

---

# Initial Proposal for Implementing PRIIA Sec 209

John Bennett

AVP – Policy Management  
Policy & Development Department

Section 209 National Meeting, April 20-21  
Chicago, IL

---

- 
- ➔
- Review and Discuss Draft Policy
  - Define Major Cost Categories
  - Define State-Supported General & Administrative
  - Define State-Supported Capital Charge

# Draft Policy – General Conditions

---

## General Conditions

This document describes the “single, nationwide standardized methodology for **establishing** and **allocating** the operating and capital costs among the States and Amtrak” as described in PRIIA Section 209. This methodology applies to services provided by Amtrak over routes “of no more than 750 miles between endpoints,” as described in section 24102(5)(B). A list of applicable routes is in Appendix B and a complete recitation of Section 209 and related statutes is in Appendix C.

- Establishing costs
  - What is included / excluded?
- Allocating costs
  - How are shared / fixed costs assigned to different services?
- Routes <750 miles
  - Defined in statutes

# Draft Policy – Operating and Capital

---

This policy statement is defined in two sections:  
operating cost support and capital support through the  
mechanism of capital charges.

- Operating expenses
  - Currently available
  - System is being fine-tuned
- Capital charges
  - Under development
  - Will review route-specific numbers with individual states and/or at regional meetings

# Draft Policy – Establishment of Operating Costs

---

## **Establishment of Costs - Operating**

The following operating costs are established as the responsibility of the States, if applicable to the particular service:

- Direct Labor: Train & Engine and On-Board Services Labor including required support
- Other Direct Costs: Costs generally attributable to the operation of a specific train. May contain some shared components
- Shared Costs excluding General & Administrative: Costs shared among multiple trains, not generally attributable to specific train operations
- State Supported General & Administrative:  
Certain General & Administrative expenses charged to State partners

- See handouts for components of cost categories
- Note—many Other Direct Costs are shared but attributable to specific routes
- During these two days, begin discussing how to divide G&A between Amtrak and States

# Cost Categories

---

<b>Direct Costs (1)</b>		<b>Shared Costs (2)</b>	<b>Capital Costs (2)</b>
<b>Direct Labor</b>	<b>Other Direct</b>		
<ul style="list-style-type: none"> <li>• Train &amp; Engine Crew Labor</li> <li>• On Board Service Labor and Support</li> </ul>	<ul style="list-style-type: none"> <li>•Host RR Maintenance &amp; Incentives</li> <li>•Fuel and Power</li> <li>•Commissary</li> <li>•Car &amp; Loco Maintenance and Turnaround</li> <li>•Direct Advertising</li> <li>•Commissions</li> <li>•Reservations and Call Centers</li> <li>•Customer Concession (Passenger Inconvenience)</li> <li>•Connecting Motor Coach</li> <li>•Stations – Route</li> </ul>	<ul style="list-style-type: none"> <li>•Stations – Shared</li> <li>•MOE Supervision, Training and Overhead</li> <li>•MOW &amp; Support</li> <li>•Yard Operations</li> <li>•Marketing and Distribution</li> <li>•Police, Environmental, and Safety</li> <li>•T&amp;E Overhead and Operations Management</li> <li>•Utilities</li> <li>•General and Administrative – Amtrak &amp; States</li> </ul>	<ul style="list-style-type: none"> <li>•Rolling stock</li> <li>•Stations</li> <li>•Amtrak-owned ROW</li> <li>•Maintenance Facilities</li> <li>•Technology &amp; Systems</li> </ul>

1) Required charge under Sec. 209

2) Some amount to be charged under PRIIA Sec. 209

# Draft Policy – Operating

---

These expenses will be reduced by Passenger Related Revenue from the train. States will not be responsible for the remaining General & Administrative expense that is not a part of State Supported General & Administrative. The definitions of these costs are described in more depth in Appendix A..

- Operating expenses reduced by Passenger Related Revenue

# Draft Policy – Establishment of Capital Costs

---

## **Establishment of Costs - Capital**

To be developed

- As capital cost information becomes available, Amtrak and states will discuss
  - As with G&A, divide capital charge into Amtrak and State component

# Draft Policy – Optional Services and Pricing

---

## **Optional Services and Pricing**

In certain cases States may wish to independently contract with service providers as opposed to acquiring services through Amtrak. For example, States may contract directly with vendors such as Food Service Providers, Equipment Maintenance Providers, and others for the provision of components of their services. Working with independent service providers may have an impact on the level of service that Amtrak can provide for a State. In these cases, costs that are not incurred by Amtrak would not be included in cost estimates or service reimbursements.

- Amtrak can and does work in conjunction with other vendors
- Examples:
  - Downeaster provides own food service
  - Piedmont provides equipment and maintenance
- Note: Problems with other vendor performance and/or coordination may adversely affect a train's performance

# Draft Policy – Allocation of Costs

---

## **Allocation of Costs – Operating**

Many railroad costs—both those that are directly related to the services provided and those that are shared among services—are by their nature provided through jointly used crews, crew bases, support teams/facilities, maintenance facilities, stations, etc., so cost allocation methods and procedures are needed to fairly apportion these costs. The method that “allocates to each route the costs incurred only for the benefit of that route and a proportionate share, based upon factors that reasonably reflect relative use, of costs incurred for the common benefit of more than one route” shall be implemented using the Amtrak Performance Tracking (APT) system.

- Amtrak will use Amtrak Performance Tracking (APT) system to allocate costs

# Draft Policy – Allocation of Costs cont

---

In some cases, Amtrak may agree with States to use supplemental financial data to adjust the results of APT, including but not limited to local systems for measuring fuel consumption that are not available nationally. Pursuant to part (b) of Section 209, if changes to Amtrak’s financial systems result in a material change to the results of APT, Amtrak will work with its State partners to update this policy in a manner consistent with the intent of Section 209.

- In some cases, APT may be adjusted for a “better” answer
  - Example: Fuel
    - Some locomotives shared between multiple corridor and/or national services, fueled at multiple locations
    - APT uses national allocation for best “national” answer
    - For billing purposes, can be replaced with expenses from specific ResCens or fuel studies
- Constant improvements to Amtrak financial systems may affect APT

## **Forecasts of Funding Requirements for State Supported Contracts**

Amtrak develops five-year revenue and cost forecasts as part of its annual business planning process. For each State-Supported Route, Amtrak will forecast the results of APT for the contract period. For existing services that are not changing in the forecast period, Amtrak will rely on historical APT data together with out-year cost forecasts provided by Amtrak to predict the APT results. In cases where service levels (frequencies, schedule changes, etc.) are changing, Amtrak will forecast revenue and expense changes using ridership, revenue, and cost estimation models which are directly related to the expected changes in service levels.

- Amtrak will forecast results of APT to develop future prices
  - Simpler exercise for services without changes
  - More complicated for new or changing services

# Draft Policy – Operating Scenarios: Single State

---

## **Operating Scenarios**

State-Supported Routes are classified into three operating scenarios:

**Single State Corridor Trains.** Corridor trains that do not cross state lines and do not use the NEC “spine” (Boston-Washington)

- Single State Corridor Trains: simplest operating scenario
- One State partners with Amtrak

# Draft Policy – Operating Scenarios: Multi State

---

**Multi-State Corridor Trains.** For corridor trains that cross state lines but do not use the NEC “spine” (Boston-Washington), the states on the train route shall develop an equitable method for sharing the costs and revenues from the trains. Amtrak will provide the affected states with information to assist in reaching agreement.

- Multi-State Corridor Trains
- States agree how to share costs and revenues
  - Hiawatha: WI and IL
  - Cascades: WA and OR
  - Heartland Flyer: OK and TX

# Draft Policy – Operating Scenarios: Base-Increment

---

**Base-Increment NEC Corridor Trains (Single- and Multi-State)** For corridor trains having some part of their route traversing the NEC, Amtrak will be responsible for costs incurred on the NEC and the State(s) will be responsible for the costs incurred off the NEC. The NEC is defined as “the continuous Northeast Corridor railroad line between Boston, Massachusetts, and Washington, District of Columbia” in section 24102(5)(B).

*continued...*

- NEC is excluded from Sec 209 [need citation].
- NEC is defined as main line from Washington to Boston
  - Excludes other lines owned in part by Amtrak, such as PHL-HAR, NYP-ALB, NHV-SPG
- APT allows trains to be split into “legs” for allocation purposes
  - Amtrak responsible for NEC costs (base); States responsible for non-NEC costs (increment)

## Draft Policy – Operating Scenarios: Base-Increment cont

---

The following conditions apply to Base-Increment trains:

- For revenues from passengers traveling both on and off the NEC (Through Revenue), the State and Amtrak will split this revenue proportionate to its off- and on-NEC components.
- The Equipment Capital Charge will be split between the State and Amtrak reflecting service both on and off the NEC.
- Trains that travel through multiple States off the NEC shall develop a mutually agreeable method for sharing the costs and revenues of the trains.

- **Through Revenue: Revenue from passengers traveling on both legs of a base-increment train**
  - Some revenue attributable to State, some revenue attributable to NEC
- **Equipment Capital Charge allocated between service on and off NEC**
- **Trains traveling through multiple States must develop equitable method like non-NEC corridor trains.**

# Draft Policy – Allocation of Capital Costs

---

## **Allocation of Capital Costs**

Under development. Some States have made capital contributions to Amtrak in association with their services. In general, past capital contributions that are not fully depreciated are eligible to offset capital charges. State-specific discussions will be needed to identify these assets and determine the appropriate offsets.

- Capital charge under development
- If past capital contributions are still in service, eligible to offset capital charges
  - Examples: contributions to infrastructure improvements

# Draft Policy – Risk Sharing

---

## **Contractual Provisions**

**Risk Sharing.** States may choose a fixed-price service contract, or may choose to be billed actual expenses from Amtrak for mutually-agreed upon cost categories. For items that will be billed at a fixed price, Amtrak will add on an additional charge to reflect this increased risk associated with the uncertainty of costs in a dynamic operating environment. This charge will be expressed as a percentage of the estimated cost and will reflect the size and variability of operating experience, and will be subject to negotiation.

- Some States may want fixed-price contracts, some States may be open to more risk
- Carrying risk has value, and will be reflected in State contracts

## Draft Policy – Risk Sharing cont: Service Fee

---

All fixed-price items will comprise the Service Fee. To facilitate longer-term agreement and changes in future service levels, the Service Fee will be expressed as a rate using specific units of consumption such as Train Miles, Car Miles, or Seat Miles. This Service Fee may be adjusted for inflation in subsequent years and be used as the basis for a multi-year agreement. If there is any material change in service, Amtrak reserves the right to adjust the Service Fee.

- **Service Fee:**
  - Fixed-price cost categories provided by Amtrak
  - “\$XX per Train Mile”
  - Will vary between routes reflecting:
    - Efficiency of crew turns
    - Host RR incremental MOW
    - Station operation costs on route
    - Cost categories paid by States vs. Amtrak

# Draft Policy – Term of Agreements

---

**Term of Agreements.** Amtrak may provide discounts to States that enter into multi-year agreements.

- Longer term agreements generate savings for both parties

# Draft Policy – Payment Terms

---

**Payment Terms.** Amtrak will add a 5% Administrative Service Fee to the total estimate, and will waive this fee for States that pay within the terms of their agreement. In all cases, payment is due within 30 days of the invoice date, or as otherwise specified in specific State agreements. If payment is over 90 days late, Amtrak may at its discretion suspend some or all service until payment is made current.

- In fairness to all customers, Amtrak cannot provide loans to some

# Draft Policy – Transition

---

## **Transition from Prior Costing Methodologies**

PRIIA Sec. 209 calls for “equal treatment in the provision of like services” ... “within 5 years.” PRIIA was enacted October 16, 2008, which sets the deadline of October 16, 2013 for full enactment of the new pricing methodology.

*See handout for more detail...*

- FY2011: Historical methodology
- FY2012: Historical methodology +1/3 of difference to new methodology
- FY2013: Historical methodology +2/3 of difference to new methodology
- FY2014: New methodology

**Appendix A: Definition of Cost Categories Used in State-Supported Services**

**Appendix B: Routes Affected by PRIIA Sec 209**

**Appendix C: Relevant Legislation**

- 
- Review and Discuss Draft Policy
  - ➔ • Define Major Cost Categories
  - Define State-Supported General & Administrative
  - Define State-Supported Capital Charge

# Mapping APT to Direct and Shared Costs

---

- APT Families map to both Direct and Shared costs... see handout
- Example:

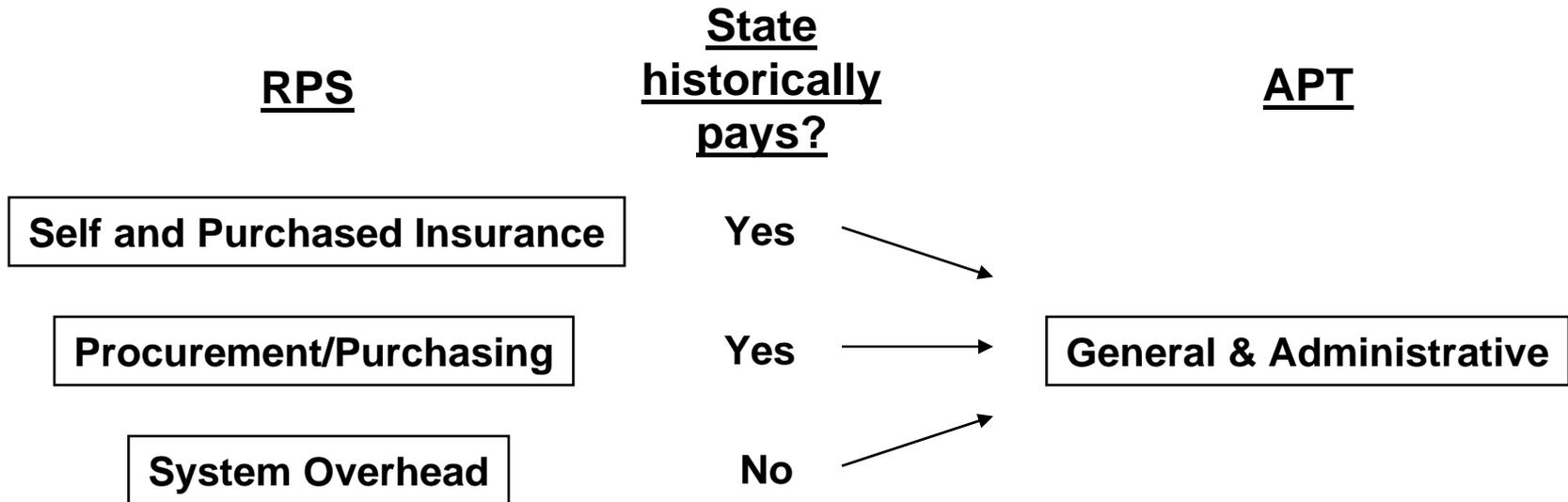
APT Family	APT Subfamily	Direct (Train) Labor	Other Direct Costs			Shared Costs
			Host RR MOW	Host RR Incentive	Fuel & Power	
FM_OPS_TRANS Ops- Transportation	FM_307 Host RR	-	X	X	X	-

- 
- Review and Discuss Draft Policy
  - Define Major Cost Categories
  - ➔ • Define State-Supported General & Administrative
  - Define State-Supported Capital Charge

## Comparison of RPS "System Overhead" to APT "General & Administrative"

---

- Under RPS, States charged Insurance & Procurement, not charged Amtrak System Overhead
- Under APT, Insurance & Procurement combined under General & Administrative



# Cost Components of APT General & Administrative

## APT General & Administrative Detail

			(\$000)					
			12 months March-09 to Feb-10					
Subfamily	Description (APT Methodology)	Cost Type	Nat'l Train Service	Long Distance Routes	NEC Spine	State Supported Routes	Insurance	
FM_601	Corporate Administration	Managerial and administrative functions that are properly considered corporatwide in scope. Includes president's salary, inspector general, similar costs that support the <i>overall</i> mission of the entire Amtrak enterprise rather than a subset of operations. (pg 190)	Fixed (pg 191)	\$132,853	\$46,475	\$50,150	\$36,228	✓
FM_602	Centralized Services	Services for other portions of the Amtrak enterprise that are properly considered corporatwide in scope. Includes computer services, payroll operations, human resources, employee services available corporatwide.	Fixed (pg 191)					
FM_602_0	Centralized Services - General			\$47,164	\$18,068	\$15,760	\$13,336	
FM_602_1	Centralized Services - Finance (Payables)			-	-	-	-	
FM_602_2	Centralized Services - Finance (Payroll)			\$3,896	\$1,447	\$1,544	\$905	
FM_602_3	Centralized Services - Finance (Receivables)			\$5,751	\$2,153	\$1,935	\$1,664	
FM_602_4	Centralized Services - Finance (Revenue)			-	-	-	-	
FM_602_5	Centralized Services - Real Estate			-	-	-	-	
FM_602_6	Centralized Services - Computer Systems			\$144,503	\$54,364	\$48,261	\$41,879	
FM_602_7	Centralized Services - Procurement and Purchasing (1)			\$6,962	\$2,610	\$2,337	\$2,015	
FM_602_8	Subsidiary			-	-	-	-	
FM_603	Qualified Mgmt	High-level managerial and supporting activities related to a subset of the total Amtrak enterprise. Because they do not support the entire operation, they are not considered corporatwide and their allocation needs to reflect this.	Fixed (pg 192)	\$30,474	\$9,064	\$10,437	\$10,974	
FM_604	Direct Customer (Non-NTS)	Functions that support only Commercial or Commuter customers. Exclusively outside the NTS.	Fixed (pg 192)	-	-	-	-	
FM_605	Subsidiary	CUS-Chicago Union Station; PRIL-Passenger Railroad Insurance Limited; PSL-Penn Station Leasing; WTC-Washington Terminal Company; TSL-30th Street Limited	Fixed and variable (pg 194)	\$19,195	\$7,017	\$2,016	\$10,162	✓
FM_G_A	General and Administrative			<u>\$376,740</u>	<u>\$135,419</u>	<u>\$128,595</u>	<u>\$112,726</u>	
	Memo: Insurance (Corporate Administration & PRIL)			\$44,722	\$19,708	\$12,061	\$12,953	

(1) Excluding credits for capital work that have been reclassified to MOE.

- 
- Review and Discuss Draft Policy
  - Define Major Cost Categories
  - Define State-Supported General & Administrative
  - ➔ • Define State-Supported Capital Charge

# Define State-Supported Capital Charge

---

- Finalize APT capital charge methodology
- Identify assets closely related to State services
  - Equipment, stations, other fixed assets
- Identify assets related to General & Administrative
  - Headquarters, etc.