Amtrak State Partnerships
PRIIA Section 209 Pricing Discussion

National Meeting

August 17, 2010
Today’s Discussion

• Review of Situation to Date
  • Review and Discussion of State Reactions and Concerns
  • Summary of Presentation to Amtrak Board of Directors
  • Next Steps
## Schedule of Meetings with State Partners

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Attendees</th>
<th>Status</th>
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<tr>
<td>National Meeting</td>
<td>13 current/potential State partners, FRA, AASHTO, States for Passenger Rail</td>
<td>Complete – Chicago, IL April 20-21</td>
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<tr>
<td>New England Regional Meeting</td>
<td>MA, NH, ME, RI, VT, FRA, NH Rail Transit Authority</td>
<td>Complete – Portsmouth, NH May 10-11</td>
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<td>Pacific NW Regional Meeting</td>
<td>OR, WA</td>
<td>Complete – Portland, OR May 26-27</td>
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<tr>
<td>California Regional Meeting</td>
<td>CA (CalTrans, CCJPA)</td>
<td>Complete – Sacramento, CA June 2-3</td>
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<tr>
<td>Midwest Regional Meeting</td>
<td>IL, MI, MO, OK, TX, WI</td>
<td>Complete – Chicago, IL June 9-10 (WI June 24)</td>
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<tr>
<td>Southeast Regional Meeting #1</td>
<td>NC, SC, VA</td>
<td>Complete – Raleigh, NC June 22</td>
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<tr>
<td>Southeast Regional Meeting #2</td>
<td>GA, LA, MS (AL, FL invited)</td>
<td>Complete – New Orleans, LA July 14 (Intercity Passenger Rail Transportation Summit)</td>
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<tr>
<td>Mid-Atlantic/NE Meetings</td>
<td>NY, PA</td>
<td>Complete – July 19-20</td>
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<td>CT</td>
<td>Complete – August 10</td>
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Summary of Regional Meetings

• In most cases, meetings identified minor APT adjustments for routes

• Amtrak Policy & Development and Finance have made many of these adjustments
  – In many cases, still need to provide States with updated numbers

• Some significant issues
  – Sharing maintenance of equipment costs between corridor and long distance service at some major terminals
    - Reviewing direct codings and allocations
  – Refining allocations between Amtrak and commuter services
Amtrak Board of Directors Meeting, July 29

• Historical background on Amtrak State-supported services

• Reviewed text of PRIIA Section 209

• Identified affected routes

• Discussed policy goals & options

• Recommended revised policy – e-mailed August 5
  – We will cover revised policy later in today’s agenda
Conference Call, August 12

• Participants
  – Frank Busalacchi, Secretary of WISDOT, States for Passenger Rail
  – Joe Boardman, CEO of Amtrak
  – Amtrak Policy & Development, AASHTO, other State representatives

• Request for Amtrak to join States in petitioning for an extension of October 16 deadline

• Amtrak declined to join States in request for extension
Amtrak believes we should continue Sec 209 process

• No provisions in Section 209 for extension

• Continue the collaboration effort between States and Amtrak in refining the APT results and exploring policy options
  – In cases where we are waiting for data, agree on principles and approach

• States and Amtrak communicate progress with Surface Transportation Board, keep STB informed of developments in process

• If deadline is missed, States and Amtrak can petition STB for all parties to work together to continue the Section 209 process
Today’s Discussion

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  • Review and Discussion of State Reactions and Concerns
    – See accompanying presentation

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• Next Steps
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Amtrak Board of Directors

• Mr. Joseph H. Boardman - Amtrak President and CEO

• Mr. Thomas C. Carper - Chairman of the Board

• Mr. Anthony R. Coscia

• Mr. Bert DiClemente

• The Honorable Ray LaHood - U.S. Secretary of Transportation

• Ms. Donna McLean - Vice Chairman of the Board

• Mr. Jeffrey R. Moreland

• Ms. Nancy A. Naples
General State Reactions and Concerns – Shared with Board

• Fiscal Constraints
  – Major shift of previous Federal responsibility to States—States assert this cannot be achieved in current economic climate

• Timing
  – State budget cycles are often 2 years out—existing policy amounts already included in some state budgets; implementation of new policy must recognize State budget cycles

• APT general
  – Developed with FRA/Volpe without input from States; some States want “seat at the table”
  – Too many national allocations (fuel, mechanical, overheads)—preference for geographic-specific allocations
  – For trains with Northeast Corridor and State segments, too many allocations across segments—some issues could be resolved through APT refinements
  – Needs a forward looking pricing tool

• APT – Capital Charge
  – Capital charge calculation and policy have not been fully developed – no basis to make informed decision

• Some routes showed unexpectedly unfavorable financial results under Policy A
Strategic Considerations for State Pricing

• Policy Goals – some inherent conflicts
  – Simplicity
    …but reflecting unique circumstances across routes
  – States must make some contribution to shared/allocated costs
    …but allocations can punish growth

• Challenges of pricing in a high fixed cost environment
  – All railroads have high fixed/shared costs relative to variable/avoidable costs
  – If service is reduced, fixed costs will be reallocated across remaining services
  – Worst case: “death spiral” as shared costs spread over less and less service
Board-Recommended Policy

• 100% of Direct Costs + 75% of Shared Costs – Passenger Related Revenue
  – Simplicity
    - Avoids “haggling” over Shared Costs, all of which play some role in supporting service
  – States charged more for costs they affect (Direct) and less for overhead allocations and shared resources (Shared)
    - 25% discount on Shared Costs reflects:
      - Many Shared Costs required for Federally-responsible Long Distance service
      - APT, like any financial system, will always have some “noise”
  – Calculation rewards States with higher farebox recovery
    - When Passenger Revenue exceeds Direct Costs, resulting Direct Contribution further reduces payment required for State portion of Shared Costs
Board Policy – Other Advantages

• Emphasizes Revenue and Direct Costs, which are more observable/controllable by States
  – States affect Revenue via ticket pricing policy, yield management
  – States affect Direct Costs via route selection, frequencies, consists, food service, route station amenities

• De-emphasizes Shared Costs, many of which are less observable/controllable allocations
  – Any cost allocation system will burden larger business lines with more allocations
    - In APT, general marketing expense allocated by train revenue
    - In APT, certain overheads allocated based on direct expense
  – Marginal cost of additional rider/frequency can be prohibitive as they result in additional allocations of fixed costs
  – Communicates Amtrak commitment to cost control – Amtrak cannot pass on all costs to customers

• As incremental State rail support dollars become available, creates incentives for investments in future service expansion, not covering today’s Shared Costs
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Capital Charge

- Currently in process of internal review
- Initial proposal to States, with justification by September 10
Process Through October 16

• States and Amtrak agree on a pathway to finalize agreement between now and October 16

• States provide written reaction to Board of Directors policy proposal, for further discussion

• State Secretaries of Transportation provide responses by October 16