage service. When the Downeaster began operating, there was talk about the food service paying for itself or being profitable. As it turns out, however, that service has never turned a profit or broken even. We reviewed statistics from six separate months during 2003 and 2004 that were available on the Downeaster website, and there was a loss on food service operations each and every month.

I have ridden the *Downeaster* trains and spoken with café car employees, as have other

Amtrak Service Workers Council representatives. To us, those employees decried their lower wages, lack of good employer-provided medical insurance and pensions. Some of them were part-time employees, holding down other part-time jobs at the same time. Several asked if we knew when Amtrak might be hiring at its Boston On Board crew base.

A similar contracting out effort by the state of North Carolina failed on the *Piedmont*, an intra-state train between Raleigh and Charlotte. In that case, the initial vendor that supplied the food and staffed the café car proved unreliable, so the state found a replacement. The second vendor went bankrupt. Both vendors required state subsidies far higher than had been expected. North Carolina finally threw up its hands and eliminated the food service. Today, passengers on that train can help themselves to a complimentary coffee or a soft drink and chips.

We do not believe that the *Downeaster* or *Piedmont* models can be repeated on a widespread basis on the Amtrak system, in part because those trains travel only about three hours from end to end. Nonetheless, those experiences – plus Amtrak's previous efforts to contract out food service – show that the most likely result of a new scheme to contract out food and beverage service at Amtrak would be another failure. Short of that, the likely result is that jobs which have good benefits and pensions would be replaced with jobs that don't, while Amtrak would be stuck subsidizing the losses incurred by the contractors. The Amtrak Service Workers Council does not believe that is what Amtrak management should be doing – or what Congress should be attempting to do.

Thank you for this opportunity to present our views on this matter.

###

Train 29	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	6	3	1	5:30	5:30	7:20	33:45:00	52:05:00	35.20%
Food Specialist	6	3	2	6:30	5:30	7:40	44:50:00	64:30:00	30.49%
Lead Diner	6	3	1	6:45	6:15	7:40	31:45:00	52:25:00	39.43%
Lead Service Lounge	6	3	1	4:30	5:00	7:40	36:45:00	53:55:00	31.84%
Service Attendant	6	3	3	7:30	6:00	8:10	29:15:00	50:55:00	42.55%
Train Attendant	6	3	2	4:00	4:00	8:10	33:15:00	49:25:00	32.72%
Sleeper Car Attendant	6	3	2	4:00	4:00	8:10	33:30:00	49:40:00	32.55%

Train 51/50 Sunday Side	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	6	3	1	5:30	5:30	7:20	33:45:00	52:05:00	35.20%
Food Specialist	6	3	2	6:30	5:30	7:40	44:50:00	64:30:00	30.49%
Lead Diner	6	3	1	6:45	6:15	7:40	31:45:00	52:25:00	39.43%
Lead Service Lounge	6	3	1	4:30	5:00	7:40	36:45:00	53:55:00	31.84%
Service Attendant	6	3	3	7:30	6:00	8:10	29:15:00	50:55:00	42.55%
Train Attendant	6	3	2	4:00	4:00	8:10	33:15:00	49:25:00	32.72%
Sleeper Car Attendant	6	3	2	4:00	4:00	8:10	33:30:00	49:40:00	32.55%

Train 51/50 Wed, Fri Side	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	6	3	1	5:30	5:30	7:20	33:45:00	52:05:00	35.20%
Food Specialist	6	3	2	6:30	5:30	7:40	44:50:00	64:30:00	30.49%
Lead Diner	6	3	1	6:45	6:15	7:40	31:45:00	52:25:00	39.43%
Lead Service Lounge	6	3	1	4:30	5:00	7:40	36:45:00	53:55:00	31.84%
Service Attendant	6	3	3	7:30	6:00	8:10	29:15:00	50:55:00	42.55%
Train Attendant	6	3	2	4:00	4:00	8:10	33:15:00	49:25:00	32.72%
Sleeper Car Attendant	6	3	2	4:00	4:00	8:10	33:30:00	49:40:00	32.55%

Train 19/20	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	6	4	1	7:00	6:30	9:10	53:00:00	75:40:00	29.96%
Food Specialist	6	4	2	6:45	5:15	9:10	50:50:00	72:00:00	29.40%
Lead Diner	6	4	1	6:30	6:00	9:10	54:00:00	75:40:00	28.63%
Nol Lead Service Lounge	6	4	1	5:30	5:30	22:00	55:05:00	88:05:00	37.46%
Service Attendant	6	4	3	7:00	6:30	9:10	53:00:00	75:40:00	29.96%
Nol Train Attendant	6	4	2	5:00	5:00	23:00	53:50:00	86:50:00	38.00%
Sleeper Car Attendant	6	4	2	5:00	5:00	5:00	53:48:00	68:48:00	21.80%

Train 58/59	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	5	3	1	6:30	7:30	6:30	32:10:00	52:40:00	38.92%
Food Specialist	5	3	1	6:30	8:00	6:30	31:40:00	52:40:00	39.87%
Lead Diner	5	3	1	6:30	7:30	6:30	32:10:00	52:40:00	38.92%
Lead Service Lounge	5	3	1	5:00	6:30	6:30	35:40:00	53:40:00	33.54%
Service Attendant	5	3	2	6:30	7:30	6:30	32:10:00	52:40:00	38.92%
Train Attendant	5	3	2	4:00	4:00	6:30	36:15:00	50:45:00	28.57%
Sleeper Car Attendant	5	3	2	4:00	4:00	6:30	36:10:00	50:40:00	28.62%

Train 90/91	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	8	4	1	7:30	7:30	11:20	47:55:00	74:15:00	35.47%
Food Specialist	5	3	1	No	4:00	9:40	33:50:00	47:30:00	28.77%
Lead Diner	8	4	1	7:30	7:30	8:10	47:55:00	71:05:00	32.59%
Lead Service Lounge	8	4	1	6:30	6:30	11:20	49:55:00	74:15:00	32.77%
RVR Service Attendant	5	3	2	7:30	7:30	1:00	28:33:00	44:33:00	35.91%
Jax Coach	5	3	1	No	7:30	13:20	32:31:00	53:21:00	39.05%
Train Attendant	8	4	1	3:30	4:30	13:10	52:05:00	73:15:00	28.90%
Sleeper Car Attendant	6	4	2	4:30	4:30	11:20	52:55:00	73:15:00	27.76%

Train 92/89	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	8	4	1	7:30	7:30	13:00	41:23:00	69:23:00	40.36%
Jax Food Specialist	4	3	1	7:30	7:30	2:50	23:45:00	41:35:00	42.89%
Lead Diner	8	4	1	7:30	7:30	13:00	48:03:00	76:03:00	36.82%
Lead Service Lounge	8	4	1	6:30	6:30	14:00	50:03:00	77:03:00	35.04%
Jax Service Attendant	4	3	1	7:30	7:30	2:00	23:35:00	40:35:00	41.89%
Service Attendant	6	3	1	7:30	7:30	5:15	35:29:00	55:44:00	36.33%
Jax Train Attendant	6	4	1	4:30	4:30	16:48	37:03:00	62:51:00	41.05%
Train Attendant	8	4	1	4:30	4:30	16:00	40:00:00	65:00:00	38.46%
Sleeper Car Attendant	8	4	2	4:30	4:30	16:00	52:50:00	77:50:00	32.12%

Train 98/97	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	7	3	1	7:30	7:30	5:50	43:00:00	63:50:00	32.64%
Food Specialist	4	3	1	7:30	7:30	1:00	24:00:00	40:00:00	40.00%
Lead Diner	7	3	1	7:30	7:30	5:50	43:00:00	63:50:00	32.64%
Lead Service Lounge	7	3	1	6:30	6:30	6:10	45:00:00	64:10:00	29.87%
Flo Service Attendant	5	2	1	No	No	8:15	32:31:00	40:46:00	20.24%
Service Attendant	4	3	2	7:30	7:30	1:00	24:10:00	40:10:00	39.83%
Train Attendant	6	4	2	4:30	4:30	9:00	47:10:00	65:10:00	27.62%
Sleeper Car Attendant	6	4	2	4:30	4:30	7:20	48:30:00	64:50:00	25.19%

Train 5/6	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	13	6	1	15:30	16:00	12:50	78:50:00	123:10:00	35.99%
Food Specialist	13	6	2	16:00	17:00	13:35	79:40:00	126:15:00	36.90%
Lead Diner	13	6	1	16:30	17:00	13:35	79:45:00	126:50:00	37.12%
Lead Service Lounge	13	6	1	13:30	14:00	13:35	79:45:00	120:50:00	34.00%
Service Attendant	13	6	3	16:30	17:00	13:45	78:30:00	125:45:00	37.57%
Train Attendant	15	6	2	11:00	11:00	13:45	84:55:00	120:40:00	29.63%
Sleeper Car Attendant	15	6	3	10:00	13:00	13:45	86:55:00	123:40:00	29.72%

Train 727//8/28	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Sea Train Attendant	12	6	2	15:00	13:30	7:30	67:15:00	103:15:00	34.87%
Sea Sleeper Car Attendant	12	6	2	15:15	14:00	19:00	68:50:00	117:05:00	41.21%

Train 4/3	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	11	6	1	15:00	15:00	19:30	65:55:00	115:25:00	42.89%
LAJ Food Specialist	11	4	1	7:30	7:30	9:15	35:28:00	59:43:00	40.61%
Food Specialist	11	6	2	15:00	15:00	20:00	65:55:00	115:55:00	43.13%
Lead Diner	11	6	1	16:00	16:00	20:00	64:30:00	116:30:00	44.64%
Lead Service Lounge	11	6	1	12:30	12:30	19:45	69:55:00	114:40:00	39.03%
Service Attendant	11	6	3	15:00	15:00	19:30	65:55:00	115:25:00	42.89%
Train Attendant	12	6	2	15:00	14:00	20:00	68:30:00	117:30:00	41.70%
Sleeper Car Attendant	12	6	2	13:45	13:00	18:45	67:10:00	112:40:00	40.38%

Train 14/11	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	10	4	1	7:30	7:30	9:00	62:15:00	86:15:00	27.83%
Food Specialist	10	4	3	7:30	7:30	10:15	61:15:00	86:30:00	29.19%
Lead Diner	10	4	1	7:30	7:30	10:15	62:45:00	88:00:00	28.69%
Lead Service Lounge	10	4	1	6:00	6:00	10:30	62:45:00	85:15:00	26.39%
Service Attendant	10	4	3	7:30	7:30	10:30	62:45:00	88:15:00	28.90%
Train Attendant	10	4	3	6:00	6:00	11:15	62:30:00	85:45:00	27.11%
Sleeper Car Attendant	10	4	2	5:30	6:00	11:15	64:30:00	87:15:00	26.07%

Train 2/1	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	14	6	1	22:30	21:00	11:30	102:15:00	157:15:00	34.98%
SAS Food Specialist	7	5	1	23:30	21:00	13:30	98:30:00	156:30:00	37.06%
Food Specialist	14	6	1	23:30	21:00	13:30	98:30:00	156:30:00	37.06%
Lead Diner	14	6	1	23:30	21:00	20:30	93:15:00	158:15:00	41.07%
Lead Service Lounge	14	6	1	21:30	18:45	13:30	104:00:00	157:45:00	34.07%
SAS Service Attendant	7	5	1	22:00	12:00	0:51	36:15:00	71:06:00	49.02%
Service Attendant	14	6	1	22:30	20:00	13:30	99:45:00	155:45:00	35.96%
Train Attendant	14	6	2	20:30	19:15	11:30	105:00:00	156:15:00	32.80%
Sleeper Car Attendant	14	6	2	17:30	14:30	11:30	111:45:00	155:15:00	28.02%

Train 21/22	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs	9	4	1	8:00	8:00	8:00	51:00:00	75:00:00	32.00%
Food Specialist	9	4	1	6:30	8:00	8:00	52:30:00	75:00:00	30.00%
Lead Diner	9	4	1	8:00	8:00	8:00	51:00:00	75:00:00	32.00%
Lead Service Lounge	9	4	1	6:00	6:00	8:00	54:15:00	74:15:00	26.94%
Service Attendant	9	4	2	8:00	8:00	8:00	51:00:00	75:00:00	32.00%
Train Attendant	9	4	1	7:30	5:00	8:00	52:30:00	73:00:00	28.08%
Lax Train Attendant	10	7	1	19:30	18:00	12:00	94:00:00	143:30:00	34.49%
Sleeper Car Attendant	9	4	1	6:00	4:00	8:00	54:15:00	72:15:00	24.91%
Lax Sleeper Car Attendant	14	7	1	19:00	19:00	15:00	93:45:00	146:45:00	36.12%

Train 53/52	Cycle	Days in Trip	Number on Crew	Unpaid Time on Train Going	Unpaid Time on Train Coming	Unpaid Away Crewbase	Paid Hours in Job	Total Hours in Job	% of Unpaid Total Time
Chefs Diner A	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
Chefs Diner B	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
Chefs Sleeper	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
Chefs Sleeper	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
Food Specialist 1	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
Lead Diner A	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
Lead Diner B	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
Lead Diner Sleeper	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
SA 1 Diner B	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
SA 2 Diner B/Lng Ast	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
SA 1 Diner A	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
SA 1 Sleeper Diner	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
SA 2 Sleeper Diner	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
SA 3 Sleeper Diner	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
Lounge Coach	5	3	1	6:00	6:00	5:30	28:30:00	46:00:00	38.04%
Lounge Sleeper	5	3	1	6:00	6:00	7:00	26:30:00	45:30:00	41.76%
Coaches ANS	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
Coaches ANC	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
Coaches Lounge	5	3	1	6:30	6:30	6:00	26:00:00	45:00:00	42.22%
Sleeper Car 40	5	3	1	4:00	5:30	5:00	30:30:00	45:00:00	32.22%
Sleeper Car 41	5	3	1	4:00	5:30	5:00	30:30:00	45:00:00	32.22%
Sleeper Car 42	5	3	1	4:00	5:30	5:00	30:30:00	45:00:00	32.22%
Sleeper Car 43	5	3	1	4:00	5:30	5:00	30:30:00	45:00:00	32.22%
Sleeper Car 44	5	3	1	4:00	5:30	5:00	30:30:00	45:00:00	32.22%

APPENDIX 2

Safety, **S**ecurity, and **S**ervice

Job Functions of Amtrak On-Board Service Workers

This outline describing Job Functions of Amtrak On-Board Service Workers is intended to provide a better understanding of these workers Job Functions, and the responsibilities these workers are charged with. It also verifies that their First Priority is Safety & Security. In fact, as demonstrated by various examples provided, and reinforced by various reports, in many ways these On-Board Service Workers are the First Responders when an emergency situation does occur onboard a train.

Prepared by Gary Maslanka
Chair of Amtrak Service Workers Council (ASWC)

U.S. House of Representatives
Committee on Transportation and Infrastructure
Subcommittee on Railroads

Hearing on Amtrak Food and Beverage Operations

June 9, 2005

PART I **APPLICABLE FEDERAL REGULATIONS**

Part 1 provides a listing of various Federal regulations, including FDA Standards that are applicable to Amtrak On-Board Service Workers. Some of these regulations mandate specific training, while others require that On-Board Service Workers both familiarize themselves, and comply with the regulation.

PART II **APPLICABLE AMTRAK RULES & POLICIES**

Part 2 provides a listing of numerous Amtrak Rules and Policies that are applicable to and govern work performed by On-Board Service Workers. Several of these Rules and Policies require specific training, while others require that On-Board Service Workers both familiarize themselves, and comply with the Rule or Policy.

PART III **SAFETY, SECURITY & SERVICE**

Part 3 provides examples of Amtrak's mandate that the Safety and Security of passengers, employees, and the public are On-Board Service Workers First Priority.

III-A Part 3-A provides a listing of various Safety & Security training programs that On-Board Service Workers are required to take.

PART IV **PASSENGER SERVICE ENVIRONMENT, NOT A FIXED LOCATION, UNIQUE IN SEVERAL ASPECTS, AND INVOLVES NUMEROUS CHALLENGES**

Part 4 provides examples of Passenger Train Service challenges which separate Amtrak On-Board Service Worker responsibilities from so-called food service workers outside the passenger rail sector.

IV-A Part 4-A provides examples of actual emergency situations involving Amtrak On-Board Service Workers.

PART V **ADDITIONAL RESPONSIBILITIES OF AMTRAK ON-BOARD SERVICE WORKERS, AND WORK ENVIRONMENT ISSUES THAT SEPARATE ON-BOARD SERVICE WORKERS FROM FOOD SERVICE WORKERS OUTSIDE THE PASSENGER RAIL SECTOR,**

PART I FEDERAL REGULATIONS

Amtrak On-Board Service Workers, unlike "Food Service" workers outside of the Passenger Rail sector are governed by several Federal Regulations.

1.1 49 CFR 239 Passenger Train Emergency Preparedness

1.6 FDA Regulations
Reference Chapter 15 Amtrak Service Standards

NOTE 1: **This is not a complete listing of Federal regulations that govern On-Board Service Workers.**
NOTE 2: **Regulation applicability and training requirements, based on On-Board Service Workers specific assignment may apply differently.**

PART II APPLICABLE AMTRAK RULES & POLICIES

Amtrak On-Board Service Workers, unlike "Food Service" workers outside of the Passenger Rail sector are governed by numerous Amtrak Rules, Policies & Procedures, and On-Going Bulletin Notices providing updated instructions.

2.1 Amtrak Service Standards Manual for Train Service & On-Board Service Employees

Chapter 1 * Standards of Excellence
Chapter 2 * Business Diversity and Strategic Initiatives
Chapter 3 * Safety
Chapter 3A * Safety Rules for On-Board Service Employees
Chapter 3B Safety Rules for Train Service Employees
Chapter 4 * First Aid and related Emergencies
Chapter 5 * Injury/ Illness Reporting Procedures
Chapter 6 * Emergency Procedure Guidelines
Chapter 7 * Public Health Issues
Chapter 8 * Employee Support and Awareness Programs
Chapter 9 * Customer Service Responsibilities and Standards
Chapter 10 * General Rules for On-Train Employees
Chapter 11 * National Attendance Policy
Chapter 12 * Uniform and Grooming Standards
Chapter 13 * On-Board Services Crew Functions
Chapter 14 * Revised Accounting Procedures for On-Board Service Employees
Chapter 15 * FDA Rules and Inspection Standards
Chapter 16 Train Service Crew Functions & Accountabilities
Chapter 17 Train Service Accounting Responsibilities
Chapter 18 On Train Fare Rules
Chapter 19 * Communication Systems
Chapter 20 * Assisting Customers with Disabilities
Chapter 21 * Unusual Occurrences
Chapter 22 * Equipment

Chapter 23 * Service Recovery
Chapter 24 Operations Standards Updates Still in Effect
Chapter 25 Customer Service Notices Still in Effect

Appendices

A. Phone Numbers
B. Personal Phone Book
C. Forms
D. Equipment Designs
E. Pass Policy
F. 3-Year Calendar

---

* **Policy, Procedures, and Rules directly applicable to On-Board Service Workers.**

NOTE 1: **Employees are required to have the Service Standards in their possession at all times while on duty.**

NOTE 2: **Several chapters of these standards require specific/specialized training. Others, not requiring training require an employee's familiarization and compliance.**

NOTE 3: **Employees are subject to review and audit to ensure they are in compliance with these standards.**

2.2 Amtrak Employee Security Handbook

2.3 Amtrak Standards of Excellence
NOTE 1: **Amtrak frequently cites these Standards when employees are not compliant with rules as a basis for assessing discipline.**

2.4 Numerous, Continuously Changing Amtrak Policies
Reference Employee Advisory, 2/14/05, Revising Alcohol and Drug Policy

2.5 Continuous Customer Service Notices
Reference NEC Customer Services Notice 2001-41

2.6 Continuous Service Standards Updates
Reference Service Standards Update 05-03

2.7 Continuous General Bulletin Notices
Reference 3/01/05 Memo to OBS Employees on Sanitation Standards Training

PART III SAFETY, SECURITY, & SERVICE

Amtrak On-Board Service Workers are governed by an Amtrak mandate that places the Safety & Security of Passengers and Employees as their first priority.

SAFETY & SECURITY ARE PRIOIRTY NO. 1

3.1 Testimony of Amtrak President & CEO David Gunn before Senate Commerce Subcommittee on Surface Transportation July 10, 2002.

At Page 1 – "To begin with, I want to emphasize that the safety of all passengers, employees, trains and facilities is our number one priority."

3.2 Testimony of Amtrak Vice President & Chief Transportation Officer R. Stephen Strachan before House Transportation and Infrastructure Subcommittee on Railroads June 6, 2002.

At Page 1 – "To begin with, I want to emphasize that the safety of all passengers, employees, trains and facilities is our number one priority."

3.3 Amtrak's Standards of Excellence -Safety

At Page 1-4 – "Amtrak's highest priority is the safety and well-being of our employees and passengers. You are essential in achieving that goal. As an Amtrak employee you can begin by being sure you understand and comply with all safety requirements related to you position."

NOTE 1: **Both the testimony of Amtrak's Senior Level management and written Amtrak Policy make clear that the First Priority of On-Board Service Workers is the Safety and Security of passengers and employees alike.**

NOTE 2: **Amtrak enforces these standards vigorously and subjects On-Board Service Workers to stringent discipline, including lengthy suspensions and dismissal when these standards are not complied with.**

3.4 Amtrak's Employee Security Handbook

At Page 1 – "The Amtrak Employee Security Handbook summarizes the basic security policies, procedures and protocols that all employees must either comply with or be aware of."

NOTE 1: **This Employee Handbook covers a wide range of security issues from parking facilities to bomb threats and chemical biological and radiological threats, and instructs employees on their responsibilities in each of these areas.**

3.5 Amtrak Security & Safety Updates

Examples:

10/26/01 - Addressing handling of USPS mail due to anthrax poisonings
2/14/03 - Taking precautions during trying times
3/18/03 - National Terrorist Threat level raised.

NOTE 1: Information and instructions concerning security and safety issues is continuously updated at which time On-Board service Workers are provided notification and instructed to react accordingly, following numerous and varying instructions and protocols.

3.6 Amtrak Safety Instructions

Examples:

10/03/01 - Personal Safety/Security Alert
10/26/01 - Handling encounters with suspect packages and substances
10/30/01 - Procedures for use, removal, and disposal of protective gloves

NOTE 1: Amtrak safety instructions are issued on an on-going basis to On-Board Service Workers who must familiarize themselves with, and comply with such instructions.

3.7 Operations Standards Advisories

Examples:

10/23/02 - Security and Safety Awareness On-Board Trains

NOTE 1: Amtrak Operations Standards Advisories are issued on an on-going basis to On-Board Service Workers who must familiarize themselves with, and comply with such advisories.

3.8 INS-9 Forms (Employment Eligibility Verification Form)

Employees are required to complete, and keep updated INS-9 forms providing specific forms of identification.

NOTE 1: An employee's failure to complete these forms and provide the required identification may result in the employee being withheld from service.

PART III - A EXAMPLES OF TRAINING REQUIREMENTS ON SAFETY & SECURITY

Amtrak On-Board Service Workers are subjected to take various types of training concerning Safety and Security on an on-going basis. Outlined below is a list of examples that is not intended to provide every training program On-Board Service Workers are required to take.

Emergency Preparedness Training (PREPARE)

Reference - Amtrak's Passenger Train Emergency Preparedness Plan and PREPARE 2000 Emergency Training documents, and Service Standards Manual.

Reference - NTSB Report on April 18, 2002 Amtrak derailment in Crescent City, Florida. Page 34 – PREPARE Training requirements.

Employee Security Training

Reference - Amtrak's February 10, 2005 Security & Safety update announcing newly developed system security training.

Chemical, Biological, & Radiological Training

Reference - Amtrak Chemical, Biological, and Radiological Emergency Response document (February 2003)

First Aid / CPR Training

Reference - NTSB Letter to FRA (9/16/98) outlining R-93-23, resulting in training for all On-Board service Workers in the areas of emergency operating rules, First-Aid and CPR, and the use of Public Address Systems, and Service Standards Manual.

General Safety Training

Reference - Amtrak Service Standards Manual

Customer Service Training that includes numerous passenger and employee safety & security issues.

Reference - Amtrak Service Standards Manual

Public Health Issues Training (Food Borne Illnesses, Communicable Disease Procedures, and Blood Borne Pathogens Exposure Plan)

Reference - Amtrak Service Standards Manual

On-going instructions and training with respect to safety.

Reference - NTSB Letter to FRA (9/16/98) outlining R-91-71, resulting in instructions to On-Board Service Workers to periodically inspect passenger seats.

PART IV - PASSENGER SERVICE ENVIRONMENT , NOT A FIXED LOCATION, UNIQUE IN SEVERAL RESPECTS, AND INVOLVES NUMEROUS CHALLENGES.

The operation of Passenger Train Service involves conditions that are both unique and challenging, thus subjecting On-Board Service Workers to elements that are not present in other so-called food service functions outside of the Passenger Rail sector. Outlined below are only a few examples.

4.1 There have been 181 documented terrorist attacks worldwide from 1998-2003 resulting in 431 deaths and thousands of injuries. The continuing threat of terrorism (Madrid Spain Bombing / Japan Chemical Attack) require extraordinary prevention measures that On-Board Service Workers are required to receive training for and exercise on a daily basis.

Reference - Homeland Security Update No. 02-13 (10/24/02) Outlines reporting that Al-Queda is targeting the U.S. Railway sector.

4.2 Terrorism and Rail Security – Jack Riley

Reference - Testimony presented to the Senate Commerce, Science and Transportation Committee on March 23, 2004. Rand Corporation, CT-224.

4.3 Unfortunately Train Accidents do occur, and involve serious injuries and fatalities, which subject Passengers and On-Board Service Workers to considerable risks, and further demonstrates the responsibilities of, and need for On-Board Service Workers.

Reference - Amtrak Accidents 1980-2003, as reported by the National Transportation Safety Board.

Reference - Amtrak Train Accidents 1980-2003, as reported by the Federal Railroad Administration.

4.4 Passenger trains, unlike a restaurant, or other fixed locations, travel throughout the country, in many locations where access for EMS personal may be extremely difficult making it essential for On-Board Service Workers to be highly trained to assist until EMS crews arrive at the scene.

Reference - **NTSB Report – Derailment of Amtrak Train No. 12 on Portal Bridge (11/23/96). Page 6 – The first ambulance arrived at the scene 47 minutes after the initial notification.**

Reference - **FEMA Report USFA-TR-143 (9/02) on derailment of Amtrak's California Zephyr train on March 17, 2001. Page 4 – Key Issues – Access was extremely limited due to the remoteness of the accident site.**

Reference - **Emergency Net News " DEADLIEST TRAIN CRASH IN AMTRAK HISTORY KILLS 44 " Article on the derailment of Amtrak's Sunset Limited.**

"According to survivors, it may have been as much as forty-five to fifty (45-50) minutes before anyone arrived at the scene to begin the rescue efforts."

PART IV - A EXAMPLES OF ACTUAL EMERGENCY SITUATIONS INVOLVING AMTRAK ON-BOARD SERVICE WORKERS

Amtrak On-Board Service Workers are, on an ongoing basis confronted with the potential for emergency situations that require their taking appropriate action to protect the safety and security of passengers and employees on-board during a trains operation. Outlined below are just a few examples of instances where On-Board Service Workers have been involved in emergency situations.

► December 1989 Bomb Scare Threat aboard Train No. 19.

Reference - **February 21, 1990 letter to Ms. J.C. Frederick Thompson recognizing this On-Board service Worker for the safe evacuation of passengers during the bomb scare threat.**

► October 18, 2004 fire aboard Amtrak's Lake Shore Limited Train near Toledo, Ohio.

Reference - **Nomination of On-Board Service Worker Raymond Farris for his actions in protecting the interests of On-Board crew members and passenger during a fire on-board the train.**

► April 18, 2002 Auto-Train Derailment – Crescent City, Florida

Reference - Daytona Beach News Journal: Special Reports, April 19, 2005

" Reggie Jackson Jr. was working as an onboard attendant in one of the sleeping cars when the train derailed.

" The tracks had come loose, like thread. They were turned all different ways, and the wood was shattered," said Jackson.

He climbed on top of a car where he had heard screaming and popped open windows to help passengers to safety."

" James Pierce, also an onboard attendant, was working in another sleeping car when the accident took place.

" It felt like it was sliding to the left and suddenly it just toppled," said the onboard attendant.

Pierce. 39 of Huntington, Md., said he grabbed hold of the curtains and within seconds found himself hanging from a perch,

After the train came to a stop, Pierce said he pulled out the emergency window and began pulling people out of the cabin. He handed out bandages to people with cuts and bruises."

► May 2001 California Zephyr Derailment - Iowa

Reference - Presidents Safety & Service Awards – Jimmie W. Coleman Award for Excellence.

" A particular noteworthy example of Jimmie's extraordinary commitment to customer service is his effort after the derailment of the California Zephyr as train #5, in Iowa in May of 2001. Jimmie was working two coaches, both of which went on their side. There were numerous injuries in his car, ***and in spite of the difficulties, he assisted more than 80 passengers to evacuate and then provided them with comfort and assistance until medical personnel were at the scene****. Many passengers at the hospital singled him out for his calm and gracious manner, even under the harrowing conditions. What was perhaps most amazing was, in spite of his own bruises and cuts, Jimmie made his next trip without missing one day of work "*

► November 26, 2003 Texas Eagle Grade Crossing Accident, Poplar Bluff, MO,

Reference - Presidents Safety & Service Awards – James C. Adams Award for Valor.

*" On November 26, 2003, James was working aboard the Texas Eagle, train #22, when it was involved in a grade-crossing accident near Poplar Bluff, MO. As a result of the accident, a truck was hit and landed on its side, **After first assessing and ensuring the safety and well-being of his sleeping car passengers, James rushed to the side of the unsteady vehicle. Ignoring the strong smell of diesel fumes and a risk of explosion, he carefully but quickly climbed over the truck's large tires, up the vehicle's side and kicked out the windshield. Reaching through the shattered glass, he grabbed the driver and pulled him through the window**. He maneuvered him through the opening, away from the metal and glass debris, and carried the driver to a safe area."*

► On-Board Fire / Emergency Medical Situation

Reference - Presidents Safety & Service Awards – Lisa A. Castillo (Service Attendant), & Doug G. Wheeler (Service Attendant)

" Several years ago, when a small fire was discovered onboard, Lisa extinguished it calmly and immediately. Another time, a guest needed the Heimlich maneuver, but he was to big for Lisa to apply it effectively. She called out for Doug, who ran from the other end of the car and resolved the situation. "

PART V - ADDITIONAL RESPONSIBILITIES THAT AMTRAK ON-BOARD SERVICE WORKERS ROUTINELY CARRY OUT THAT SIGNIFICANTLY SEPARATES THESE WORKERS FROM FOOD SERVICE WORKERS OUTSIDE OF THE PASSENGER RAIL SECTOR.

5.1 Work Schedules – Long Hours, Away From Home, Unpaid On-Duty Time
Reference Position Bulletins
Reference Trip Report 6/06/99

5.2 Service Animals
Reference Standards Update 05-07

5.3 Passenger Car Watering / Point of Water Sanitation
Reference May 27, 2003 Memo

5.4 On-Board Service Standards – Uniforms, Grooming, Badges
Reference May 23, 2003 Memo

5.5 Americans With Disabilities Provisions
Reference Bulletin outlining Rule #0003

5.6 Meal Check Procedures
Reference NY Crew Base Meal Check Procedures

5.7 Uniform Standards & Requirements
Reference July 20, 2004 Service Advisory

5.8 On-Going Customer Service Training
Reference September 30, 2003 Memo to On-Board Service Employees

5.9 Environmental Training
Reference Environmental Training Course Form

5.10 Crew Luggage Identification Tag Requirements
Reference Service Advisory 04-23

5.11 Transportation Department Review System
Reference 5/31/05 OBS Review Form

5.12 Annual Safety Plans
Reference 2004 Mid-Atlantic Division Plan Document

5/13 Food Temperature Monitoring Requirements
Reference Draft LSA Temperature Monitoring Report

5/14 Employee Training Delivery
Reference December 7, 1992 Letter – David C. Irish, HDR Training

NOTE: **In addition to being required to take on-going training, Amtrak On-Board Service Workers deliver various training programs.**

APPENDIX 3

Amtrak On-Board Service Workers

vs.

Food Service Workers

This comparison between Amtrak On-Board Service Workers vs. Food Service Workers (Non-Transportation workers whose primary duties are to serve and prepare food and beverages and perform related tasks in restaurants, delicatessens, cafeterias, and similar establishments) is intended to demonstrate that these two classes of workers are not at all comparable in terms of Job Functions, Responsibilities, and Work Environment issues.

Prepared by Gary Maslanka
Chair of Amtrak Service Workers Council (ASWC)

U.S. House of Representatives
Committee on Transportation and Infrastructure
Subcommittee on Railroads

Hearing on Amtrak Food and Beverage Operations

June 9, 2005

Appendix No. 3

RULES, REGULATIONS, & POLICIES
Amtrak On-Board Service Workers vs. Food Service Workers[1]

Rules, Regulations & Policies	Specialized Training Required[2]	Amtrak On-Board Service Workers	Food Service Workers	Explanation
49CFR239	√	Yes	No	Amtrak On-Board Service Workers are required to receive initial and recurrent Emergency Preparedness Training as provided in 49 CFR 239.
FDA Standards Training	√	Yes	No	Amtrak On-Board Service Workers are required to receive ongoing training on FDA Standards.
Amtrak Service Standards	√	Yes	No	Amtrak On-Board Service Workers are governed by Amtrak's Services Standards consisting of over 20 separate chapters. These workers are required to have these standards in their possession when reporting for service.
Security Rules	√	Yes	No	Amtrak On-Board Service Workers are governed by a comprehensive Security Handbook and are required to take Security Training.
Standards of Excellence		Yes	No	Amtrak On-Board Service Workers are governed by strict "Standards of Excellence" governing all aspects of their job functions.
Amtrak Policies & Procedures	√	Yes	?	Amtrak On-Board Service Workers are governed by continuously changing policies and procedures, many which require training.
Amtrak Customer Service Notices		Yes	?	Amtrak On-Board Service Workers are governed by continuous Customer Service notices.
Amtrak Service Standards Updates		Yes	?	Amtrak On-Board Service Workers are governed by continuous Service Standards Updates.
Safety & Security		Yes	No	Amtrak On-Board Service Workers are governed by a mandate placing the Safety & Security of passengers and employees as their first priority.

Appendix No. 3

RULES, REGULATIONS, & POLICIES
Amtrak On-Board Service Workers vs. Food Service Workers[1]

Rules, Regulations & Policies	Specialized Training Required[2]	Amtrak On-Board Service Workers	Food Service Workers	Explanation
INS – 9 Form Requirements		Yes	?	Amtrak On-Board Service Workers are governed by INS-9 form requirements.
First Aid / CPR	√	Yes	?	Amtrak On-Board Service Workers are governed by First Aid and CPR Policies and procedures.
Chemical Biological & Radiological Procedures	√	Yes	No	Amtrak On-Board Service Workers are provided procedures concerning Chemical, Biological, and Radiological concerns.
Comprehensive Safety Rules	√	Yes	No	Amtrak On-Board Service Workers are governed by comprehensive Safety Rules.
Public Health Issues	√	Yes	?	Amtrak On-Board Service Workers are governed by several policies concerning public health, many of which require specific training.
Terrorism Concerns	√	Yes	No	Amtrak On-Board Service Workers are governed by, and trained in various prevention measures concerning terrorism.
Derailments / Train Accidents		Yes	No	Amtrak On-Board Service Workers are subject to the risk of Train accidents and derailments.
Emergency Response		Yes	No	Due to the nature of On-Board Service Workers assignments, in the event of an accident or an emergency, emergency responders may take considerably more time to arrive at the scene.
Service Animals		Yes	No	Amtrak On-Board Service Workers are required to assist passengers with disabilities, and are governed by policies relating to service animals.

Appendix No. 3

RULES, REGULATIONS, & POLICIES
Amtrak On-Board Service Workers vs. Food Service Workers[1]

Rules, Regulations & Policies	Specialized Training Required[2]	Amtrak On-Board Service Workers	Food Service Workers	Explanation
Passenger Car Watering / Sanitation Procedures		Yes	No	Amtrak On-Board Service Workers are governed by procedures for the Safe watering of Passenger cars.
Uniform Policy		Yes	?	Amtrak On-Board Service Workers are governed by a strict uniform policy.
Grooming Standards		Yes	?	Amtrak On-Board Service Workers are governed by a strict grooming policy.
ADA		Yes	?	Amtrak On-Board Service Workers are governed by rules, and responsible for compliance with ADA Standards.
Meal Check Procedures		Yes	No	Amtrak On-Board Service Workers are governed by a strict meal check policy.
Customer Service Training	√	Yes	?	Amtrak On-Board Service Workers are required to attend on-going Customer Service Training.
Environmental Issues	√	Yes	?	Amtrak On-Board Service Workers are required to take environmental Training.
Crew Luggage Identification		Yes	No	Amtrak On-Board Service Workers are governed by Crew luggage tag policies.
Transportation Department Review System		Yes	?	Amtrak On-Board Service Workers are governed by review and audit systems.

Appendix No. 3

RULES, REGULATIONS, & POLICIES
Amtrak On-Board Service Workers vs. Food Service Workers[1]

Rules, Regulations & Policies	Specialized Training Required[2]	Amtrak On-Board Service Workers	Food Service Workers	Explanation
Communications Policy & Procedures	√	Yes	No	Amtrak On-Board Service Workers, in various settings are required to make announcements to passengers.
Job Briefings		Yes	?	Amtrak On-Board Service Workers are required to perform frequent Job Briefings.
Food Temperature Monitoring	√	Yes	No	Amtrak On-Board Service Workers are required to monitor temperatures in food storage.
Comprehensive Accounting Procedures		Yes	No	Amtrak On-Board Service Workers are required to follow strict accounting procedures, and required to perform extensive accounting paper work.
Operations Policies & Procedures	√	Yes	No	Amtrak On-Board Service Workers are governed by comprehensive operations plans, and procedures.
Long Hours		Yes	No	Amtrak On-Board Service Workers are required to work long hours, and not receive overtime pay for working in excess of 16 + hours.
Time Away from Home		Yes	No	Amtrak On-Board Service Workers are required to spend 2, 3, + days at a time away from home.
Unpaid On-Duty Time		Yes	No	Amtrak On-Board Service Workers are required to be on-duty, however not being paid for significant periods of time.

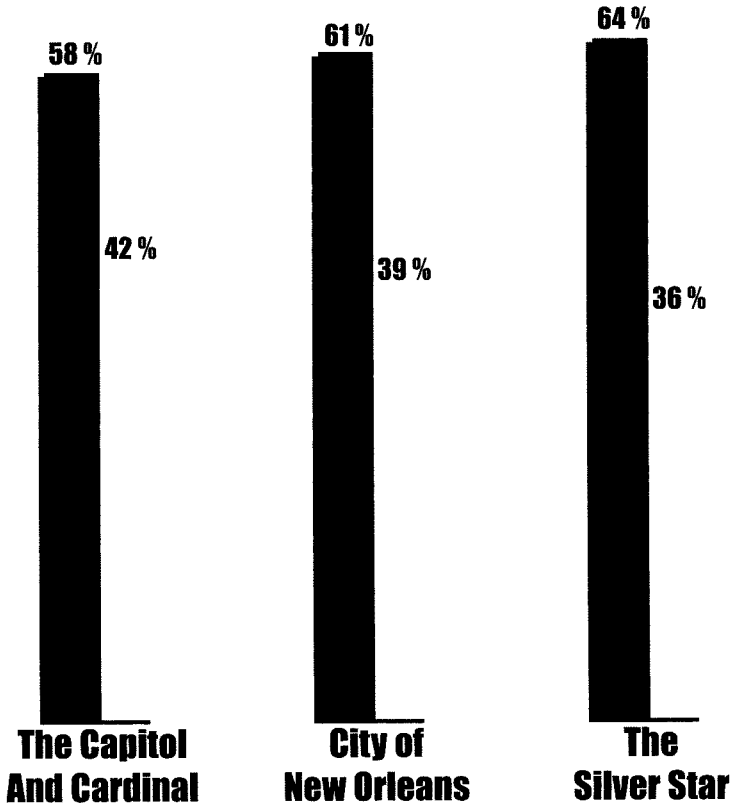
1. Food service workers refers to those non - transportation workers whose primary duties are to serve and prepare food and beverages and perform related tasks in restaurants, delicatessens, cafeterias, and similar establishments,
2. √ Requires specific/specialized training. Categories not requiring training do require an employee's familiarization and compliance.

The Truth About On-Board Service

How $18.86 Per Hour Can Be As Little as

Amtrak On Board Service Workers are not paid for their real time on the tra
Limited & the Cardinal, On Board Service Workers are paid for only 29 hour
per hour, but are required to spend an additional 21 hours and 40 minutes in
these workers make only $10.83 per hour.

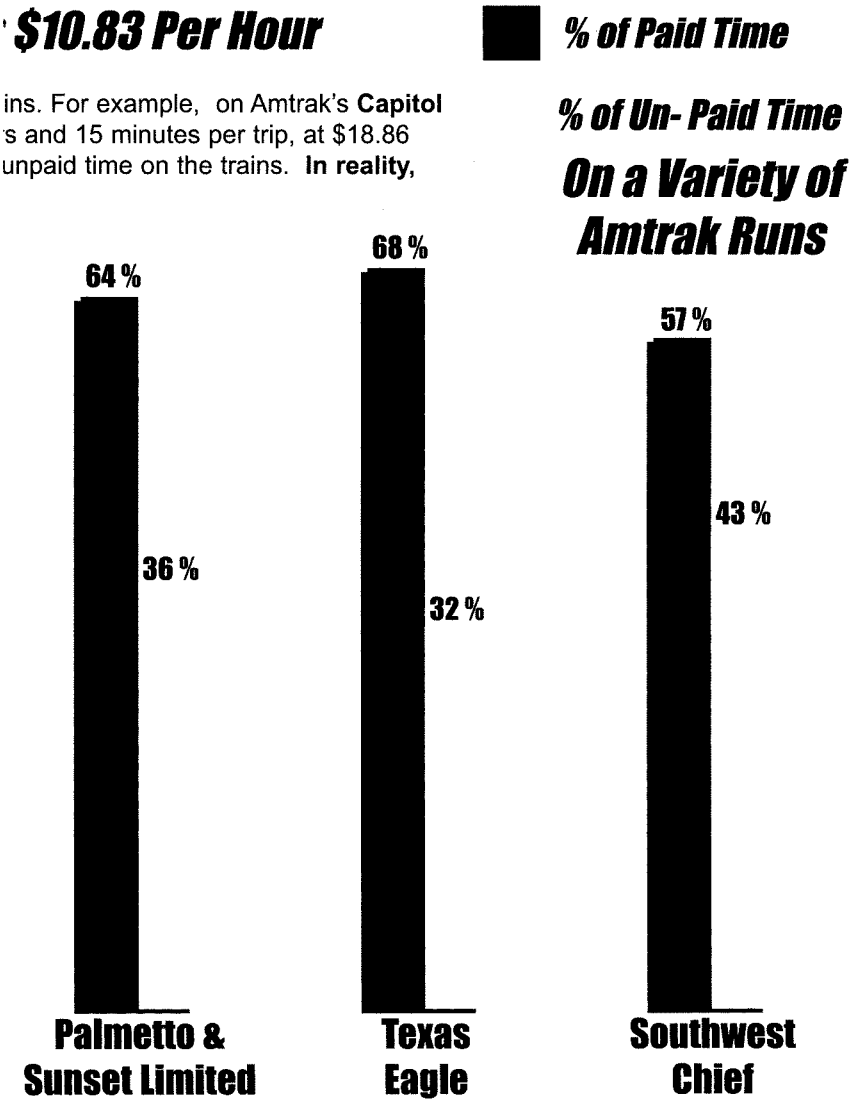
Here are some examples.



Workers' Wages

$10.83 Per Hour

ins. For example, on Amtrak's **Capitol**
s and 15 minutes per trip, at $18.86
unpaid time on the trains. **In reality,**



STATEMENT OF
THE HONORABLE CORRINE BROWN
SUBCOMMITTEE ON RAILROADS
HEARING ON
"AMTRAK'S FOOD AND BEVERAGE OPERATIONS"
JUNE 9, 2005 – 9:30 AM

I want to begin by thanking Chairman LaTourette for holding this hearing on Amtrak's Food and Beverage Operations.

In 1999, Amtrak contracted-out its catering service to Dobbs International Services, which was later acquired by Gate Gourmet International. Gate Gourmet now manages Amtrak's eleven commissaries. At the time,

Amtrak estimated that the contract would be cost-effective. Years later, the savings were never realized, and Amtrak's food and beverage operation is running at a net loss of $84 million.

It is important to point out, however, that Amtrak's food and beverage service is a small part of Amtrak's overall budget and while there seems to be some reforms that Amtrak should implement in the near future, such as establishing supplier performance incentives, I am concerned about Congress' role here. I do

believe we must ensure that the federal funding we provide Amtrak is not being wasted. However, Congress should not be micro-managing Amtrak's day-to-day operations. In fact, our attempts at managing Amtrak have thus far caused more harm than good.

For 25 years now, we've criticized Amtrak because its food and beverage service wasn't making a profit. In the 1980's, Congress mandated that Amtrak's food and beverage service break-even. Amtrak responded with

drastic cost-cutting measures, leading one former Amtrak CEO to lament that Amtrak made food service so cheap, "it made some of it inedible." Congress stepped-in again, this time allowing Amtrak to use up to 10 percent of its revenues on food and beverage service. That provided some relief for Amtrak, but Congress continued to pressure the railroad to contract-out its food and beverage operations. Amtrak gave in, and now we're criticizing them for the very inefficiencies we helped create.

We have to stop micro-managing Amtrak and allow it to make its own business decisions. It may actually make sense for Amtrak to incur some losses on food and beverage service to attract more business. That's what the airlines have done. Airlines have struggled for years with their food and beverage operations. Airlines have gone from offering full meals, to eliminating meals, to offering snacks, to out-right selling meals and increasing restaurant service at airports. In 2004, United Airlines spent $6.56 per passenger on food and beverage,

while American Airlines spent $6.24 per passenger, both of which are comparable to Amtrak's food and beverage cost per passenger of a little over $6.

But unlike the situation with Amtrak, Congress isn't considering reducing federal spending on aviation because of the airlines' food and beverage losses, nor are we considering managing the airlines' customer service operations through legislation.

The fact is that these expenses are not a major cause of the railroad's overall financial difficulties. Years of starvation budgets are the cause. And while I am interested in making Amtrak more efficient, what we ought to be doing here is figuring out how to invest more in our Nation's passenger rail network, and holding hearings on real issues that require Congress' immediate action. Rail safety, for example.

This Subcommittee hasn't held a hearing on Train Derailments and Rail Safety since June 6, 2002, even though the number of train accidents is increasing. According to the Federal Railroad Administration, there were 3,127 rail accidents in 2004, an increase of about 400 since 2002. There have been at least 10 derailments in San Antonio, Texas, since May 2004, some of which were fatal, and several recent derailments in Southern California, which warrant a congressional inquiry. However, I've reviewed the hearing schedule for the next few months.

We have three more hearings on Amtrak, but I don't see anything on the schedule regarding rail safety. Mr. Chairman, can you tell me if this Subcommittee is going to have hearings on rail safety this year?

Thank you. I look forward to hearing from our witnesses.

Statement of

Ross B. Capon

Executive Director

National Association of Railroad Passengers

Before the

Subcommittee on Railroads
The Honorable Steven C. LaTourette, Chairman

Committee on Transportation and Infrastructure
U.S. House of Representatives

* * *

June 9, 2005

* * *

The National Association of Railroad Passengers appreciates the opportunity to express our views on an important part of our intercity passenger rail service.

How Much Service

On short-distance trains, snack bar service should be provided except where demand has been proven not to exist. "Proof" should include use of creative, "thinking-outside-the-box" methods to encourage sales.

On long-distance trains, both snack bars and dining cars generally are necessary, the latter because a large part of the clientele will not tolerate long trips relying exclusively on limited-menu snack bars, the former because many coach passengers cannot afford or do not want full meals, and there is demand for sales when dining cars usually are closed.

In general, sales are made to a mix of people for whom the food is essential and people who are responding to promotional efforts, if they are made.

Private railroads before Amtrak did not make money on food service and did not expect to. They considered the food business as a sort of loss leader, understanding that lack of food service would result in a net worsening of the service's economics due to reduced ticket sales.

Hours of Service

Hours of service is a key issue both for dining cars and snack bars, that is, food should be available as much of the time as possible. Snack bars should be open upon departure from the train's originating point, and stay open to as near the end of the trip as possible. Since most snack bars are staffed by one individual, his or her meal breaks should not occur in the midst of high-demand meal times. Staff meal breaks should be announced in advance, so that someone who was planning a purchase in 10 or 15 minutes can come right away. And there should be an announcement when the service reopens after a staff break.

On dining cars, Amtrak needs to find a way to convey to all of its crews the methods that work for its best crews. Key problems involve:

(a) Hours of service, particularly whether breakfast lasts long enough for people who want to sleep late;
(b) Widely spaced dinner meal times which can leave the diner empty at what might otherwise be peak meal times, rather than a rolling series of meal times every 30 or 40 minutes (partial turnover of the tables);
(c) Overuse of the p.a. system starting shortly after 7 AM;
(d) The gap, usually about 30 minutes, between "last call" and "diner is closed" announcements. To the uninitiated, "last call" means "come now if you want to eat," which seems to be the intent of the announcement. Regular riders know that they can wait up to about 30 minutes and still be served—so long as they beat that "diner is closed" announcement.

Food Quality

On food quality, Amtrak generally gets good marks. We have come a long way since the late Rep. Silvio O. Conte (R-MA) in 1982 told an Amtrak witness, "I bought one of your ham-and-eggs, dropped it, and smashed my toe."

Cost-Effectiveness

The importance of food service in spite of unprofitability when viewed in isolation was lost on Congress in 1981 when the Amtrak Improvement Act of 1981 [also known as Subtitle F of Title XI of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35, enacted August 13, 1981)] said Amtrak "shall implement policies which will eliminate the deficit in its on-board food and beverage operations no later than Sept. 30k 1982. Beginning Oct. 1, 1982, food and beverage services shall be provided on-board Amtrak trains only if the revenues from such service are equal to or greater than the total costs of such services as computed on an annual basis."

This initially led to a downgrading in service, then to Amtrak setting up an accounting method to reflect the imputed ticket value of food service, and finally, as I recall, to Congress either formally repealing the mandate on the grounds that it was

micromanaging, or allowing Amtrak to credit a certain proportion of ticket revenues to the food service. Clearly, trips other than the shortest trips need food service to be viable.

Today, sleeping car fares include meals (except alcoholic beverages), and Amtrak reflects this with an accounting category "First Class Meals Included in Rail Fare" (or "First Class Transfer") which subtracts from ticket sales the amount that Amtrak would have collected from First Class passengers for their food if they had paid what coach passengers are required to pay. The only cash collected in dining cars is sale of alcohol to First Class (sleeping car) passengers, and all sales to coach passengers.

For a long time, there appeared to be laxness in identifying and requiring appropriate payments from coach passengers. As our newsletter reported in January, 2003, however, one aspect of Gunn's "tightened financial controls is the now-consistent, dining-car requirement that sleeping-car passengers sign their names and room numbers [on their meal checks]...Reinstitution of the signature process—and an audit (comparing dining car checks with passenger manifests)—aims to determine more accurately food/beverage revenues and costs and to help eliminate abuse."

A few years ago, Amtrak dramatically increased the meal prices for coach passengers. This has led to anecdotal evidence of a reduction in coach passenger use of the diners, and criticism from some of our members that the higher food charges actually worsened the bottom line due to lower overall sales.

Part of the issue is said to be high costs at the commissaries, which Amtrak has outsourced to GateGourmet (formerly Dobbs) since 1999. Obviously the purpose of contracting out is to achieve greater efficiency, but that is not an automatic result.

It is our hope that Amtrak will testify to efforts to improve the economics of all aspects of its food service, with an emphasis on implementing best practices already existing on the system (and on VIA Rail Canada), and—to the greatest extent possible—on maintaining and improving service. At the individual employee level, one of the "best practices" is the dining car lead service attendant helping the waiters at crucial times.

Some of the California corridors have been innovative in promoting food sales, through various means, including window stickers and other signage, digital message boards, and—as one NARP board members put it—"very nice, informative, sometimes humorous announcements."

One method of encouraging good recordkeeping is, where point of sale machines are used (again in California), each roll of receipt paper has two red stars, and when a passenger gets a 'red star,' the purchase is free. As a result, most passengers ask for the receipts, and the sale is always recorded. Point-of-sale machines are soon to make their appearance on the Cascades (Pacific Northwest) service.

Service Reductions

We take note of the June 1 elimination of hot meals in Metroliner First Class, and the planned July 1 elimination of all food service on Empire Corridor trains whose entire run is New York-Albany.

Our first reaction to the former is that, especially at dinner time, many passengers are going to think twice now before buying First Class. Amtrak's motivation is a significant cut in labor costs by going from two attendants to one. We assume Amtrak is watching the impact on revenues closely, and understand that they are working on an improved menu to succeed the "interim" one that began June 1.

As for the Albany run, we have heard comments about snack bars that open late and close early, and a complete lack of promotional efforts such as one observes in California. Even if passenger revenues do not take a hit, the fact remains that Amtrak has reduced convenience, especially for people whose medical conditions require them to eat at relatively frequent intervals. If Amtrak can improve overall food operations, we urge a relook at these trains.

Positive Innovations

The system needs to do a better job of giving employees incentives to sell. One possibility might be to allow employees to choose a method of compensation that gives them a financial stake in increasing sales. The right incentives could go a long way towards addressing problems of snack bars being closed when they should be open.

Our people also have asked about having an outside vendor provide food on short distance trains, whether McDonald's or a more upscale provider. The Downeaster (Portland, Maine—Boston) has had an outside vendor since it began in 2001. For the rest of the system, the obvious first step would be to give existing employees the opportunity to work with the improved incentives we believe can be designed.

On some European trains, trolleys go down the aisle selling food. This has advantages and disadvantages, but is certainly worth considering where the alternative is no food service at all.

Statement by Congressman Jerry F. Costello
Committee on Transportation and Infrastructure
Subcommittee on Railroads
Hearing on Amtrak Food and Beverage Services
June 9, 2005

Thank you, Mr. Chairman. I am pleased to be here today as we examine Amtrak's monetary losses associated with the food and beverage operations as reported by the Amtrak Inspector General. I would like to welcome today's witnesses.

Since coming to Congress, I have been a strong supporter of Amtrak. I believe it is important that our nation has a viable nation-wide railroad system.

However, one of the toughest problems facing rail passenger management is on-board food and beverage service. High costs associated with traditional dining car operations prompted Congress to mandate a break-even point for Amtrak food services. To trim costs, Amtrak cut dining car manning levels and substituted limited menu items. The result has been a significant drop in dining car patronage. Railroad dining car food had previously been a major attraction; the recent changes have brought a new low to train meals. And while Amtrak has reduced its food and beverage losses, they still remain high.

Examination of European train catering facilities indicates that quality can be high and costs greatly reduced. A quality food and beverage service is a major asset that will encourage repeat riders and attract new ones. There is no reason that such a service cannot be achieved, and every attempt should be made to reach that point.

I look forward to today's hearing as we discuss the Amtrak food and beverage service.

TESTIMONY

OF

WILLIAM L. CROSBIE
SENIOR VICE PRESIDENT - OPERATIONS
AMTRAK

BEFORE THE

SUBCOMMITEE ON RAILROADS

OF THE

HOUSE TRANSPORTATION AND
INFRASTRUCTURE COMMITTEE

THURSDAY, JUNE 9, 2005
9:30 A.M.
2167 RAYBURN HOUSE OFFICE BUILDING

Mr. Chairman, Ranking Member Brown, let me say from the outset, that in addition to the backlog of deferred maintenance, redundant layers of management, and other elements critical to the railroad's overall operation, food service was one of the items high on David Gunn's list of problems to correct. Staving off an imminent cash crisis and closing our books were more pressing in our opinion. When he arrived at the company, Mr. Gunn immediately directed that cash registers be installed on all trains that served food, receipts be given to customers, and requested that management institute internal controls. Prior to his arrival, café attendants did not use cash registers, but instead maintained their "banks" in cardboard boxes. We also asked our Inspector General, Fred Weiderhold, to look into our entire food and beverage operations and share with us his results. We concede that the contract we inherited was poorly negotiated and, at times, not managed to the best of our capabilities. However, in recent years, we have made tremendous strides toward strengthening those weaknesses and created savings, better monitoring, and greater efficiencies.

When Amtrak was created, the Interstate Commerce Commission directed Amtrak to make complete meals available on passenger trains which travel for more than two hours, during customary dining hours. Amtrak's food and beverage service is a fundamental part of the service that we offer on board the majority of the trains that we operate on a daily basis. Its primary purpose is to enhance ticket sales and ridership, not serve as a profit center.

Food service in the travel industry is not meant to make a profit. The business model, price elasticity, and regulatory and statutory hurdles are too great for Amtrak, or any other entity of the size and reach of Amtrak, for that matter, to ever break even on a consistent basis, let alone make a profit. Food service in the travel industry was never designed to be a profit center, but instead, it was intended to maximize ticket revenues. The passenger often has a level of expectation based on the length of the trip and the first-class passenger expects premium service for the premium price he or she pays. Amtrak's food and beverage service is popular with our passengers, and customer satisfaction scores continue to trend positive.

Amtrak currently provides food and beverage service on all of its routes except the Keystone, Clocker, and soon most Empire Corridor Services. The company provides varying levels of food and beverage service ranging from snacks, coffee, juices, soft drinks, wine, and beer in our lounge and café cars to full breakfast, lunch, and dinner service, complete with table cloth and linen, on our fleet of dining cars. In short, in restaurant industry terms, we operate both limited service and full service restaurants where passengers are served by Amtrak employees. If any of the members of the Subcommittee have ever owned, operated or managed a restaurant, you understand the mathematics and mystery associated with running one successfully, let alone close to three hundred moving restaurants on a daily basis.

If each of our dining and café cars were isolated and treated as individual establishments, one hundred percent of all revenue would come from total sales – food and beverage –

both alcoholic and non-alcoholic. The costs of operating each type of restaurant would vary, however, to some degree. For example, the dining car, or full service restaurant – thirty one percent of revenues would be dedicated to the cost of sales. What it takes to serve a plate of food and a beverage to the customer includes purchasing of the products, both edible and non-edible, such as utensils and other service items; preparation; cooking; and finally, serving. Unfortunately, the cost of employee theft would also be partially included in this number, depending on how the restaurant manages its inventory. Spoilage might also be included.

The next thirty percent would be devoted to salaries – wages for the managers, kitchen crews, service staff, and cleaning staff; less than five percent would be assigned to employee benefits since commercial restaurant employees are considered part time equivalent; around five percent for occupancy costs – rent, utilities and insurance with just over twenty-five percent being allocated to advertising and marketing, promotional activities, with the remainder being the establishment's pre-tax income. If each car were an individual restaurant, it would have very tight margins and very little room for error. This is the reason that the restaurant industry has the highest failure rate of just about any modern industry on which statistics are kept.

To make the comparison of Amtrak's food and beverage service to that of a traditional, stand alone restaurant is like comparing apples to oranges. First, Amtrak's labor costs are considerably higher. Our dining and café car work force is unionized, while most restaurant employees are not. A traditional restaurant spends no more than thirty-two to

thirty-three percent on salaries, wages and employee benefits. Amtrak employee work assignments target 180 hours per month versus 140 hours per month for commercial restaurant equivalents. The nature of train travel requires many of our employees to be away from home for several days at a time. They incur hotel, food and beverage and other miscellaneous expenses in the process. These expenses inevitably become part of the cost of the food and beverage service and thus contribute to the loss. This pushes Amtrak's labor costs for food and beverage to three and one half times that level and account for one hundred and eleven percent of our total revenue.

A traditional restaurant has food costs that range from twenty-three percent on the low end to thirty percent on the high end. Due to the unique nature of our service, Amtrak's food costs are forty-five percent of total revenue. Amtrak is required to stock its food service cars prior to each trip and remove the food from the cars at the end of each trip. The company has to maintain on site commissaries to store and assemble food stock before loading it onto the train. This work is time consuming and labor intensive and not a typical direct expense for a conventional restaurant. Traditional restaurants do not have commissaries, a cost that is unique to the travel industry which accounts for roughly thirty-seven percent of Amtrak's costs.

That our costs are significantly higher than a conventional restaurant is certainly not news to us. It is something that has been the focus of intense management discussion and action over the last thirty-six months. We have made significant strides in improving the quality of our service while creating great efficiencies in the economic performance.

However, there is still room for greater improvement. We have recognized that we could realize an average annual savings of perhaps $50 million or more if we could achieve wage rates similar to those of the restaurant industry. However, this would require amending the Railway Labor Act, as suggested in our package of Strategic Reform Initiatives. Short of such action, wage rates will likely remain constant on an average costs-to-sales ratio and would most likely be that way for whomever engages in this business, if you could find someone to take it on. In fact, Amtrak attempted to contract out food service on the Chicago to Milwaukee *Hiawatha* service about four years ago. This 90-mile corridor service, in our view, would have been a fairly easy service to contract out. However, once the RFP was issued, no entity stepped forward and indicated sustained interest.

In the near future, Amtrak plans to contract out food service on a shorter distance route as an experiment, however, current law is replete with significant hurdles to the success of such an endeavor as any provider willing to engage in the service will be subject to the Railway Labor Act and more than likely may even be mandated to pay into the Railroad Retirement system, unless the National Mediation Board declared otherwise. At a minimum, an astute vendor would require Amtrak to indemnify it against Workers Compensation costs which would drive up the final cost of the contract. The least expensive alternative would be to engage a vendor that used independent contractors instead of employees; however, no such company currently exists in the food service industry.

We have examined the restaurant industries cost-to-sales ratio and looked at ways that we might achieve it and have concluded that given the captive market on board the trains that such ratios are not achievable. To do so would require an average of four to five turns per dining car table on a long distance train. This would require crews to serve two and a half times the number of people they currently serve in the same time period, thus negatively impacting the passenger experience, or to extend the hours of service per meal, thus decreasing cleaning and prep time for the next meal.

Despite the statutory obstacles I have outlined, we are continuing with our progress toward improving our service. In July, over the objections of customers and stakeholders, Amtrak will eliminate food service between New York and Albany, a trip that averages two hours in length for which we expect to save $1 million annually. Also, we are replacing full service dining cars with a modified lounge service on selected long distance routes. We have reduced staffing levels on our premium Acela Express First Class service and are currently reviewing additional staffing options, in an effort to reduce our cost structure. There is no simple solution to this complex problem, as others in the travel industry have discovered over time. There will be multiple solutions, consisting of some elimination of food service on certain routes, new menu options, better management of our vendors and supply services. Success in this area will require discipline and patience and the willingness to change the way we deliver some aspects of our service. If we are successful, we will be able to manage our costs more effectively but at this point and time, I do not see how we will ever make food and beverage service

a profit center on our trains unless certain statutory changes are made to address wage rates.

Mr. Chairman, members of the Subcommittee, I have a fairly quick slide presentation which I will get to in a moment. Let me just say that we are well aware that there is tremendous opportunity to improve the delivery of our food and beverage services. The problems we are dealing with in this area—oversight of the commissary, theft, and general management issues—have not just occurred, but have been around for a long time. We have taken some steps to fix the problem and more actions are on the way. As I mentioned previously, part of this effort was asking Fred Weiderhold to look into the delivery of our food and beverage service and help us work through the problem. In all honesty, we have had much more pressing problems to deal with over the last 36 months since David Gunn joined Amtrak and began to internally reform the structure, management, and operations of the railroad. I believe we are now at a point where we can devote time and effort to improving this particular part of our business.

Thank you for your time and patience, and I look forward to your questions.

National Railroad Passenger Corporation (Amtrak)
Food & Beverage Overview

Before the
Subcommittee on Oversight and Investigations
Subcommittee on Railroads

Honorable Steve LaTourette, Chairman

June 9, 2005

AMTRAK®

Food & Beverage Service Basis

- Upon inception of Amtrak, the Interstate Commerce Commission order *Ex Parte 277* "adequacy regulation" 1124.17 directed Amtrak passenger trains which travel for 2 hours or more to make complete meals available during customary dining hours
- Amtrak's food and beverage service is a fundamental part of the service offered on board
- Food and beverage service is offered primarily to enhance ticket sales and ridership, not to serve as a profit center
- Food & Beverage service is well-received by passengers and accounts for only 2% of customer complaints

History

1971	Amtrak created to relieve freight railroads of inter-city passenger service; Interstate Commerce Commission regulates service standards
1973	Amtrak provides on board services staff (Chefs, Attendants, etc.)
1981	Congress mandated that food & beverage service recover its cost (see 49 USC 24305 (c)(4))
1986	First Class food & beverage service included in ticket price
1992	FDA Consent Decree signed by Amtrak
1999	Commissary outsourced
2002	McKinsey analysis of food & beverage service
2003	Established national food & beverage department

Commissary Operations

- 1971-1999 – Amtrak operated its own commissaries with approximately 330 employees and 40 field managers
- 1999 – Amtrak contracted with Dobbs International to:
  - Purchase food, beverages, linen and sundries
  - Operate and maintain commissary facilities
  - Load and unload food service cars
  - Contract expires September 30, 2006
- Expected Benefits included
  - Reduced labor costs due to non-railway labor
  - Improved purchasing power
- Contract did not include meaningful cost reduction incentives
- Contract fee based on gross food and beverages purchase and labor

AMTRAK

Commissary Operations (continued)

- Amtrak struggled to manage Dobbs contract due to:
  - Fragmented Strategic Business Unit structure
  - Inadequate food and beverage information systems
- Dobbs International subsequently became Gate Gourmet Inc. (GGI)
- Since 2002, Amtrak has:
  - Consolidated organizational responsibility for contract management and food and beverage operations in national Service Delivery organization
  - Requested Amtrak OIG audit of contract
  - Taken control of the annual commissary budget approval process
  - Reduced Gate Gourmet headcount from 444 to 397
  - Reestablished Steering Committee and Executive Committee oversight
  - Met with GGI to establish a framework to negotiate new terms and conditions
  - Improved Amtrak cash flow by renegotiating basis of payment on more favorable terms

FY04 Average Trip Length

• Long Distance Trains	
– First Class Sleeping Car	1,023 miles
– Coach	619 miles
• Short Distance Trains	
– First Class (Club and Business)	176 miles
– Coach	134 miles
• System-wide Average Trip Length	222 miles

Source: Market Research & Analysis

AMTRAK

Food & Beverage Fleet Summary

	Single Level	High Level	All Types
• Café *	156	16	172
• Diner **	22	56	78
• Lounge **	22	50	72
• Club *	31	0	31
Total	231	122	353

* Includes 20 Acela Cafes and 20 Acela Clubs

** Diner and Lounge cars are considered non-revenue equipment

Source: OMS Jan 2005

AMTRAK

FY04 Food & Beverage Revenues

• Cash Sales	$ 47.0 Million
• First Class service	$ 33.4
• Estimated State Support	$ 6.6
FY04 Total Revenue	$ 87.0 Million

Source: Fingate

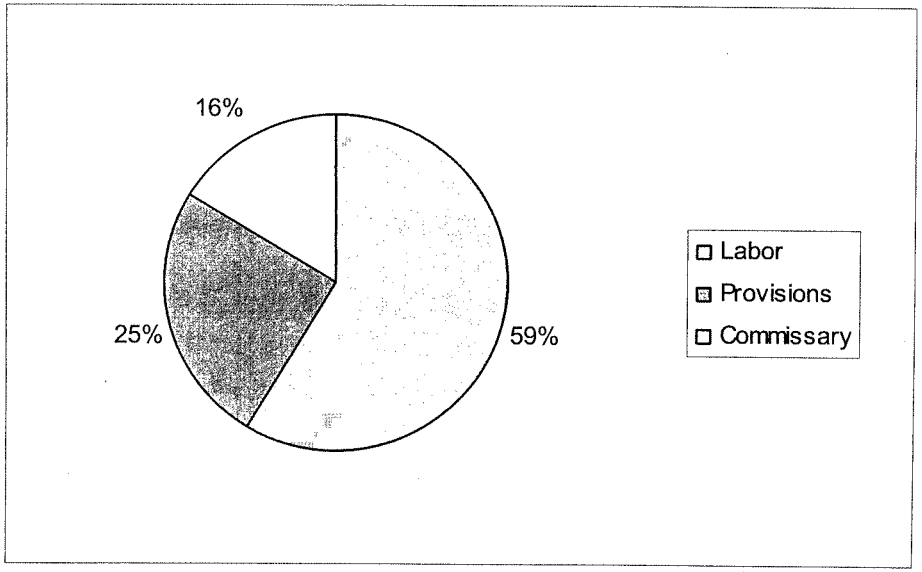
FY04 Food & Beverage Direct Costs

• On-board Labor Expense		$104.5 Million
– Long Distance Diner	$49.3 Million	
– Long Distance Lounge	$20.3	
– Corridor Café	$12.2	
– Acela/First Class	$ 4.4	
– Crew Lodging/Meals/Training	$18.3	
• Provisions		$ 45.5
– Food	$34.8	
– Liquor	$ 3.7	
– Non Consumables	$ 5.6	
– Linens/Laundry	$ 1.4	
• Commissary Support		$ 29.5
• Total		$179.5 Million

Source: Fingate

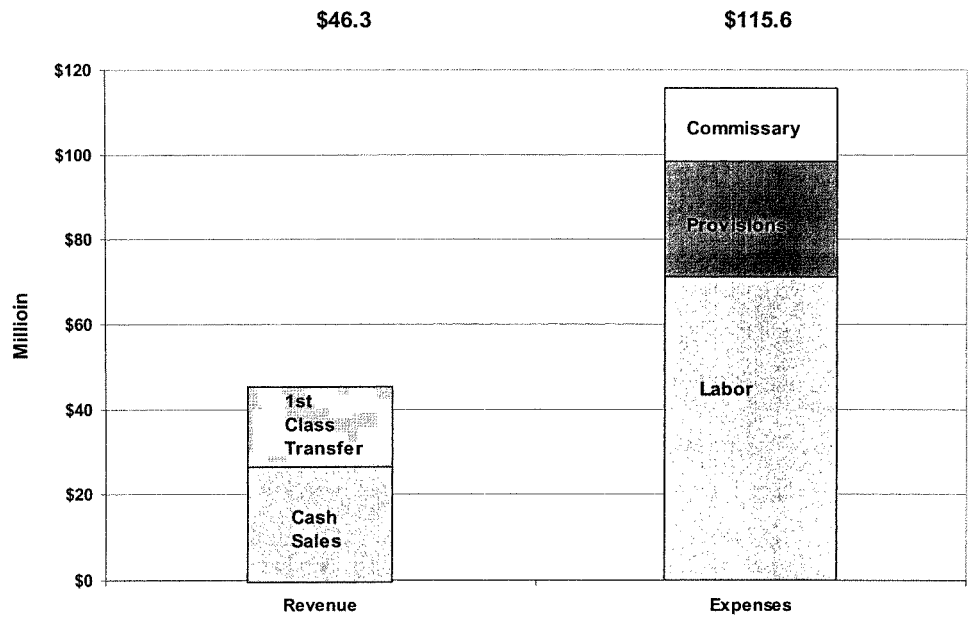
AMTRAK

FY04 Cost Breakdown By Percentage



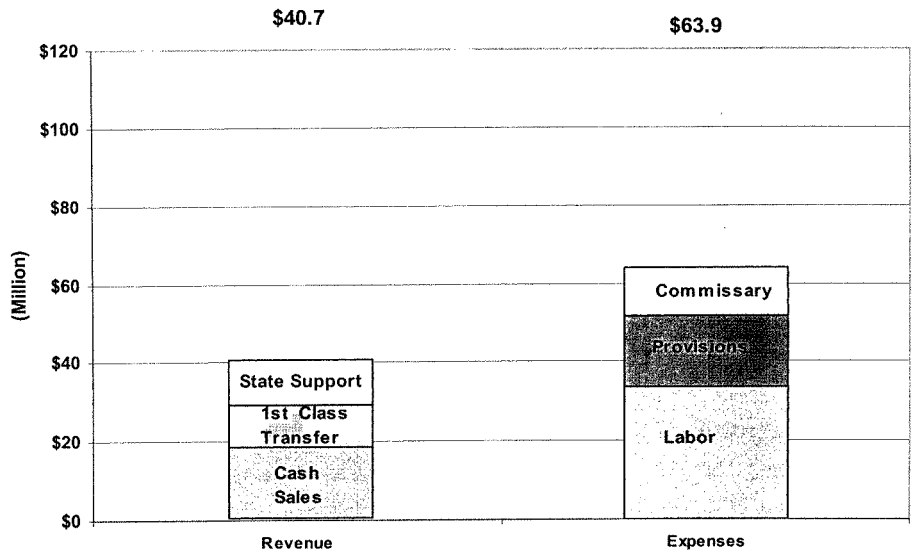
Source: Fingate

FY04 Revenue vs. Cost for Long Distance Trains (40% Cost Recovery)



Source: Fingate

FY04 Revenue vs. Cost for Corridor Service Trains (64% Cost Recovery)



Source: Fingate

AMTRAK

FY04 Food & Beverage Labor Costs

• Headcount	1,155	
• Average Wage Rates	Hourly	Annually
– Lead Service Attendants (Dining Cars)	$21.93	$48,000
– Chefs	$20.66	$46,000
– Food Specialists	$20.30	$45,000
– Lead Service Attendants (Café Cars)	$19.50	$43,000
– Service Attendants	$18.86	$42,000

- Length of Run
  - Crew work assignments target 180 hours work per month (40 hrs/wk, 4.5 wks/mo)
    - California Zephyr requires 13 crews to staff based on the above
    - Capitol Limited requires 6 crews to staff

Management Focus since 2002

- Corporate Focus
  - Reducing headcount
  - Implementing budgetary controls
- Food and Beverage
  - Reducing theft
  - Implementing cash registers
  - Controlling Gate Gourmet contract
  - Reducing food and beverage costs per passenger

Managing Improvement – Accomplishments 2002 to Date

- National Menu and Pricing Program
  - Allowed for 40% reduction in SKUs in 2002; on-going 5% annual reduction
  - Increased buying power and consistency through vendor reduction efforts
- Par Level Reduction
  - Minimized condemnage
- Selected Elimination of Dining Car Service
  - Silver Palm; Cardinal
- Service Guides for Diners, Lounges and Cafes
  - Standards, consistency, compliance
- Chef Certification/Traveling Chef Program
  - Consistent service, public health compliance, accounting, inventory management
  - Monitor and improve performance

AMTRAK®

Managing Improvement - FY05 Action: Productivity Initiative

- Acela First Class Staffing
  - Reduced on-board first class attendants from 3 to 1
  - Implemented in 2 phases during FY05
  - Eliminated 66 positions, saving approximately $5.0 Million annually
- Matching Long Distance Staffing to Demand
  - Reduce dining car employees from 5 to 4 during off-peak periods or on light ridership segments
  - Implemented on the Crescent, City of New Orleans and Texas Eagle February 15, 2005
  - Estimated FY05 savings of $0.5 Million
  - Potential annual benefit of $1.4 Million thereafter
  - Review of all long distance trains is underway

Managing Improvement - FY05 Action: Menu Pricing Initiative

• Dining Car Service	$0.5 Million	(April 2005)
– 5% average price increase		
– Affects cash sales only		
– Assumes no loss of business		
• Café/Lounge Service	$1.5 Million	(June 2005)
– 7% price increase on perishable items		
– Assumes no loss of business		
• Beverages	$1.5 Million	(June 2005)
– 4-5% average price increase		
– Assumes no loss of business		
• Total Annual Revenue Opportunity	$3.5 Million	

Source: Service Delivery Department

AMTRAK

Strategic Opportunities

($ Millions)	Annual Benefit
• Combined Diner/Lounge	$ 9.4
– Single level conversions scheduled for FY06	
– Hi level conversions scheduled for FY07	
• Elimination of Service on NYP-ALB Empire Corridor	$ 1.0
– To be implemented July 1, 2005	
– Other potential corridors are also being reviewed	
• State Supported Trains	$ 0.8
– 100% recovery of food & beverage cost	
• Outsource Food & Beverage Labor	$26 - 35
– No known vendor has been identified	
– It is unclear if the Railway Labor Act would apply	

AMTRAK

Current Status

- Since 2002, annual food costs have been reduced by $5 million annually
- As food and beverage costs have decreased, ridership has increased by 7 percent
- Amtrak's Inspector General stated in a report dated June 21, 2004, "We found that since Food and Beverage Management was reorganized under your office, costs have been significantly reduced and controls have been implemented to reduce losses."

Future Direction

- Continued Improvement in management of Gate Gourmet contract
- New Vice-President Customer Service
- Met with Gate Gourmet to discuss future contract requirements
- Renegotiating Contract

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Railroads, Committee on Transportation and Infrastructure, House of Representatives

For Release on Delivery
Expected at 9:30 a.m. EDT
Thursday, June 9, 2005

AMTRAK

Management and Accountability Issues Contribute to Unprofitability of Food and Beverage Service

Statement of JayEtta Hecker, Director
Physical Infrastructure Issues

GAO-05-761T

June 9, 2005

GAO
Accountability · Integrity · Reliability

Highlights

Highlights of GAO-05-761T, a report to Subcommittee on Railroads, Committee on Transportation and Infrastructure, House of Representatives

AMTRAK

Management and Accountability Issues Contribute to Unprofitability of Food and Beverage Service

Why GAO Did This Study

Amtrak has provided food and beverage service on its trains since it began operations in 1971. Amtrak has struggled since its inception to earn sufficient revenues and depends heavily on federal subsidies to remain solvent. While a small part of Amtrak's overall expenditures, Amtrak's food and beverage service illustrates concerns in Amtrak's overall cost containment, management and accountability issues.

This testimony is based on GAO's work on Amtrak's management and performance as well as additional information gained from Amtrak and other transportation providers. This testimony focuses on (1) the provisions written into Amtrak's contract with Gate Gourmet to control costs, (2) the types of management controls Amtrak exercises to prevent overpayments, and (3) the information Amtrak collects and uses to monitor the service and to report to stakeholders such as its Board of Directors.

What GAO Recommends

Since we did not have sufficient time to obtain Amtrak's comments, as required by government auditing standards, prior to this hearing, GAO anticipates making recommendations to Amtrak to improve its food and beverage service at a later time.

www.gao.gov/cgi-bin/getrpt?GAO-05-761T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact JayEtta Z. Hecker, 202-512-8984.

What GAO Found

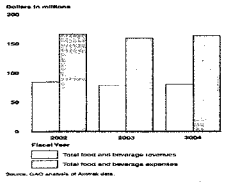
Amtrak's financial records show that for every dollar Amtrak earns in food and beverage revenue, it spends about 2 dollars —a pattern that has held consistent for all 3 years GAO reviewed. In GAO's estimation, Amtrak has lost a total of almost $245 million between fiscal year 2002 and fiscal year 2004 on food and beverage service. Since 1999, Amtrak has contracted out the responsibility to Gate Gourmet for managing the commissaries and for ordering and stocking all food, beverages and related service items under a contract that expires in September 2006.

Amtrak's current cost reimbursable contract with Gate Gourmet creates, if anything, an incentive to increase Amtrak's costs unless properly monitored. Gate Gourmet can charge Amtrak for the cost of the food and beverage items, as well as management, labor and other expenses. Without defined controls and management, this type of contract structure provides little incentive for a contractor to reduce or contain costs to provide better value to its customer.

GAO found five different management controls that Amtrak did not use in managing its food and beverage service. These controls include: (1) requiring an independently audited financial report, (2) auditing for all applicable rebates and discounts that Gate Gourmet could have applied to food and beverage items purchased for Amtrak, (3) adequately monitoring purchase price information for its food and beverage items, (4) not considering Amtrak's food and beverage labor costs as part of its product markups, and (5) not utilizing Amtrak's Procurement Department in negotiating the current contract.

Information that could provide both internal and external accountability for the food and beverage function is limited. Amtrak does not include any information about its food and beverage expenses in any of its internal or external reports, including its monthly performance reports, its internal quarterly progress reports or its annual consolidated financial statements. This lack of information makes it difficult for internal and external stakeholders to gauge the profit or loss of the operation as well as to assign accountability.

Amtrak food and beverage revenues and expenses, fiscal years 2002 to 2004



Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify on issues concerning the National Railroad Passenger Corporation's (or Amtrak) food and beverage service, which will clearly illustrate Amtrak's challenges in controlling its costs. Since Amtrak started operations in 1971, Amtrak has struggled financially, and has depended on a federal subsidy of more than $1 billion a year since fiscal year 2003 to remain solvent. For fiscal years 2002 through 2004, Amtrak's food and beverage expenses were about $487 million—or only about 5 percent of the company's total expenditures. However, during that same time period, Amtrak's food and beverage service earned about $243 million in revenue. This means that Amtrak spends about 2 dollars to earn one dollar in food and beverage revenue. Of Amtrak's total food and beverage expenditures, about 53 percent was for labor costs for Amtrak employees serving the food, about 38 percent was for food costs and fees to Gate Gourmet International (Gate Gourmet)—the contractor for food and beverages and operation of Amtrak commissaries—and about 9 percent for other Amtrak costs.

At your request, my statement today relates primarily to the contractor's portion of this expense as well as Amtrak's oversight and control over its food and beverage service, and what Amtrak is doing to oversee and control contract costs. I will specifically address what we have learned in examining three major types of cost controls: (1) the provisions written into Amtrak's contract with Gate Gourmet[1] to control costs, (2) the types of management controls Amtrak exercises to prevent improper payments, and (3) the information Amtrak collects and uses to monitor the service and to report to stakeholders such as its Board of Directors. We also talked with three other passenger transportation providers to get background and comparison information on their food and beverage services. The information I will present is based on completed work done in the course of our ongoing review of Amtrak's management and performance which we will report on later this year. We also collected supplemental information from Amtrak, and on the food and beverage operations of VIA Rail Canada (VIA Rail), and the Alaska

[1]Gate Gourmet International was formerly known as Dobbs International prior to January 1, 2001.

Railroad, two other providers of intercity passenger rail, and two major U.S. air carriers—Northwest Airlines and American Airlines.

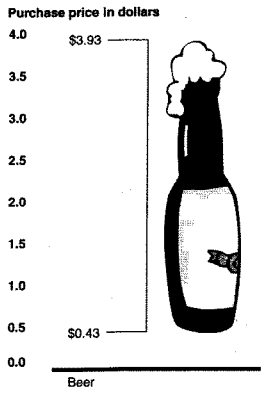
In summary, we found that:

- The provisions of the contract for food and beverage services provide little incentive for Gate Gourmet to reduce or contain the costs of food and beverages. The contract is a cost reimbursable contract, and under it, the contractor can charge for the costs of items purchased, in addition to management and other fees. Given the way Amtrak is managing the contract, none of the contractor's profit is tied to controlling costs. Although the contract included a discussion of performance standards, these standards and related measures were never created, even though they were required 45 days after the contract was signed in January 1999. Performance standards would have allowed for performance incentives and penalties. If these incentives had been developed, then they could have been used to pay Gate Gourmet based on such things as finding lower-priced food products of similar quality to what is being purchased now.

- Amtrak is not fully exercising prudent management techniques to control its food and beverage costs and prevent potential improper payments. We found three examples of this mismanagement at Amtrak. First, Amtrak has never required the contractor to submit an annual report (which would be independently audited) of budget variances for key line items, even though the contract requires such a report. Such a report could detect improper payments by Amtrak to Gate Gourmet for food and beverage items. Second, Amtrak has never audited the contractor's purchase data—which is allowed under the contract—to ensure that the contractor is passing along any discounts or rebates the contractor receives on items purchased. For example, Gate Gourmet reported passing along about $550,000 in rebates and discounts on purchases for Amtrak totaling about $6.5 million out of $90

million total purchases for Amtrak from fiscal year 2002 through fiscal year 2003.[2] Finally, Amtrak does not adequately monitor purchase prices reported by the contractor to identify variances or products with high costs. To further test purchase data, we non-statistically selected 37 payment transactions and reviewed the underlying supporting documentation and found evidence of widely variable product prices. For example, Amtrak paid between $0.43 and $3.93 per 12-ounce bottle of Heineken beer. (See fig. 1.)

Figure 1: Amount Amtrak paid for a 12 ounce beer, fiscal years 2002 and 2003



Sources: GAO analysis of Amtrak data; Corel (clip art).

- The level of information Amtrak collects and uses to monitor its food and beverage service and report results to external or internal stakeholders inhibits accountability for its performance. Externally, Amtrak does not report food and beverage expenditure information in its monthly performance reports or its annual consolidated financial statements. While Amtrak reports the combined revenue of its food and beverage services in its monthly performance reports, it does not do so for its food and beverage expenses. By combining revenue, it is difficult for managers to determine the amount of

[2]Fiscal year 2004 audited financial information was not available when we conducted our analysis.

revenue attributable to food services compared to beverage services. By not reporting expenses, it is difficult to determine how much is spent on food and beverage service. This lack of information inhibits Amtrak's ability to assign accountability for performance internally or allow for any external accountability to key stakeholders. Other transportation companies we studied have a different accountability structure for their food and beverage service. Because VIA Rail has a fixed subsidy from the federal Canadian government, VIA Rail's management has an inherent incentive to control its costs in all areas of its operation, including its food and beverage service. The Alaska Railroad receives bi-weekly reports from its contractor detailing its labor and food costs that show, among other things, contractor performance against the contractual cost caps.

Background

How Does Amtrak Operate Its Food and Beverage Service?

Food and beverages have been served on board Amtrak trains since Amtrak was created. Amtrak's eleven commissaries are located around the country and are responsible for receiving, warehousing and stocking food, beverages, and other items for Amtrak's on-board dining and café service. Until January 1999, Amtrak ran these commissaries with its own employees. Since then, Amtrak has contracted out the responsibility for the commissaries and for ordering and stocking all food, beverage, and related items under a contract that expires in September 2006.[3] Gate Gourmet (the contractor), is also a supplier of food and beverages to several major airlines. During fiscal years 2002-2004, the 3-year period we focused on in our audit work, Amtrak paid Gate Gourmet between $59 and $64 million a year in reimbursements and fees.[4] Gate Gourmet personnel

[3]There is an option for a 5 year extension.

[4]Gate Gourmet has contracts with food and non-alcoholic beverage suppliers for Amtrak's food and beverage service. Gate Gourmet purchases alcoholic beverages from distributors but Amtrak is directly billed as Amtrak holds the liquor license to serve alcohol on its trains.

operate Amtrak-owned commissaries and order, receive, store, and stock trains with food, beverages, and other related items such as table linens and napkins and. Food and beverage stock are charged to Amtrak employees who account for the food en route. When a train arrives at its final destination, all remaining stock items are returned to a commissary. Gate Gourmet charges Amtrak for the items used, as well as for labor, management, and other fees. The contract requires that Gate Gourmet provide Amtrak an independently audited annual report within 120 days following the expiration of each contract year.

Amtrak's model for handling its food and beverage service is similar to other passenger transportation companies, with some important differences. Northwest Airlines has outsourced their kitchen and commissary operations and have food and beverages delivered to each airplane before each flight. VIA Rail Canada, Canada's national passenger railroad, serves food on most of its trains and owns and operates its own commissaries. Food and other items are delivered to each train, consumed during the train's run and restocked at the destination. The Alaska Railroad, however, has a private contractor that orders, stocks, delivers, prepares and serves all of its food and beverages on its trains using their own labor force. With certain exceptions and limits, all food and beverage revenues and expenses are the responsibility of the contractor.[5]

How Much Is Amtrak Losing on Food and Beverage Operations?

Amtrak's financial records show that for every dollar Amtrak earns in food and beverage revenue, it spends about 2 dollars—a pattern that has held consistent for all 3 years we reviewed. (See table 1 and fig. 2.) Amtrak's financial records also indicate that Amtrak has lost a total of almost $245 million for fiscal year 2002 through fiscal year 2004 on food and beverage service. Section 24305(c)(4) of Title 49, United States Code, states that Amtrak is not to operate a food and beverage service whose revenues do not exceed the cost of providing such service. About half of the total food and beverage expenditure

[5]Under the Alaska Railroad contract, the contractor is guaranteed a 5 percent profit margin. If food and beverage sales do not provide this 5 percent margin, then Alaska Railroad makes up the difference. If margins exceed 5 percent, then the contractor and Alaska Railroad split the excess amount.

is labor cost for Amtrak staff who prepare and serve the food aboard the trains. About 38 percent is reimbursements and fees to Gate Gourmet, representing the cost of food and other products in addition to other fees paid to Gate Gourmet. About 9 percent is for other Amtrak costs. While Amtrak's labor costs for its food and beverage service are significant, these costs are part of Amtrak's overall labor cost structure, and as such, are beyond the scope of what we did for this testimony. However, a recent Amtrak Inspector General report suggested that Amtrak could save money on its food and beverage labor if the cost of this labor was similar to that of the restaurant industry.[6]

Table 1: Amtrak's estimated food and beverage revenue and expenses (by major category), fiscal years 2002 to 2004

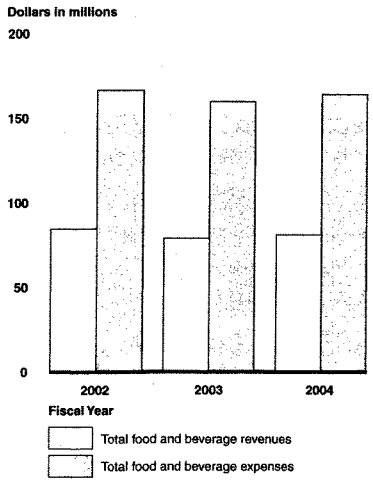
	2002	2003	2004[c]	Total	Percent of Total Expense (%)
Total food and beverage revenues[a]	**$ 84,100,000**	**$ 78,400,000**	**$ 80,400,000**	**$ 242,900,000**	
Expense Category					
Amtrak Labor Costs	$ 83,768,416	$ 83,257,574	$ 89,162,529	$ 256,188,519	52.6
Payments to Gate Gourmet	$ 63,754,973	$ 59,769,085	$ 61,893,852	$ 182,422,910	38.0
All Other Amtrak Food and Beverage Expenses[b]	$ 16,961,343	$ 15,775,092	$ 13,123,348	$ 45,859,910	9.4
Total Food and Beverage Expenses	**$ 164,489,732**	**$ 158,801,751**	**$ 164,179,729**	**$ 487,471,212**	**100.0**
Profit or (Loss)	**$ (80,389,732)**	**$ (80,401,751)**	**$ (83,779,729)**	**$ (244,571,212)**	

Notes
[a] Revenues include a portion of first class ticket revenue dedicated toward food and beverage revenues.
[b] "All Other" expenses include such items as utilities, office supplies, crew meals and reusable support items such as crockery and glassware.
[c] All 2004 figures are unaudited.

Source: GAO analysis of Amtrak data.

[6] *Evaluation Report: Food and Beverage Financial Performance*, Report E-05-03, Amtrak Inspector General.

Figure 2: Amtrak food and beverage revenues and expenses, fiscal years 2002 to 2004



Source: GAO analysis of Amtrak data.

Amtrak has responded to these continued losses with some incremental reductions in food and beverage service. On July 1, 2005, Amtrak plans to discontinue food and beverage service on its routes between New York City and Albany, New York, which would allow Amtrak to close its commissary in Albany. An official in Amtrak's Office of Inspector General stated that Amtrak lost between $6 to $8 per person on food service on those routes and that closing the commissary will save Amtrak about $1 million per year. However, achieving additional savings by closing commissaries could be limited, as Amtrak's other commissaries serve multiple Amtrak trains that would continue to offer food and beverage service. In other words, closing a commissary could affect multiple trains on multiple routes. According to an Amtrak procurement official, a team consisting of members of Amtrak's procurement, legal, financial and transportation departments is currently working to identify ways to reduce Amtrak's costs in its next commissary contract.[7]

[7]The current contract expires on September 30, 2006.

Other transportation companies have taken actions to better control their food and beverage costs in recent years. For example, Northwest Airlines officials stated that they pay particular attention to food and beverage expenses. Since 2002, Northwest has reduced its food costs by 4 percent. This has been achieved by reducing or eliminating complimentary food service for coach passengers on domestic flights (even to the point of eliminating pretzels on these flights), aggressive pricing of food products and flexible budgeting that adjusts each month to reflect increases or decreases in ridership.[8] VIA Rail officials told us they have considerable flexibility in hiring its onboard service personnel to adjust its labor force to respond to peak and off-peak tourist seasons for its long-distance trains. In addition, VIA Rail officials said they have considerable flexibility in how on-board service staff are used; in essence, all on-board service staff can be used wherever and whenever needed. The Alaska Railroad restructured the contract with its food and beverage service provider to allow for food price fluctuation within defined limits.

Current Contract Does Not Provide Incentives to Reduce or Contain Costs

One way to control costs is to build provisions into a contract that motivate a contractor to keep costs as low as possible. Amtrak's current cost reimbursable contract with Gate Gourmet creates, if anything, an incentive to increase Amtrak's costs unless properly monitored. Under the contract, Gate Gourmet receives a number of reimbursements, including commissary, labor, and insurance costs, in addition to an operating fee. The operating fee is defined in the contract as five percent of the total actual cost of the on-board food and beverage items. This fee is an incentive for the contractor to increase Amtrak's food and beverage costs. These costs can change in each yearly operating budget. This operating budget is subject to review by Amtrak and is mutually agreed to by both Amtrak and Gate Gourmet.

[8]Northwest officials noted that in lieu of complimentary food service for coach passengers they have instituted a "Buy On Board" program which offers certain food items for sale to passengers.

Incentives can also be written into a cost reimbursable contract to control costs and enhance performance. Although the contract included a discussion of performance standards, these standards and related measures were never created, even though they were required 45 days after the contract was signed in January 1999. Performance standards would have allowed for performance incentives and penalties. If these incentives had been developed, then they could have been used to pay Gate Gourmet based on such things as finding lower-priced food products of similar quality to what is being purchased now, or identifying ways the food and beverage service could be operated more economically or efficiently.

Other factors may not provide the needed incentives for Gate Gourmet to aggressively seek to reduce Amtrak's food costs. Under current contract provisions, Gate Gourmet can charge Amtrak for food prepared in Gate Gourmet facilities and delivered to Amtrak's commissaries. The contract provides considerable pricing flexibility to Gate Gourmet for these items with no detailed definitions or price caps. This makes it difficult to determine whether or not Amtrak is being charged a reasonable price. In addition, the contract also provides that Gate Gourmet deduct any trade or quantity discounts on items purchased for Amtrak either immediately from Amtrak's invoices or retroactively based on the proportion of Amtrak's purchases. Discounts applied retroactively are to be applied by Gate Gourmet in "good faith" and retroactive payments are "an approximation and that [Gate Gourmet] cannot guarantee exactness." The contract stipulates these payments are subject to an audit by Amtrak. However, these audits have never been conducted.

In contrast, while Northwest Airlines has cost plus contracts with its largest food and beverage contractors (including Gate Gourmet), Northwest's management of them is different. Northwest's caterer contracts have labor and other rates specified in the contract. According to Northwest's food and beverage officials, they know quickly if they change their menu, how much their suppliers will charge them—even to the addition or subtraction of a leaf of lettuce served as part of an entree. In addition,

Northwest officials stated that each price charged by its contractors is checked and invoices are audited.

Management Controls Over Food and Beverage Operations Not Fully Exercised

We identified five types of management controls that Amtrak did not fully exercise regarding oversight of its food and beverage service. These include:

1. **Requirement for an annual report has never been enforced.** Amtrak's contract requires Gate Gourmet to provide an independently audited annual report within 120 days following the expiration of each contract year; this report must also be certified by Gate Gourmet officials. This report is to provide actual and budgeted amounts for key line items and to provide a narrative explanation for any actual to budget variance greater than one percent in the aggregate for all commissaries. However, Gate Gourmet has not provided this report during the five completed years the contract has been in place. Amtrak food and beverage officials could not provide us with a reason as to why they had decided not to enforce this provision. They told us that they relied on contractor-provided monthly operating statements and on reports from Amtrak's Inspector General instead. Our review found that the monthly operating statements lacked critical information that was to be included in the annual report, were prepared by the party seeking reimbursement, and, perhaps more importantly, were not independently reviewed or audited. By contrast, the annual report was to be certified by contractor officials and audited by an independent certified public accountant. The Inspector General's reports, while providing management with information on some aspects of Amtrak's food and beverage service activities, should not be viewed as a substitute for a comprehensive audit and report.

2. **Audits of discounts and rebates were not conducted.** The contract provides that Amtrak audit Gate Gourmet's allocations of trade and quantity discounts

received from purchases of food and beverages. However, Amtrak has never conducted an audit of the discounts credited to it, nor has it requested that the contractor certify that all of the discounts that Amtrak should receive have been credited to its account.

Information we reviewed indicates that such audits may yield savings for Amtrak. For example, Amtrak officials advised us that discounts and rebates totaling over $550,000 for fiscal years 2002 and 2003 had been credited on gross purchases of about $6.5 million.[9] However, total Gate Gourmet purchases exceeded $90 million for the 2-year period—roughly 13 times the amount of purchases the contractor reported as being subject to discounts and rebates. Because Amtrak did not require an independent audit or otherwise analyze the trade and quantity discounts received, Amtrak does not know whether or not it received all of the discounts and rebates to which it was entitled. Amtrak could not provide us with reasons supporting its decision or its consideration of this issue.

3. **Adequate monitoring of purchase price information needs improvements.** Amtrak did not adequately monitor its purchase price information for food and beverage items purchased by Gate Gourmet. Amtrak officials said they monitored contractor purchases using daily price reports that listed unit price for purchases ordered the previous day and the price the last time the item was ordered. However, given the importance of purchase orders in a food and beverage operation, internal controls need to be developed to systematically monitor and analyze purchase information. These controls should then be monitored on a regular basis to assess the quality of performance over time.[10] For example, controls should include processes to identify unit price variances over established or pre-set amounts and actions taken to document follow-up work performed. Although Amtrak had some processes that compare prices, the process was not

[9]Audited 2004 financial information was not available during our analysis.

[10]See United States General Accounting Office, *Internal Control Standards: Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: Aug. 2001).

robust enough to include a record of price trends or follow up actions taken such as corrections of amounts billed. Our testing of this control showed that if Amtrak had approached this review in a more rigorous manner, it may have identified discrepancies warranting further investigation. For example:

- *Monitoring of Purchase Order Pricing:* Using data mining[11] and other audit techniques, we selectively reviewed more than $80 million of purchase order information for fiscal years 2002 and 2003 and found that the contractor was generating purchase orders with significant variances in unit prices. For example, in 2003, the purchase order price of a 10-ounce strip steak ranged from $3.02 to $7.58.

- *Monitoring of Actual Product Price Charged by Gate Gourmet:* When Amtrak officials told us that purchase order information did not always reflect actual amounts paid,[12] we tested actual prices paid by Amtrak to Gate Gourmet. To test purchase order data, we non-statistically selected 37 payment transactions and reviewed the underlying supporting documentation and found evidence of widely variable product prices. For instance, in fiscal years 2002 and 2003, payments of over $400,000 for 12-ounce Heineken beer varied from $0.43 to $3.93 per bottle.

4. **Amtrak product pricing excludes labor costs.** Our work revealed that Amtrak's product price to the customer does not take into account over half of Amtrak's total food and beverage costs. Amtrak's target profit margin is 67 percent for prepared meals and 81 percent for controlled beverages. These target profit margins are expressed as a percentage of sales over the item product cost

[11]Data mining applies a search process to a data set, analyzing for trends, relationships, and interesting associations. For instance, it can be used to efficiently query transaction data for characteristics that may indicate potentially improper activity.

[12]For example, a price change may have occurred between the time an item was ordered and when it was delivered. Record keeping errors may also have occurred and unit prices in the inventory system may, for example, be based on a different pack size than that received or from that used for the last purchase.

charged to Amtrak. However, these target profit margins do not take into account Amtrak's on-board labor costs, which our work has determined is estimated at over half of Amtrak's food and beverage total expenditures. Amtrak's current food and beverage product pricing seems to ensure that its food and beverage service will not be profitable.

5. **Available procurement expertise not brought to bear.** Finally, Amtrak's procurement department was not involved in the negotiation of the original contract.[13] The current contract was signed by officials of Amtrak's now defunct Northeast Corridor Strategic Business Unit.[14] The contract's initial period was for about seven years (January 29, 1999, to September 30, 2006), with a 5-year extension option. In addition, another agreement to supply Amtrak's Acela train service for food and beverage items from Gate Gourmet's flight kitchens was made verbally between Amtrak's former president and the president of Gate Gourmet. Amtrak does not have any documentation for the contract terms for this service.

In contrast to Amtrak, other transportation companies we interviewed closely monitor their invoices and contractor payments through periodic audits or have given the responsibility for costs and pricing to the contractor. For example, Northwest Airlines officials stated that they conduct regular audits of "every [food and beverage] price" they are charged from their contractors and have found errors in either prices or labor charges in their contractor invoices. VIA Rail selectively audits their food supplier invoices that are attached to every billing statement they receive. Finally, the Alaska

[13]Since the original contract, Amtrak's Procurement department plans to take the lead role in any future renewal, bidding and negotiating the next iteration of the outsourced commissary contract.

[14]According to Amtrak, Strategic Business Units (or "SBU"s) were a method for better managing performances and differences in businesses or markets within a company and were designed to anticipate and facilitate rapid response to change, place decisionmaking close to the customer, and establish authority and accountability. Amtrak established 3 SBU's—Northeast Corridor, Intercity, and West. The SBU's were largely self contained units that had their own chief executive officers, handled their own train service, procured their own materials and supplies, and handled their own financial management and planning.

Railroad food and beverage business model gives responsibility for food and labor costs to the contractor, subject to contractual limits.

Information for Accountability Is Limited

Finally, information that would provide accountability over this service, both internally and externally, is limited. We noted that while Amtrak reports the combined revenue from its food and beverage services in its monthly performance reports, it does not identify for stakeholders the revenue attributable to each service. Amtrak also does not include any information about its food and beverage expenses in any of its internal or external reports, including its monthly performance reports, its internal quarterly progress reports, or its annual consolidated financial statements. Absent this information, it is difficult for internal and external stakeholders to determine the amount of expense attributable to the food and beverage service and to gauge the profit or loss of the operation. This hinders oversight and accountability.

Other transportation companies we studied have a different accountability structure for their food and beverage service. Because VIA Rail has a fixed subsidy from the federal Canadian government, VIA Rail's management has an inherent incentive to control its costs in all areas of its operation, including its food and beverage service. VIA controls its food and beverage costs in many different ways including fixed fee supplier contracts, item price reports, monitoring of supplier markups and item prices and fixed food cost budgets to VIA menu planners. Northwest Airlines has a flexible monthly food and beverage budget that increases or decreases with ridership levels. In addition, each supplier contract has established markups on product prices and its contracts with food preparation and delivery providers have detailed labor rates that are all audited for accuracy. The Alaska Railroad receives bi-weekly reports from its contractor detailing its labor and food costs that show, among other things, contractor performance against the contractual cost caps. In addition, the contractor and the Alaska Railroad will conduct annual audits of its contractor's performance under the contract.

Conclusions

Amtrak's food and beverage service may represent a relatively small part of the company's operating budget, but it speaks volumes about Amtrak's need to get its operations in better order. In administering this contract, basic steps for good management have been ignored or otherwise set aside. Omissions include not completing agreed-upon provisions of the contract, not carrying through with basic oversight called for in the contract, and ensuring that the organization was getting products at the most reasonable price. Prudence requires a stronger effort, beginning with carrying out those steps that, under the contract, should have been taken all along. Amtrak needs to take such steps not only to curb the losses in this program, but to help convince the public that it is acting as a careful steward of the federal dollars that continue to keep it operating.

Recommendations

Based on our work to date, we anticipate making recommendations to Amtrak to improve controls over its food and beverage operations. Since we did not have sufficient time to obtain Amtrak's comments, as required by government auditing standards prior to this hearing, the recommendations remain tentative until that process is complete. At that time, we anticipate making the following recommendations that Amtrak:

1. Better contain its food and beverage costs through:
    a. Following its own procedures for ensuring proper contracts and payments;
    b. Enforcing key provisions of the current Gate Gourmet contract including annual reports that are independently audited by an outside auditing firm

and certified by Gate Gourmet officials and conduct regular audits of discount and rebates.

2. Prepare a written contract for food and beverage service on Acela trains that specifies the service to be provided, includes incentives to ensure efficient and effective contractor performance, and includes regular annual reports and audits.
3. Create separate revenue and expenditure reporting and other basic food service metrics to allow for internal and external accountability for its food and beverage service and create incentives to reduce costs and/or increase revenue.
4. Comprehensively review the revenue and cost structure of its food and beverage service to determine the most cost effective solution that can increase the financial contribution of its food and beverage function.

- - - - -

Mr. Chairman, this concludes my testimony. I would be happy to answer whatever questions you or the other members might have.

Contacts and Acknowledgements

For further information, please contact JayEtta Z. Hecker at heckerj@gao.gov or at 202-512-2834. Individuals making key contributions to this statement include Greg Hanna, Heather Krause, Bert Japikse, Richard Jorgenson, Steven Martin, Robert Martin, Irvin McMasters, Robert Owens, and Randy Williamson.

GAO
Accountability * Integrity * Reliability

AMTRAK

Management and Accountability Issues Contribute to Unprofitability of Food and Beverage Services

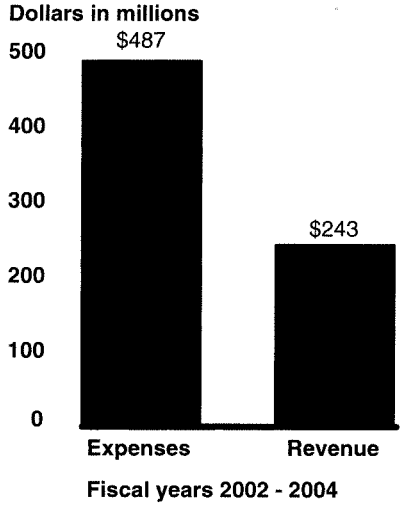
Testimony of
JayEtta Z. Hecker
Director, Physical Infrastructure
U.S. GAO

Focus of Remarks

- Incentives for cost control in contract with food supplier
- Amtrak exercise of controls over contract
- Information available to monitor and control costs of Food and Beverage Services

GAO
Accountability * Integrity * Reliability

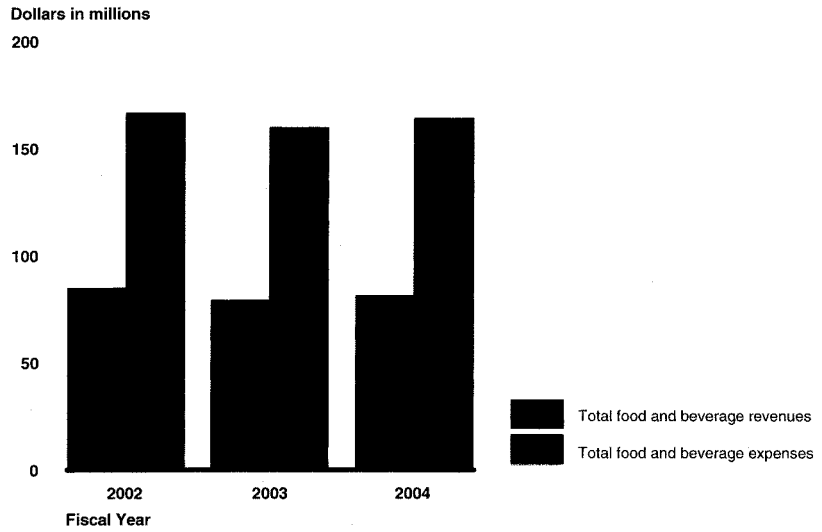
Background: Amtrak expends $2 of expenses for each $1 of revenue in Food and Beverage Services



Source: GAO analysis of Amtrak data.

GAO
Accountability * Integrity * Reliability

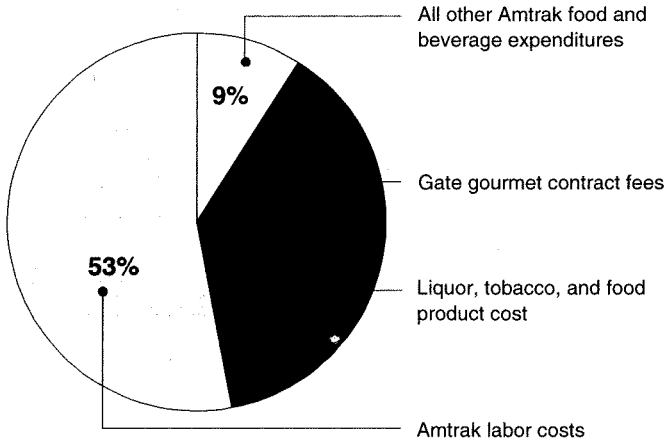
Background: Expenses Consistently Exceeded Revenues between 2002-2004



Source: GAO analysis of Amtrak data.

GAO
Accountability * Integrity * Reliability

Background: Components of Amtrak's Food and Beverage Expenses



Source: GAO analysis of Amtrak data.

Background: Organization of Food and Beverage Services at Amtrak

- Food and Beverage services provided since Amtrak formed
- Until 1999 Amtrak ran entire operation internally
- In 1999 Amtrak signed a 7 year cost-reimbursable contract with Gate Gourmet
  - To manage 14 Amtrak-owned commissaries
  - To order, receive, store, & stock trains with food and beverages and related items
- Amtrak charged for food costs, a management fee, a labor fee and other fees
- Contract includes numerous provisions authorizing Amtrak oversight

Contract Provisions Provide Little Incentive for Cost Control

- Contractor reimbursed for all costs
- Contractor can add management, labor and other fees on top of food and beverage costs
- None of the contractor fees or guaranteed profit are tied to controlling costs to Amtrak
- Despite discussion in contract of incentive standards, none were ever created

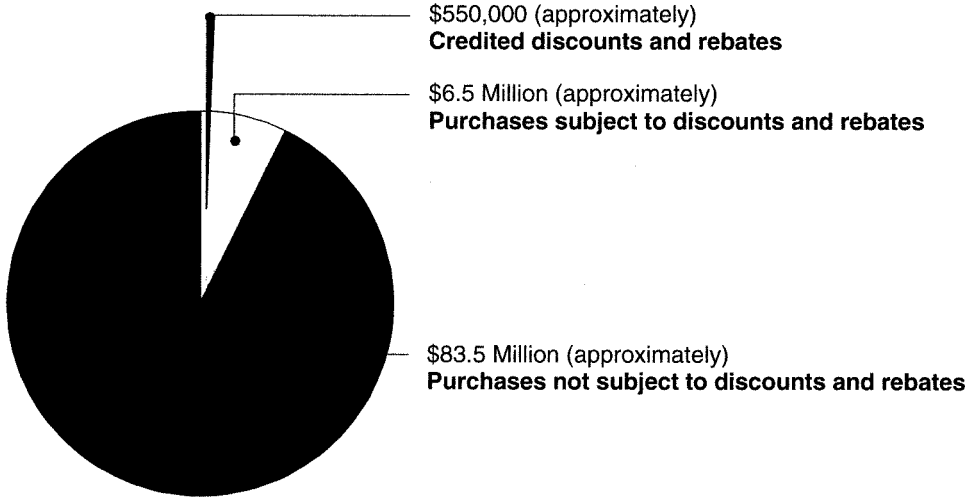
GAO
Accountability * Integrity * Reliability

Amtrak Has Not Exercised Prudent Management of Food and Beverage Contract

- Amtrak never required audited annual report called for in contract
- Amtrak never audited contract purchase data to assure contractor passed on discounts or rebates to Amtrak
- Amtrak does not adequately monitor purchase prices

GAO
Accountability * Integrity * Reliability

Gate Gourmet Rebates and Discounts to Amtrak between 2002 and 2003



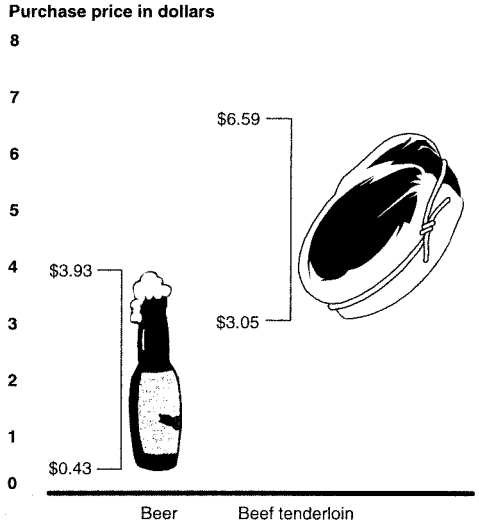
Source: GAO analysis of Amtrak data.

Amtrak Has Not Exercised Prudent Management of Food and Beverage Contract

- Amtrak never required audited annual report called for in contract
- Amtrak never audited contract purchase data to assure contractor passed on discounts or rebates to Amtrak
- **Amtrak does not adequately monitor purchase prices**

GAO
Accountability * Integrity * Reliability

Prices Paid for Selected Products Vary Widely



Sources: GAO analysis of Amtrak data; Corel (clip art).

Information Amtrak Collects to Monitor Food and Beverage Inhibits Accountability for Performance

- Food and Beverage expenses not included in monthly performance report or annual consolidated financial statements

- While Amtrak does report food and beverage revenue, it does not systematically track or report food and beverage expenses

Key Characteristics of Food and Beverage Services of Other Transportation Providers

- **VIA RAIL**
  - Food and beverage operation performed in-house by VIA Rail employees
  - Substantial flexibility in how on-board staff are used
  - Controls over supplier prices with regular audits of invoices

- **ALASKA RAILROAD**
  - Contracted food and beverage service to private operator
  - Contractor orders, stocks, delivers, prepares, and serves all food and beverages using their own employees
  - Contractor guaranteed a 5 percent profit margin. Profits over 5 percent split between contractor and Alaska Railroad

GAO
Accountability * Integrity * Reliability

Key Characteristics of Food and Beverage Services of Other Transportation Providers

- **NORTHWEST AIRLINES**
  - Food and beverage service contracted to Gate Gourmet and a variety of other contractors
  - Northwest Airlines employees handle on-board service
  - Controls over detailed contract fees and contract labor costs
  - All supplier prices and invoices audited
  - Monthly food and beverage budgets increase or decrease based on ridership levels

Recommendations Under Consideration

1. Follow own procedures for controlling payments
2. Utilize key controls available under Gate Gourmet contract
3. Prepare written contract for Acela food and beverage services
4. Improve reporting on food and beverage expenses and revenues
5. Comprehensively review most cost-effective solution to improving performance of food and beverage function

GAO
Accountability * Integrity * Reliability

AMTRAK:

Management and Accountability Issues Contribute to Unprofitability of Food and Beverage Services

United States Government Accountability Office
Washington, DC 20548

July 11, 2005

The Honorable Don Young
Chairman
Committee on Transportation and Infrastructure
House of Representatives

Subject: *Questions for the Record Related to Amtrak's Food and Beverage Service*

Dear Mr. Chairman:

On June 9, 2005, I testified before the Subcommittee on Railroads at a hearing on "Amtrak Food and Beverage Operations."[1] This letter responds to your request that I provide answers to questions for the record. The questions, along with my responses, follow.

1. Amtrak stated that it has used its Office of Inspector General to audit Amtrak's food and beverage operations and that GAO did not recognize this fact. Why does GAO think that additional information is useful to supplement the Inspector General's food and beverage report on Amtrak's food and beverage operations?

In our testimony, we stated that Amtrak has not required the food and beverage contractor to submit the contractually required and independently audited annual report of budget variances for key line items. An audit of such a report could detect improper payments to the contractor. We also stated that Amtrak has never had an audit conducted of the discounts and rebates credited to it by Gate Gourmet International, even though such an audit is allowed under their contract. An audit of the purchase data could determine whether the contractor is appropriately passing along applicable rebates and discounts to Amtrak.

Amtrak's statement that we did not recognize that the Office of Inspector General (OIG) has been used to audit the food and beverage operations is inaccurate. In the course of our work, we reviewed OIG reports on certain aspects of Amtrak's food and beverage operations. However, we do not believe that the past work of the OIG should be viewed by Amtrak as a substitute for a comprehensive internal control program. Internal control should be a continuous built-in component of operations that, among other things, considers the results of audits and ensures prompt

[1]GAO, *Amtrak: Management and Accountability Issues Contribute to Unprofitability of Food and Beverage Service*, GAO-05-761T (Washington, D.C.: Jun. 9, 2005).

resolution. This is especially critical in an operational area where Amtrak is losing considerable money. In addition, upon reviewing the OIG's work we found that certain scope limitations existed. For example, the Amtrak OIG noted in its report on the food and beverage contract to Amtrak management that its work in this area has been limited due to the contractor's failure to provide certain requested information and documentation.

2. Amtrak maintains that food and beverage product rebates go directly to Amtrak and not through Gate Gourmet. Has Amtrak implemented processes to ensure that it is getting all of the discounts and rebates on food and beverage items purchased by Gate Gourmet for Amtrak?

Amtrak has not implemented processes to ensure that rebates and discounts received directly from suppliers or indirectly through its contractor are accurate and complete. As Amtrak officials explained, the majority of rebates are received directly from suppliers. However, no formal procedures have been established to review and verify the amount of rebates and discounts actually received from the suppliers or to determine whether there are other rebates and discounts that Amtrak may be entitled to receive from the contractor. Although the contract allowed Amtrak to audit the contractor's allocations of rebates and discounts, Amtrak never required such an audit and never required that the contractor certify that all discounts due to Amtrak were credited to its account.

3. Amtrak maintains that it closely monitors food and beverage purchase prices charged to Amtrak by Gate Gourmet – on a daily basis. Why does GAO believe that Amtrak does not adequately monitor its purchase price information for food and beverage items purchased by Gate Gourmet?

According to Amtrak's senior director of food and beverage services, price reports are distributed to each of its commissaries on a daily basis. These daily reports list the quantity, unit size, cost and last prior purchase of the previous day's purchases. However, Amtrak has not established procedures to ensure that all of the daily report reviews are conducted timely and in a consistent manner, that errors or other issues that are identified are documented and tracked, and that corrective actions taken are documented to ensure completion. In addition, these daily price reports are limited to detecting errors or unacceptable purchase prices after the goods are received. More preventive control procedures, such as the monitoring of order prices could assist in avoiding the varying range in unit prices we found in purchase order and payment data. Furthermore, Amtrak has not enforced key contract provisions, such as requiring an independently audited annual report, auditing the amount of rebates received from the contractor, and creating contractor performance standards, which has weakened its ability to prevent and detect improper payments for food and beverage services.

4. Amtrak says that it did not pay the prices GAO cites in its statement for Heineken beer and that the prices paid for strip steak were paid only for two emergency purchases in the retail market. How does GAO respond to this and what evidence does GAO have that Amtrak did pay these prices?

Based on information provided to us by Amtrak on June 29, 2005, it appears that Amtrak (1) received and paid for 10 half-kegs of Heineken beer ($94.50 per half-keg) and not 10 cases of 12 ounce bottles of Heineken beer ($3.93 per bottle) as we testified based on information then available to us; and (2) Amtrak received and paid as high as $7.58 per 10 ounce portion for strip steak that was not documented as an emergency purchase.

Purchase order and payment support provided to us by Amtrak's contractor in March 2005 with copies of all such documentation provided to Amtrak concurrently show that Amtrak ordered 12 ounce bottles of Heineken beer and received and paid $3.93 per bottle for the beer. However, based on information Amtrak provided to us after our June 9, 2005 testimony it appears that Amtrak paid $945 to purchase 10 half-kegs of Heineken beer, rather than 10 cases as indicated on the original documentation provided to us and to Amtrak officials by the contractor. While we provided Amtrak the Heineken beer purchase example 14 days before the hearing and discussed the Heineken beer purchase in considerable detail with Amtrak officials before the testimony, it was not until over a month after the example was provided to Amtrak and twenty days after the testimony that we received the additional documentation that supports Amtrak's assertion regarding a data entry error and subsequent correction. In addition, Amtrak officials testified that the strip steak examples were "emergency purchases." However, following our request for documentation to support this claim an Amtrak official told us on June 29, 2005 that documentation to support the assertion that these were emergency purchases does not exist. The establishment of internal control procedures that ensure the documentation of the identification and correction of errors and approval for emergency purchases would ensure that adequate documentation is readily available for review by internal and external parties.

5. Amtrak maintains that its food and beverage revenues cover the costs of food and beverage service. However, GAO and Amtrak's Inspector General state that Amtrak loses about $2 for every $1 on food and beverage operations. How does GAO explain the difference?

The information provided by GAO and the Amtrak OIG included the labor costs for Amtrak employees on-board the trains delivering the food and beverages. These costs totaled more than $256 million for the 3-year period fiscal years 2002 through 2004. For fiscal years 2002 through 2004, Amtrak's food and beverage expenses, including Amtrak employee labor cost, totaled about $487 million while Amtrak's food and beverage service earned about $243 million in revenue. This means that Amtrak spent about $2 to earn $1 in food and beverage revenue. Section 24305(c)(4) of title 49, United States Code provides that Amtrak may provide food and beverage services on its trains only if revenues from the services each year at least equal the cost of providing the services. What is to be included as cost is not defined. During

the testimony, the Amtrak witness explained that their understanding of this provision was that the cost to be considered included only the cost of the food and commissary operations. Hence, Amtrak did not consider the Amtrak employee labor costs of providing the on-board service in their analysis of the food and beverage operations.

6. Amtrak noted that its food and beverage expenditures per passenger and its food costs have decreased as its ridership has increased. How have Amtrak's total costs for food and beverage service changed in relation to Amtrak's recent increases in both ridership and passenger revenue miles?

Amtrak's total food and beverage expenditures decreased per rider by 7.7 percent and decreased per passenger revenue mile by 1.9 percent from fiscal year 2002 to fiscal year 2004.[2] However, due to reductions in Amtrak's food and beverage revenues, Amtrak's profit/loss results per passenger and per passenger revenue mile on trains with food and beverage service are mixed. While Amtrak reduced its food and beverage loss per passenger by 3.5 percent from fiscal year 2002 to 2004, its food and beverage loss increased per passenger revenue mile by 2.4 percent over the same period.

7. Amtrak has called GAO's evaluation process, especially how GAO solicited and used Amtrak's comments on the draft version of its testimony, into question. What is GAO's process for soliciting and utilizing outside comments on its testimony? Did GAO deviate from those processes in creating its June 9 testimony to this Committee? If so, why did GAO deviate from those processes?

It is GAO's policy to obtain the views of agency officials for GAO testimony statements that are based on either new or ongoing work to validate the accuracy of the data gathered and obtain the agency's views on the implications that flow from that data. The comments can be obtained either orally, via teleconference or in person, or in written form. The amount of time available for agency comments is determined on a facts-and-circumstances basis, considering a number of variables including the timing needs of the requester.

GAO did not deviate from these processes in preparation for the June 9 testimony. GAO sent a draft of its testimony statement to Amtrak for their comments on June 6 and held a three-hour teleconference with senior Amtrak officials on June 7 to obtain their comments. Subsequently, we made changes to our statement based on the oral comments we received. Prior to the hearing, we asked Amtrak to provide evidence

[2]While these calculations used total Amtrak riders and total Amtrak passenger revenue miles, not all Amtrak trains have food and beverage service. The trend for revenues and expenditures per rider for Amtrak's total ridership on trains with food and beverage service followed the same pattern as the statistics cited above for ridership on all Amtrak trains.

on their food and beverage operations to support their assertion that our facts - which were based on Amtrak and contractor documents - were incorrect. However, even though Amtrak made statements during the hearing based on additional documentation, they chose not to share that documentation with us until 20 days after the hearing.

For additional information on Amtrak's food and beverage service, please contact me at (202) 512-8984 or Randall Williamson, Assistant Director, Physical Infrastructure, at (206) 287-4860 or williamsonr@gao.gov.

Sincerely yours,

JayEtta Z. Hecker
Director, Physical Infrastructure

(544110)

STATEMENT OF
THE HONORABLE JAMES L. OBERSTAR
SUBCOMMITTEE ON RAILROADS
HEARING ON
"AMTRAK'S FOOD AND BEVERAGE OPERATIONS"
JUNE 9, 2005 – 9:30 AM

I want to begin by thanking Chairman LaTourette and Ranking Member Brown for holding this hearing on Amtrak's Food and Beverage Operations.

As those fortunate enough to have ridden the great passenger trains of America at their peak would attest, no part of the rail experience survives so vividly in the memory of rail passengers as that of a sumptuous meal in the dining car: crisp linen, polished silver, attentive service, the passing panorama of American life - all accompanied by great food. The year 1930 marked the high point of passenger food service as practiced by the great American railroads. Over 1,700 dining cars on 63 railroads served upwards of 80 million meals, or nearly a quarter of a million meals per day. And what meals they were! Railroad chefs won awards for dishes like Melon Mint cocktail on the Pennsylvania's Broadway Limited; Fillet of Sole on the Southern Pacific; Old-Fashioned Raisin Pudding on the Illinois Central; and French Toast on the Santa Fe Super Chief.

The contrast with today's food and beverage service is stark. On most Amtrak trains, award-winning Fillet of Sole has been replaced with a frozen, microwave-able

meal or sandwich. Sterling silverware has been replaced with plastic forks and spoons. Linen tablecloths and napkins were replaced with paper versions, and the dining car workforce was cut in half.

To some extent, these changes were a business response to changing transportation economics and public preferences. Railroads, like airlines, must consider the effect of food and beverage costs on the bottom line. They must decide the effects of particular levels of food service on passenger revenue. High quality service may attract additional passengers while a decline in quality may cause a loss of passenger revenue. Striking the proper balance is a difficult business decision.

Unfortunately, we in the Congress have, at times, made it more difficult for Amtrak to make the best possible decisions. In 1981, we mandated that Amtrak provide food and beverage service on a break-even basis. This may have been an unsound approach. It is entirely possible that free or subsidized food on some routes will attract enough additional passengers to make this a good option.

In addition, during the 1980s and 90s there was considerable Congressional pressure on Amtrak to contract-out its food and beverage service. Amtrak finally agreed to contract-out its catering service. As we will learn today, this contract was not a success.

However, we in the Congress may not be the best persons to give advice on how to provide food and beverage service. Our own cafeterias and dining rooms have had serious financial problems over the years. We have shifted from running them ourselves to using outside contractors, and we have adopted varying policies on whether our food service should be subsidized, and when the facilities should be open. Before we give more directives to Amtrak, we should be sure our own house is in order.

I also believe that we need to keep the issues we are considering today in perspective. Amtrak's food and beverage expenses are not a major cause of Amtrak's financial difficulties. They represent about 5 percent of the railroad's total expenditures. As I have indicated, it may make sense for Amtrak to incur some losses on food and beverage service to attract more passengers.

Additionally, while there may be ways for Amtrak to improve the efficiency of its food and beverage service, Amtrak's costs for providing this service are not out-of-line with those of the airlines. In recent years, Amtrak's per passenger cost for food has been a little over $6. In 2004, United Airlines spent $6.56 per passenger on food and beverage, while American Airlines spent $6.24 per passenger.

Finally, Mr. Chairman, I believe that under Mr. Gunn's leadership Amtrak is always looking for ways to improve its bottom line. I hope that today's proceedings will help Amtrak achieve a better financial result from its food and beverage service.

Thank you. I look forward to hearing from our witnesses.

June 6, 2005

Steven C. LaTourette, Chairman
Subcommittee on Railroads
Transportation and Infrastructure Committee
U.S. House of Representatives

Dear Mr. LaTourette and members of the Subcommittee on Railroads:

Thank you for inviting me to testify before the Subcommittee on Railroads June 9th, 2005 hearing on "Amtrak Food and Beverage Operations." I will be prepared to present a summary of my experience aboard Amtrak on December 29th and 30th, 2004 where food service was not available for 18.5 hours.

The cause was a power failure throughout the train that resulted in no food service, no heat, and no restroom facilities. With mishandling and irresponsible decisions, the situation escalated to where passengers' health and safety were in jeopardy.

I am enclosing my letter to the National Railroad Passenger Corporation (Amtrak) dated January 6, 2005 with the details of my experience to support my testimony at the hearing.

Sincerely,

Gary B. Preston
Enclosure

Amtrak Complaint Reference No. 1082791
Filed on 12/30/04 ~5:20 a.m. PST (8:20 a.m. EST)
Filed by Gary and Karen Preston

We were passengers on Train 11, Coach Car 15 on December 29, 2004 from Seattle, Washington to Sacramento, California. From the very start this trip was a series of increasingly serious mistakes that ultimately placed the passengers' health and safety in jeopardy. This whole fiasco was based on poor decisions and callous behaviors, not "acts of God", and it could have been prevented.

Train 11 did not even make it to Seattle on December 28th. At 10:00 AM on the 29th, Seattle passengers were bussed to Portland to board the train. We boarded the train after 2:00 PM. Right away, this put meal service behind schedule on the train, as lunch was not made available until after the train left Portland, around 2:30 PM. At that time it was also announced that dinner service would begin late with seating going through 9:00 PM. Then, beginning with our first stop, the cars lost electrical power whenever the train came to a stop. The snack car attendant announced this several times over the PA to explain that he could not run the cash register or heat food unless the train was moving. So from the very beginning, it was known that there were electrical problems that would interfere with service to passengers. Was this even known prior to leaving the Portland station?

When the train reached Chemult, Oregon the power went out as usual when we stopped, but this time it did not restart. This was about 8:30 PM. After some delay, it was announced that the train would continue to Klamath Falls, Oregon where repairs could be done. As it turned out, this arrival in Chemult marked the end of all heat, food service, onboard toilet facilities, and the PA system in some cars, including our car #15, was not working. Shortly after 9:00 PM the dining staff announced that the dining service was ended and that the 9:00 dinner reservations were cancelled. Since the snack bar was also closed, this left no food option. Some passengers went to the dining car and were directed to speak with the supervisor. A diabetic was finally given a salad and rolls, but other passengers were told that unless they had a medical condition, they could not get anything. A man asked to have just a plain piece of bread and was told no. Is it Amtrak's policy that a group of passengers can be told to go hungry and nothing will be available? Is the dining car staff trained to know who can go hungry? Or was it just a callous, miserly dining car supervisor?

When we reached Klamath Falls, no information was given about whether we could get off the train, go into the station to use toilets, or how long we would be there. Finally someone in our car (#15) forced the outside door open and found an Amtrak staff person outside. The Amtrak person acted irritated that we were asking questions. When he finally understood that we just wanted to know if we could get off to use the toilet, he calmed down and said yes. We also told him that not all cars could hear the announcements and we needed someone to come to car #15 to talk to us. For the rest of the night, whenever a passenger needed to use the toilet, it meant walking through the cold snowing weather into the station. And each time the outside door opened for this, it meant another icy blast of air into the train car.

Around midnight, most people in car 15 were trying to get some rest. Since there was not any heat, and had not been any heat since the 8:30 PM power failure, the coach cars were

cold. No one was providing anything to keep passengers warm. Going into the station was not an option because it was small and full of people who still wanted to board the train. Many passengers did not have warm clothing, and there were no blankets.

Around 4:00 AM we noted that no one had been in to our car to give us any information. At 4:00 AM someone in our car telephoned Amtrak to see what was happening and ask to have a conductor come to our car. The Amtrak person on the phone said that the Red Cross was coming and that buses would arrive between 6:00 and 7:00 AM to take us onward. A little later a conductor finally came to our car and gave us the same information, adding that we would go to Sacramento via bus. His name was Brad, and he was the only onboard person who took time to give us any information.

The Red Cross arrived after 5:00 AM with blankets, hot drinks, and donuts. How could this happen that the situation has escalated so out-of-control that we are declared a disaster by the Red Cross?!?! By this time, we had been without heat for 8 ½ hours, in a snowy mountain town, through a night when it continued to snow, and without any nourishment or assistance to get warm.

There were 2 men working inside the Klamath Falls station. They reiterated that busses would arrive around 7:00. When asked about food, one said that arrangements were being made for the buses to stop en route to Sacramento and that we would receive a hot meal. Two buses arrived at 7:30 AM and left with some passengers. The remaining 8 buses trickled in and the final bus did not arrive until 10:30 AM. By now, it had been 14 hours without heat or food service. (A Red Cross donut does NOT count as real food.) We were also assured that our checked luggage would be put on the same buses and would arrive in Sacramento with us.

Once we finally got on a bus, we learned from our driver that the food stop would be near Redding, California. So add another 2 ½ to 3 hours before we could get food. How could we have been so unrealistic to think that Amtrak would arrange for food as soon as possible? When we got to the designated stop, which was past Redding, it was a roadside rest area that was shut down for construction and we could not even exit. Since we were the last bus, the previous buses must have already encountered this, but no one had bothered to telephone our driver. He called and learned that the stop had been moved almost 20 miles further down the road. By the time we finally found the stop, it was 3:00 PM, which was 18 ½ hours since food service stopped. And the promised hot meal? A cold sandwich and bottle of water.

We finally arrived in Sacramento at 5:00 PM. No surprise at this point, but 2 of our 3 checked bags were not with us. The Sacramento staff told us it was likely that they were not even taken off the train in Klamath Falls! We do not understand how a train that is shut down for 12 hours cannot be unloaded of baggage. It took 2 more days for us to finally get our bags, and we had to make a special trip to the station to pick up the last bag.

This whole experience has been a horrendous display of neglect of the welfare and safety of passengers. From bad equipment to irresponsible decisions, it went from bad to worse.

- In freezing conditions, there should be <u>immediate</u> provisions for protecting passengers, whether or not repairs can be made and regardless of how much time it

will take. It is not OK to let 400 people, including many small children, elderly, and disabled, sit in freezing weather for hours.

- It is not OK to deny nourishment to passengers for as long as 18 ½ hours. Actually, it is not OK to force passengers to skip even one meal. There is no reason that some kind of cold foods could not be provided. Why are there no provisions for alternate food when power is lost? Why couldn't someone have called ahead to Klamath Falls and arranged for prepared food or groceries to be delivered to the train? No one should have the authority to deny a group of passengers a basic necessity such as food.
- It is not OK to fail to have someone keep passengers informed of what is being done. We should not have to call the 800 number to find out our status.
- It is not OK to mislead or lie to passengers, telling us we will receive hot food and that our bags will be handled properly, when neither will occur.
- It is not OK to have the Red Cross bear the cost of providing some comfort to relieve Amtrak negligence. We do not like the idea that our donations to the Red Cross are used to subsidize Amtrak's failures.

How could all of this happen? Some passengers said we will be offered future travel or can get refunds. They know this because they have gotten these in the past. Is Amtrak so poorly equipped and so poorly serviced that this is simply normal operations? It seems to be common knowledge that long-distance passenger trains run late and have breakdowns. It is amazing that these kinds of problems are accepted as routine operations. It is appalling that there can be so many problems that can pile on top of each other to create such outrageous situations as what occurred on Train 11, and that no one seems to be able to intervene to stop the escalation until we end up being declared a Red Cross disaster. There were so many opportunities for Amtrak personnel to implement actions to provide for the safety and comfort of passengers, but we could see nothing being done.

- We want an explanation of how this happened.
- We want to know what will be done to prevent passenger abuse again.
- We want to know that Amtrak personnel will protect passengers when equipment breakdowns do occur.
- We want Amtrak to reimburse the Red Cross for all their costs in this event.
- We want to be refunded the cost of our trip.
- We want to know who is held accountable for this happening and what the consequences are.
- We have been told that we will receive a telephone call in response to this letter and our complaint in order to resolve this. There is no way that this can be "resolved" for us. There is no way to undo the cold and hunger and being treated poorly. We want a letter, not just a telephone call, that will address our issues.

We cannot imagine ever wanting to take a train trip on Amtrak again.

Gary and Karen Preston
Sacramento, CA

January 6, 2005

National Railroad Passenger Corporation
60 Massachusetts Avenue, NE
Washington, DC 20002

RE: Amtrak Complaint Reference No. 1082791

Dear Mr. David Gunn, President and CEO
Mr. David Laney, Chairman of the Board
The Honorable Norman Mineta, Secretary of Transportation
Mr. William Crosbie, Sr. Vice President Operations
Mr. Joseph McHugh, Vice President Government Affairs and Policy
Mr. Fred Weiderhold, Inspector General,

Because you are a member of the National Railroad Passenger Corporation Board of Directors and/or Executive Committee, we are sending you a copy of a letter to Amtrak Customer Relations. It is important for you to be aware of events that place Amtrak passengers in jeopardy, especially when those events are preventable. We hope that you will be able to implement changes so that future passenger's health and safety are better protected.

Respectfully,

Gary and Karen Preston

CC (via facsimile only):

Senate and House Committee Members for Transportation and Railroads

Senator John McCain	(202) 228-2862
Senator Barbara Boxer	(415) 956-6701
Representative Don Young	(202) 225-0425
Representative Jack Quinn	(202) 226-0347

Senate and House Members for California, 95821

Senator Dianne Feinstein	(202) 228-3954
Representative Daniel Lungren	(202) 226-1298

Statement of
Fred E. Weiderhold, Jr.
Inspector General, Amtrak
Before the
Subcommittee on Railroads
Committee on Transportation & Infrastructure
U. S. House of Representatives
June 9, 2005

Chairman LaTourette:

Good morning, Mr. Chairman. Thank you for your invitation to appear today to discuss Amtrak's Food and Beverage operations.

In Amtrak's *Strategic Reform Initiatives and FY06 Grant Request*, the company stated its desire to undertake closer examinations of its operations with an eye toward improving management controls and finding more efficient and effective ways to deliver rail passenger services. In this vein of seeking better 'ways to run a railroad,' the Amtrak OIG conducts reviews that we believe identifies opportunities for the company to improve its operating efficiency and financial performance.

This morning I would like to summarize for the Committee the results of a Food & Beverage Operation review my Office conducted last year. This review was undertaken for several reasons. First, while there have been some prior reviews of various aspects of food and beverage operations, neither the company nor my Office have conducted a complete, systematic review of these operations for some time. Food and beverage services are deemed integral to rail passenger service, and, indeed, the dining car experience is a high point for many passengers using long-distance and overnight services. Therefore, the management of these operations are critical to the overall success of Amtrak.

Second, my Office and Amtrak management have been involved in a number of investigations of food and beverage workers for the past three years. In an eighteen month period alone, 135 employees were dismissed, resigned, or were disqualified for improper cash handling. These investigations were prompted after a break-down in internal controls arising from difficulties in the outsourcing of commissary operations and a failed implementation of a new "point-of-sale" system. When Amtrak President David Gunn arrived at Amtrak, he asked me why our café Attendants did not use cash registers and instead "worked out of cardboard boxes." Mr. Gunn immediately directed that cash registers, with receipts, be installed and that internal controls be re-established. These efforts have been partly successful, but weak controls remain.

Third, our review was undertaken because my Office and Amtrak needed to better understand the true carrying costs for the service. Food and beverage operations represent almost $200 million in annual expenses to the corporation. The OIG is convinced there are real opportunities for the company to streamline these services by

using new acquisition and delivery business models and by using better revenue and customer metrics.

To acquaint the Committee with Amtrak's food and beverage operations, here is some background information:

- Amtrak offers food and beverage service on approximately 90 percent of the 300 trains it operates daily over the national rail transportation system.
- There is a wide range in the type of food and beverage service offered on Amtrak trains, but it can be generally categorized into either first class or coach service offered on either long distance or short distance trains.
- The long distance trains provide first class service from dining cars and coach service from lounge cars, while short distance trains provide first class service from club cars and coach service from café cars. The café service is typically provided by a single on-board service employee and offers a variety of carry out beverages, snacks, and sandwiches.
- The full sit-down dining service is typically provided by a dining car staff that includes a chef, one or two food service specialists, an LSA (lead service attendant), and two to four service attendants.
- Amtrak employs almost 1,500 persons on-board its trains to deliver food and beverage service, with total expenses approaching $200 million.

When the OIG began its review last year, we used as our baseline Amtrak's FY 2003 financial performance data. Amtrak's FY 04 performance is very similar.

Amtrak's FY 03 Food and Beverage Financial Performance (000's)

Revenue		
Cash	$ 44,599	
1ST Class Transfer	33,732	
Total Food & Bev. Revenue		$ 78,331
Direct Expenses (Excludes equipment related and overhead expenses)		
Labor	$ 87,245	
Food & Beverage	36,129	
Commissary Support	29,371	
Non-consumables[1]	9,359	
Total Direct Expenses		$ 162,104
Net Direct Operating Loss		($ 83,773)

[1] Non-consumable expenses include linen, laundry, paper products, flatware, cookware, etc.

Our review quantified the FY 03 financial performance of Amtrak's food and beverage operation on a system-wide level, a route level, and a service level (i.e. café, diner, club, lounge). The revenues include both cash sales and the retail value of food and beverage service provided to sleeping car and club car passengers (1st class transfer.) The expenses include all related on-board labor expenses, the cost of food and beverage supplies, the cost of non-consumable supplies, and commissary expenses (i.e. warehousing, pulling stock, delivering stock). These results do not include any equipment related expenses (i.e. rolling stock servicing, maintenance, and ownership expenses) or any other support and overhead expenses that are related to the food and beverage operation.

The OIG review then used the FY 03 financial performance of Amtrak's food and beverage operation and compared it to the financial performance of comparable restaurants in the United States. FY 03 data was used for this review since 2003 was the most current financial data that was available for the U.S. restaurant industry.

Amtrak versus U.S. Restaurant performance

To attain a perspective of how Amtrak's food and beverage operation compares to other food service operations, Amtrak's financial performance was compared to the financial performance of comparable restaurants in the U.S. Restaurant Industry. It is recognized that there are some significant institutional differences between Amtrak and the U.S. Restaurant Industry that compromises an exact apples to apples comparison of the operations. For example:

- Amtrak employees are 100% unionized while most U.S. restaurant employees are not.
- Amtrak employees are full-time while most U.S. restaurant employees are not.
- Many Amtrak employees are away from home for days at a time while U.S. restaurant employees typically are not.
- Amtrak stocks its food service cars prior to a trip and then removes the food from the cars at the end of each trip while U.S. restaurants do not.
- Amtrak uses on-site commissary facilities to store and assemble food and beverage stock while U.S. restaurants normally do not.
- U.S. restaurants typically have on-site management personnel while Amtrak does not.
- Amtrak has a captive market and limited competition while most U.S. restaurants do not.

However, recognizing these differences, the comparisons have been made to determine where and how the financial performances differ to help Amtrak focus its efforts on the areas most critical to improving its financial performance.

The information on the financial performance of U.S. restaurants is obtained from the Restaurant Operations Report 2003. To insure that Amtrak's performance is being compared as fairly as possible to the appropriate type of U.S. restaurants, the following categories of restaurants were chosen.

- Amtrak was compared to the U.S. restaurants with median performance levels.
- Amtrak dining and club service is compared to full service restaurants whose average check per person was between $15 to $25.
- Amtrak lounge and café services are compared to limited service restaurants (i.e. deli type), with an average check per person of $7.

OIG Review Findings

The financial performance of Amtrak's food and beverage operation is significantly worse than that of the U.S. restaurant industry.

In our full report, we find that all of the varying types of food and beverage operations on all Amtrak routes lose money. The food and beverage service provided in café cars, lounge cars, club cars, and dining cars all lose money. Relatively, café cars perform better than club cars, and lounge cars perform better than dining cars. However, Amtrak's Acela service loses more money in these operations than other short-distance services.

The attached bar graph, *Comparison of Total Costs,* illustrates and compares Amtrak's food and beverage cost to revenue ratio to that of the U.S. restaurant industry.

This graph illustrates the fact that for every $1.00 in food and beverage sales, Amtrak incurred $2.06 in direct operating expenses. In comparison, the median full service restaurant incurred $0.70 in direct operating expenses for every $1.00 in sales and the limited service restaurant incurred $0.67 in direct operating expenses for every $1.00 in sales. These cost ratios do not include any expenses relating toward owning and maintaining the food service facilities.

This graph also illustrates the fact that, on the average, Amtrak pays about 3.5 times the amount paid by comparable U.S. restaurants for labor and about 2.5 times the amount they pay to purchase and deliver the food and beverage stock for the operations. It should be noted that Amtrak must pay for both the cost of the food and beverage supplies and the commissary operations to get its stock on and off its trains.

On average, Amtrak spends approximately three times as much in direct operating expenses as comparable U.S. Restaurants to generate every $1.00 in sales.

Costs of Labor

Amtrak food service employees are paid approximately 3½ times the amount paid to the equivalent U.S. restaurant employee. This comparison is based on full time equivalent positions as defined by the U.S. Restaurant Association. To insure consistency of data, this analysis defines a full time equivalent employee as 35 hours per week to conform to the standard used by the U.S. Restaurant Association.

Since labor is the most significant cost element of Amtrak's food and beverage operation, the OIG examined three performance ratios to help examine the relative labor costs:

- Labor expense as a % of total sales – how much is paid in labor to generate each $1 in sales.
- Labor cost per employee - how much each full time equivalent employee costs per year.
- Sales generated per employee - how much in sales is generated by each full time equivalent employee each year.

In the attached graph, *Annual Labor Cost for Full Time Equivalent Employee*, data shows that Amtrak food service workers are compensated more than $54,000, while comparably skilled food service workers are compensated $14,450 to $15,835.

Depending upon the type of food service offered, it costs Amtrak anywhere from 2 to 4.5 times the amount paid in labor by the U.S. restaurant industry to generate each $1.00 in sales. It costs comparable U.S. restaurants approximately $0.33 in labor to generate $1.00 in food and beverage sales while it costs Amtrak anywhere from $0.64 to $1.51 in labor to generate each $1.00 in food and beverage sales.

The relative revenue generating performance of Amtrak's employees is compared to the equivalent U.S. Restaurant employee in attached graph, *Annual Revenue for Full Time Equivalent Employee*. This graph illustrates that, compared to the equivalent U.S. restaurant employee, Amtrak employees working in dining car service generate less in revenue but those working in Acela Club service generate more. This graph also illustrates the fact that Amtrak employees working in the four different types of coach food service generate significantly more per year than the equivalent U.S. restaurant employee. The bottom line is that Amtrak's poor labor expense to sales ratio is primarily caused by its high cost per full time equivalent employee.

In summary, although Amtrak's cost of labor is comparably very high, Amtrak food service employees generate approximately the same in revenue each year as the equivalent U.S. restaurant employee.

Costs of Food

Amtrak pays about 2½ times the amount paid by comparable U.S. restaurants to supply food and beverage to its operations.

Amtrak pays from 2 to 4.3 times the amount paid by comparable U.S. restaurants to stock its food service facilities with food and beverage stock. Comparable U.S. restaurants pay approximately $0.31 for food and beverage stock for every $1.00 for sales while Amtrak pays from $0.64 to $1.30 for food and beverage stock for every $1.00 in sales. System-wide, Amtrak pays $0.83 to supply its trains with food and beverage stock for every $1.00 in sales. As previously stated, Amtrak's cost to supply its trains with food and beverage stock includes the cost of its commissary operation, which entails purchasing stock in bulk, storing it at Amtrak facilities, assembling individual stock orders, and delivering the stock to the trains.

Other Costs

Amtrak pays about twice as much, on average, for non-consumable stock as a comparable US restaurant.

In addition to food and beverage stock, food operations also use non-consumable items such as napkins, utensils, linen, laundry, paper products, cookware, and china. Depending upon the route and type of service, Amtrak pays from ½ to 3 times the amount paid by comparable U.S. restaurants for these non-consumable stock items. Amtrak's non-consumable expenses range from $0.03 per sales dollar for its Regional Café service to $0.18 per sales dollar for its Long Distance Diner Service. Amtrak-wide, non-consumable expenses are approximately $0.12 per sales dollar, as compared to the approximately $0.06 per sales dollar for comparable U.S. restaurants.

Opportunities for Improvement

When many of the major airlines experienced financial difficulties several years ago, those carriers abandoned or seriously curtailed food service operations. Amtrak cannot and should not eliminate all food services on many of its trains, it is a necessary component of passenger rail services; however, Amtrak's should consider radically revamping its current business model.

Compared to the U.S. Restaurant Industry, Amtrak spends a staggering amount for labor and for food and beverage supplies to generate each dollar in sales. Since the productivity of Amtrak's on-board employee and service facilities are generally in line with those of the industry, the following areas offer Amtrak the greatest opportunity to improve the performance of its food and beverage operation.

1. Amtrak would improve the bottom line financial performance of its food and beverage service by $52.5 million if it could operate at the restaurant industry average labor cost to sales ratio.

2. Amtrak would improve the bottom line financial performance of its food and beverage service by $41.2 million if it could operate at the restaurant industry average food and beverage cost to sales ratio.

3. Although the dollar value is not as large, Amtrak also spends a much higher percentage than the U.S. Restaurant Industry for non-consumable supplies to generate each dollar in sales. Amtrak would improve the bottom line financial performance of its food and beverage business by another $4.7 million if it could supply its operations with non-consumable supplies (i.e. cost of non-consumable stock to sales ratio) as efficiently as the U.S. Restaurant Industry.

The total financial benefit that Amtrak would accrue if it could operate its existing food and beverage operation at the U.S. Restaurant Industry expense to sales ratios is almost $100 million annually.

Recommendations

Since receiving the OIG report, Amtrak began immediately to act on the OIG recommendations to improve its food and beverage financial performance. These efforts include piloting elimination of food service on a short-distance route; replacing more costly full service diners with modified lounge service; reducing staffing on Amtrak's Acela Club service; and reviewing options for other staff and equipment consolidations and reductions.

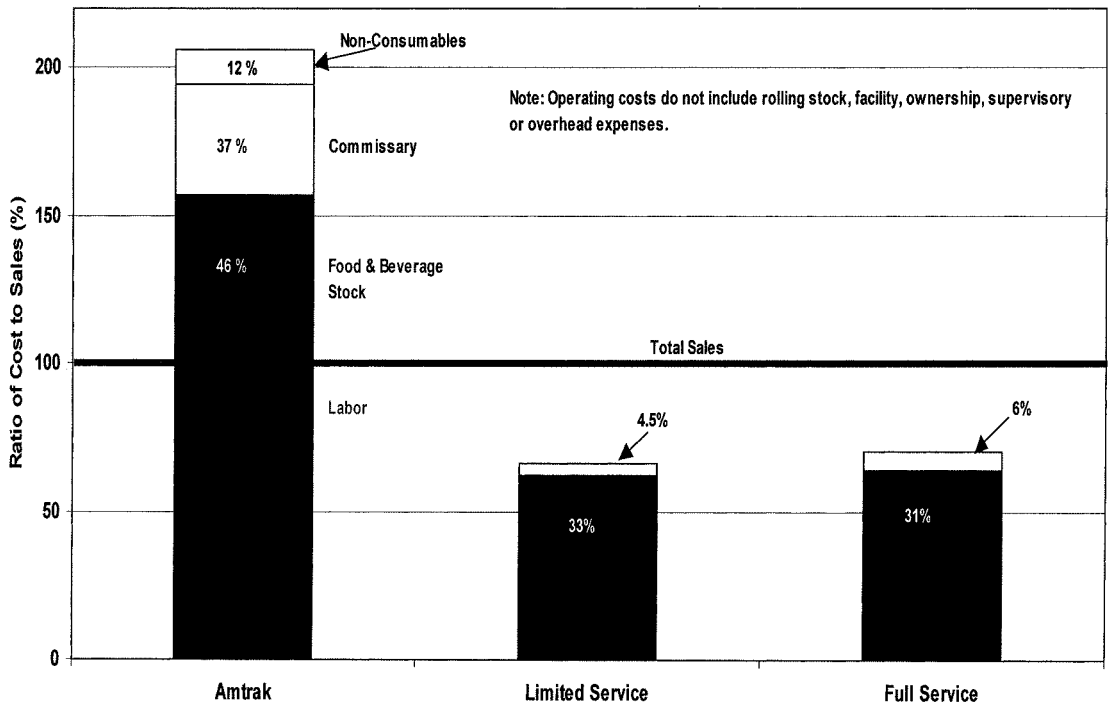
The OIG believes that, collectively, these service changes by management will help the bottom line, but we encourage the company to examine the possibility for more changes. These examinations should include:

- Replacing the existing "commissary" model with a more "just in time" operating model to deliver food stock to the train, especially for corridor operations;
- Re-negotiating its primary food services commissary contract to address the significant carrying costs of these facilities;
- Replacing more costly Amtrak food service on some routes with private contractors and vendors who may have different service offerings and entrepreneurial approaches;
- Engaging state service partners to attract creative, 'home grown' service providers to state-supported trains; and,
- Finding ways to further differentiate Amtrak's services from its competition to attract and hold a larger ridership base.

The OIG recognizes that making substantive changes to the current food and beverage business service model will be difficult, and there will be resistance to changing the status quo. We expect there will be multiple solutions and approaches that will be used to improve food services, most likely involving some service curtailments, new vendors, and new services. With sufficient effort, we are convinced Amtrak's financial performance in this critical service area will be significantly improved.

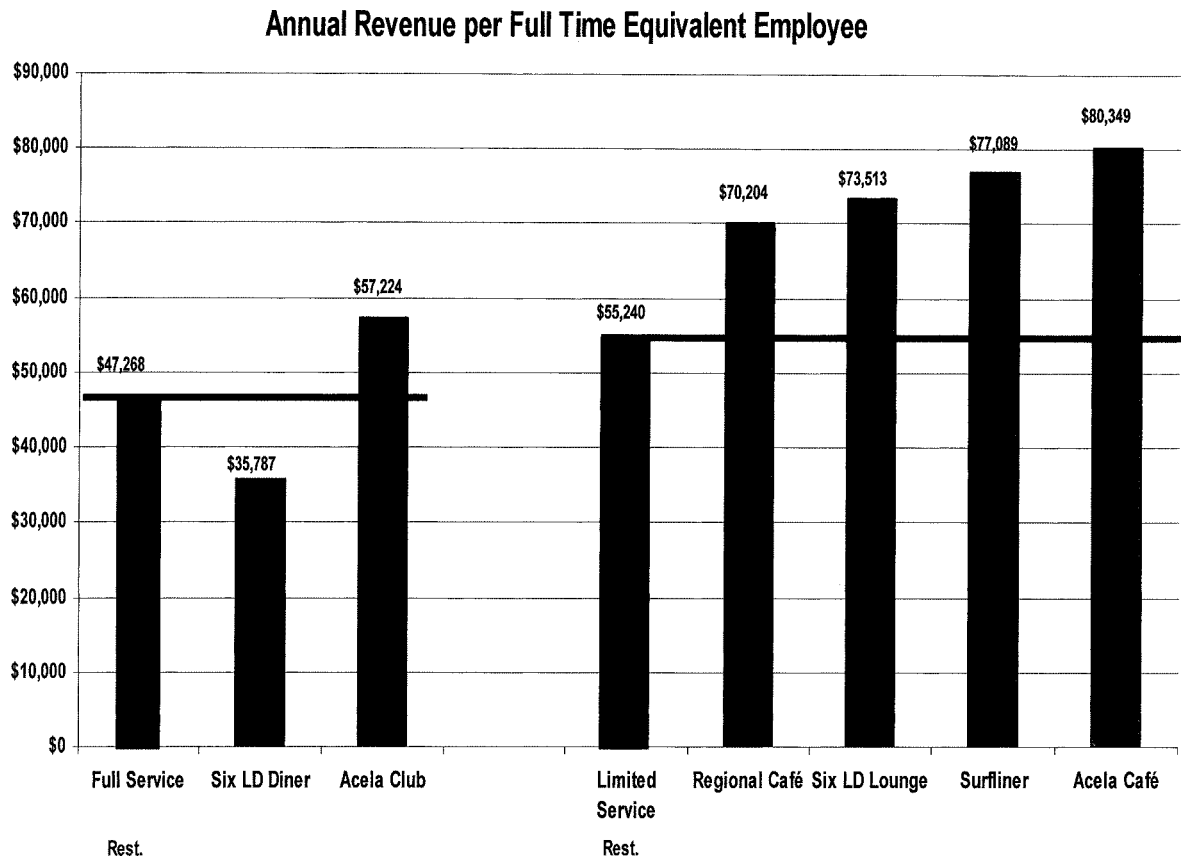
Comparison of Total Cost - Amtrak to U.S. Restaurants

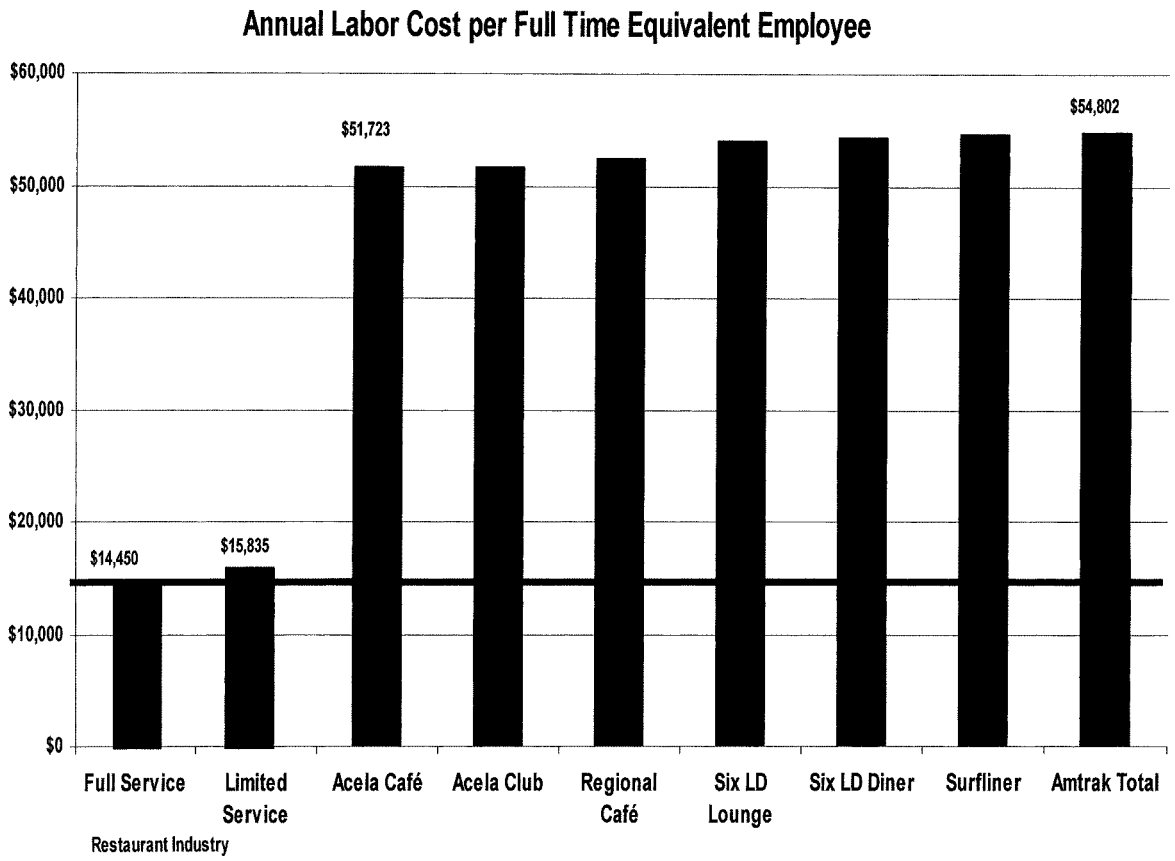
JFS 3-2-05



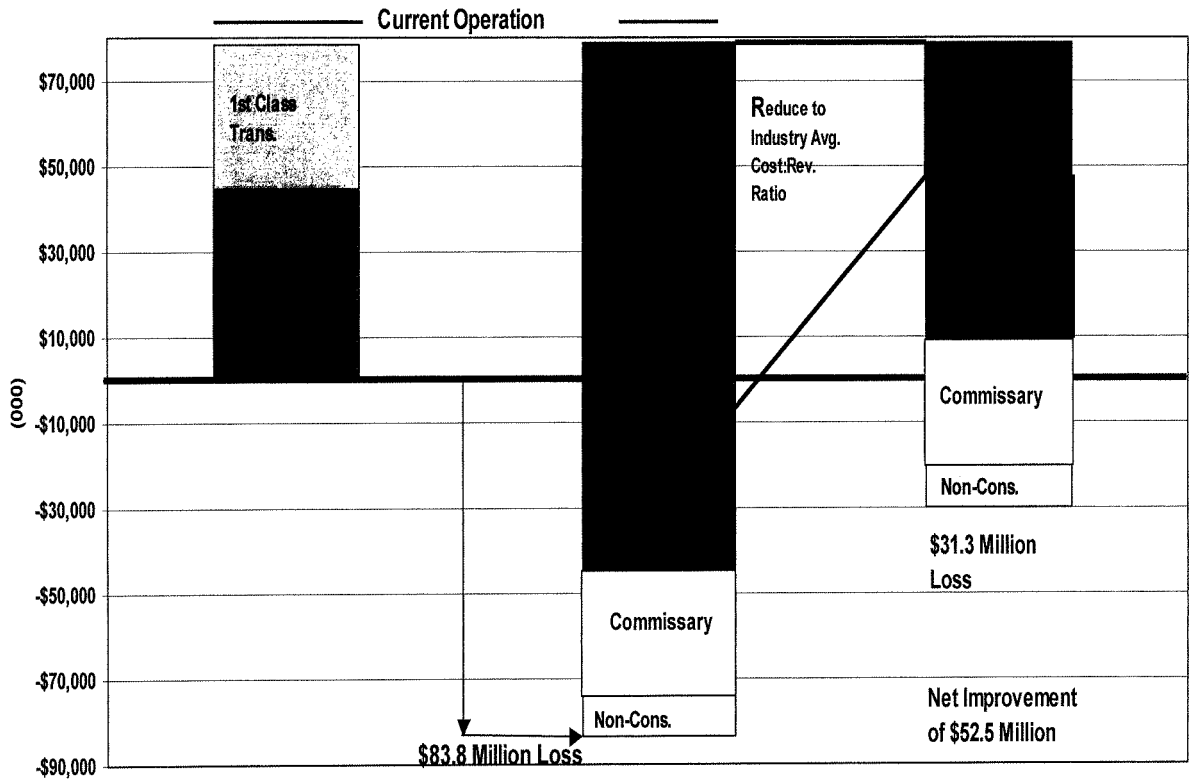
Note: Operating costs do not include rolling stock, facility, ownership, supervisory or overhead expenses.

As reported by the National Restaurant Association for the median performance of limited and full service restaurants during 2003.

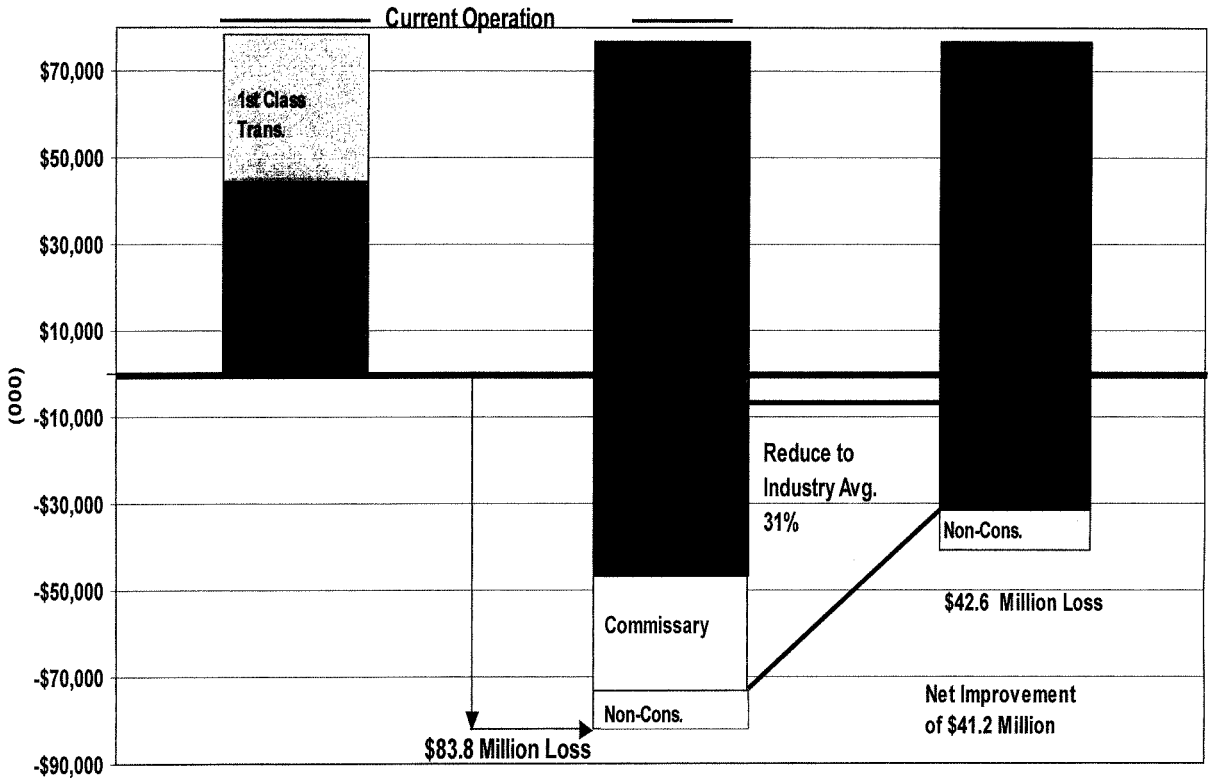

Annual Revenue per Full Time Equivalent Employee
$90,000
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
$47,268
$35,787
$57,224
$55,240
$70,204
$73,513
$77,089
$80,349
Full Service Rest.
Six LD Diner
Acela Club
Limited Service Rest.
Regional Café
Six LD Lounge
Surfliner
Acela Café


Annual Labor Cost per Full Time Equivalent Employee
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
$14,450
$15,835
$51,723
$54,802
Full Service
Limited Service
Acela Café
Acela Club
Regional Café
Six LD Lounge
Six LD Diner
Surfliner
Amtrak Total
Restaurant Industry

Opportunities for Improvement - Labor



Opportunities for Improvement - F & B Supplies



STATEMENT OF HONORABLE DON YOUNG
RAIL SUBCOMMITTEE HEARING:
AMTRAK FOOD AND BEVERAGE SERVICE
JUNE 9, 2005

THANK YOU, CHAIRMAN LATOURETTE. I APPRECIATE YOUR HOLDING THIS HEARING.

THE SUBJECT OF THIS HEARING IS THE MASSIVE FINANCIAL LOSS INCURRED BY AMTRAK'S DINING AND SNACK CAR OPERATION. THE INFORMATION FILED TODAY BY THE AMTRAK INSPECTOR GENERAL AND GOVERNMENT ACCOUNTABILITY OFFICE CAME AS A GREAT SURPRISE TO ME.

IT IS UNIMAGINABLE THAT ANY BAR OR RESTAURANT COULD LOSE MONEY SELLING BURGERS, CHIPS AND BEER, PARTICULARLY TO A "CAPTIVE" CLIENTELE. BUT ACCORDING TO GAO, AMTRAK'S DINING CARS LOSE TWO DOLLARS FOR EVERY DOLLAR THEY COLLECT.

AND IT GETS WORSE. FROM 2002 THROUGH 2004, AMTRAK LOST $245 MILLION ON FOOD AND BEVERAGE SRVICE. THIS MONEY DID NOT GO TO PROVIDE FOOD FOR THE STARVING, OR EVEN COACH PASSENGERS OF MODEST MEANS. NO, IT WENT TO PROVIDE SUBSIDIZED MEALS AND LIQUOR TO PASSENGERS TRAVELING IN FIRST CLASS.

NOT LONG AGO, THIS COMMITTEE PASSED A THREE-YEAR REAUTHORIZATION FOR AMTRAK AT A FUNDING LEVEL OF $2 BILLION PER YEAR. AS I MENTIONED IN MY REMARKS FOR OUR PREVIOUS HEARING, MY PHILOSOPHY TOWARD AMTRAK HAS BEEN, "MEND IT, DON'T END IT."

UNFORTUNATELY, AMTRAK'S WASTEFUL SPENDING AND DEFICIENT MANAGEMENT PRACTICES MAKE IT HARD TO JUSTIFY GIVING IT MORE MONEY. I AM CALLING ON THE AMTRAK BOARD TO STOP SUBSIDIZING THE SALE OF LIQUOR, BEER AND WINE ON AMTRAK.

I AM ALSO CALLING UPON THE DEPARTMENT OF TRANSPORTATION TO ENSURE THAT AMTRAK COMPLIES WITH THE FEDERAL LAW PROHIBITING MONEY-LOSING FOOD AND BEVERAGE SERVICE.

THANK YOU, MR. CHAIRMAN.

○