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Amtrak State Partnerships  
PRIIA Section 209 Pricing Discussion

National Meeting

August 17, 2010

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# Today's Discussion

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- ➔ • 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

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

# Summary of Regional Meetings

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- 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

- 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*

- 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

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- 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

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- ➔ • Review and Discussion of State Reactions and Concerns
  - *See accompanying presentation*
- Summary of Presentation to Amtrak Board of Directors
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# Amtrak Board of Directors

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- 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

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- 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

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- 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

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- 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

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- 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

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



## Process Through October 16

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- 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