History of Amtrak’s State-supported Service

Preview of Amtrak’s Strategic Initiatives

Discussion of Potential Impacts / Opportunities for State Pricing Policy

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# History of Amtrak's State-supported Service

- When established in 1971, Amtrak was required to operate a "basic system" of corridor and long distance routes, as designated by the USDOT.

- Amtrak's enabling legislation (Rail Passenger Service Act) provided for states to contract for additional service (Section 403(b)).

- The % of cost paid by state partners under Section 403(b) was amended by Congress six times between 1974 and 1986. The 1986 amendment required states to pay at least 45% of short term avoidable loss in Year 1, and 65% of short term avoidable loss in Year 2 – plus 50% of associated capital costs.

- From 1971 to 1995, Amtrak bore the majority of operating losses attributable to state-supported service, since states only paid a percentage of “avoidable costs.”

- In 1995, Amtrak began to significantly increase the portion of operating losses to be covered by state payments.

- Section 403(b) of the Rail Passenger Service Act was repealed in 1997, allowing Amtrak to set the terms of its relationship with state partners. However, until 2002 contributions varied widely since each of three business units set its own pricing policy.

- Since 2002, states have been transitioning to a consistent state contribution basis, set by Amtrak's Board at 100% of direct operating loss (which all states will have achieved by 2007). In general, direct operating loss equals about 75% of fully allocated loss.

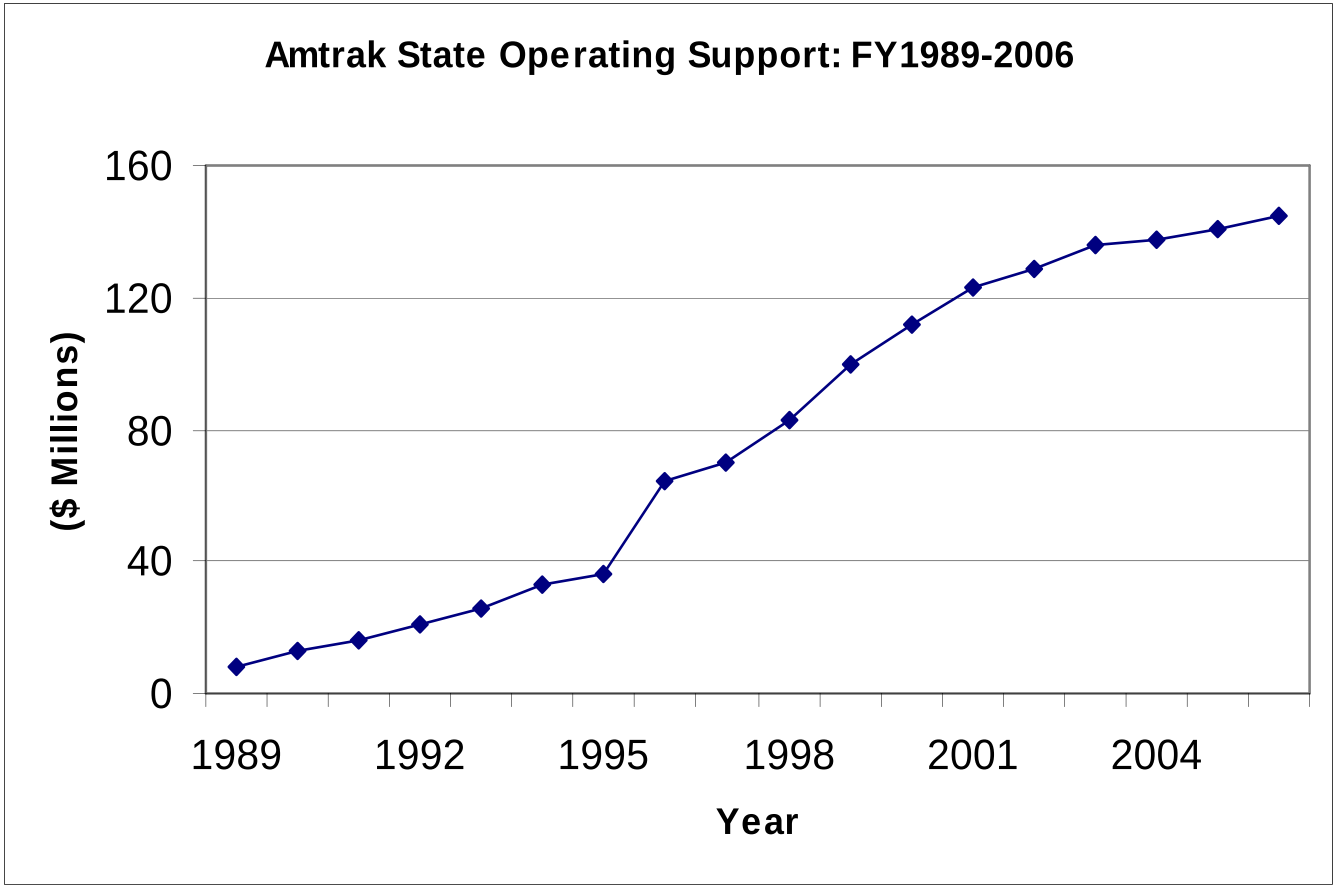
- State support payments have grown to approximately $145 Million (FY06), in addition to approximately $133 Million in farebox revenue retained by Amtrak.

- Today, Amtrak contracts with 13 states in support of 20 routes. In fact, state-supported services make up approximately 45 percent of Amtrak's average weekday departures.

# History of Amtrak's State-supported Service (cont'd)

State support payments have grown rapidly since 1995, totaling almost $145 M for FY06.

| Year | $ Millions |
|---|---|
| 1989 | 8 |
| 1990 | 13 |
| 1991 | 16 |
| 1992 | 21 |
| 1993 | 26 |
| 1994 | 33 |
| 1995 | 36 |
| 1996 | 64 |
| 1997 | 70 |
| 1998 | 83 |
| 1999 | 100 |
| 2000 | 112 |
| 2001 | 123 |
| 2002 | 129 |
| 2003 | 136 |
| 2004 | 137 |
| 2005 | 141 |
| 2006 | 145 |



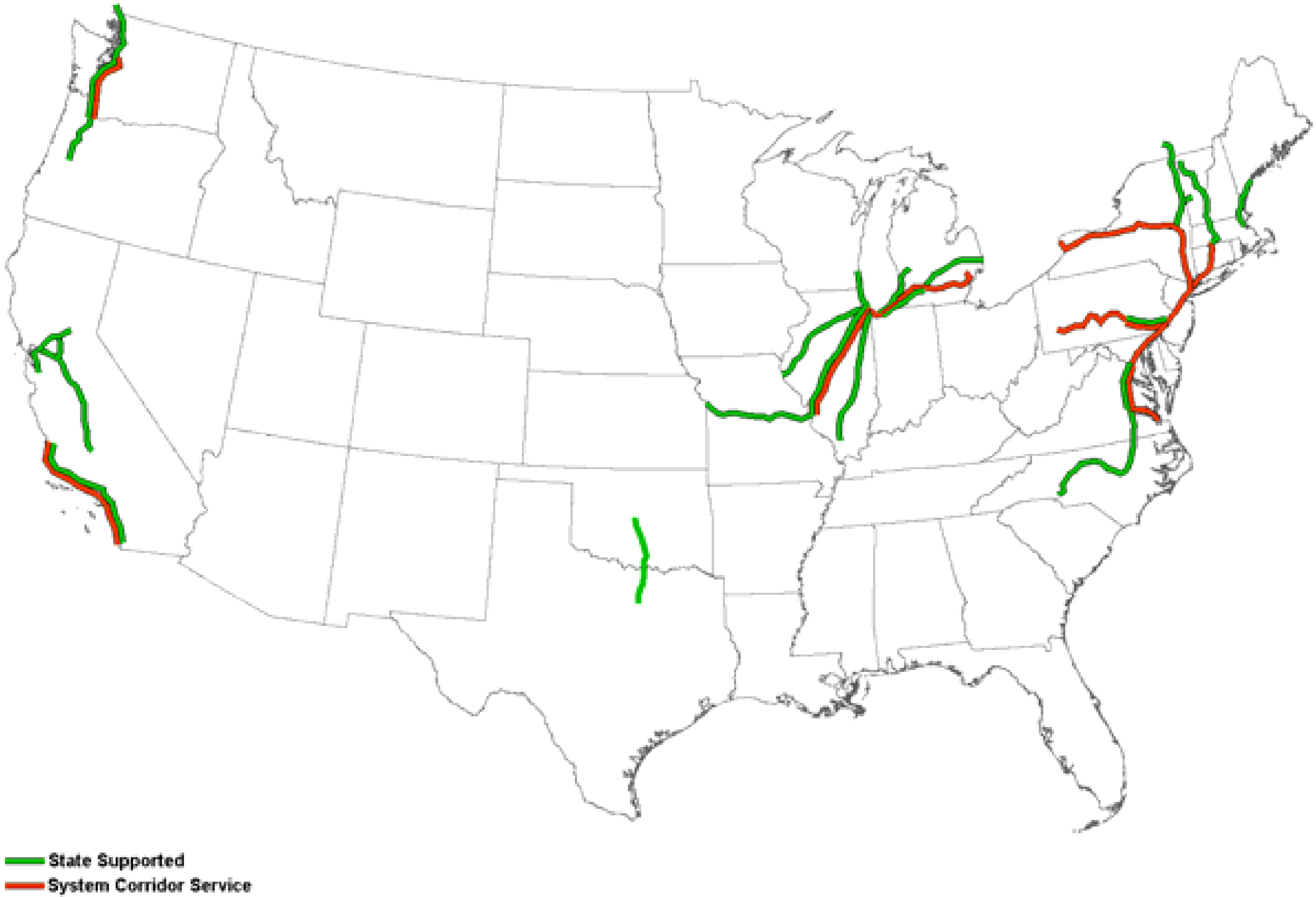
- In addition to state-supported trains, Amtrak also operates eight "system" corridor services that receive no state support.

- Most "system" corridor trains were designated as part of the "basic system" in 1971. States benefiting from these trains receive an implicit subsidy for their entire direct and indirect costs.

*System corridor trains*

| Service | System Corridor Trains (FY06) |
|---|---|
| New York/Albany/Buffalo/Niagara Falls | 12 RT (NYP to ALB)/3RT(NYP to NFL) |
| New Haven/Hartford/Springfield | 8 RT |
| Philadelphia/Harrisburg/Pittsburgh | 7 RT (PHL to HAR) 1 RT (PHL to PGH) |
| Washington/Richmond/Newport News | 4.4 RT (WAS to RVR) 2.4 (WAS to NPN) |
| Chicago/Detroit/Pontiac | 3 RT |
| Chicago/St. Louis | 1 RT |
| Los Angeles/San Diego/San Luis Obispo | 30% System (3RT) |
| Seattle/Portland | 1 RT |

# State Supported and System Corridor Services: 2006



- In recognition of the inconsistency between state-supported and system corridor trains, as well as the need to reduce the level of federal operating support, in 2005, the Board adopted the following policy through Amtrak's April 2005 Strategic Reform Initiatives (SRI).

  *"states will transition to coverage of fully-allocated operating losses (excluding interest and depreciation), plus an equipment capital charge, for all corridor trains [state-supported and system corridor trains] over a four year period starting in FY08."*

- The SRI calls for states to transition to full cost recovery on a schedule of 25% per year and be complete by 2011.
- As depicted in the following Table, a literal interpretation of the SRI would require our state partners to increase their annual state support payments at a range of 27% to 1388% (or averaging 191%).

# Pricing Impacts of Initial SRI Policy

**Estimated Impact of SRI Pricing Policy, By State**
(all # based on FY05 dollars, in millions)

| | Equipment Charge (1) | System Overhead Expense | Conversion of System Trains | Total Increase | Existing Support (FY05) | % Increase |
|---|---|---|---|---|---|---|
| California | $ 16.60 | $ 25.81 | $ 9.52 | $ 51.93 | $ 69.77 | 74% |
| Washington | $ 5.10 | $ 4.12 | $ 2.96 | $ 12.18 | $ 10.99 | 111% |
| Oregon | $ 1.90 | $ 1.63 | $ - | $ 3.53 | $ 4.20 | 84% |
| Wisconsin | $ 0.95 | $ 2.74 | $ - | $ 3.69 | $ 6.01 | 61% |
| Oklahoma | $ 1.55 | $ 0.69 | $ - | $ 2.24 | $ 3.51 | 64% |
| Michigan | $ 10.55 | $ 7.05 | $ 9.52 | $ 27.12 | $ 7.35 | 369% |
| Illinois | $ 12.30 | $ 5.13 | $ 3.22 | $ 20.65 | $ 12.10 | 171% |
| Missouri | $ 2.20 | $ 1.50 | $ - | $ 3.70 | $ 6.44 | 57% |
| Maine | $ - | $ 1.12 | $ - | $ 1.12 | $ 4.08 | 27% |
| Vermont | $ 3.90 | $ 1.26 | $ - | $ 5.16 | $ 2.53 | 204% |
| New York | $ 23.90 | $ 14.97 | $ 21.08 | $ 59.95 | $ 4.32 | 1388% |
| Pennsylvania | $ 7.75 | $ 4.56 | $ 13.47 | $ 25.78 | $ 6.23 | 414% |
| North Carolina | $ 2.60 | $ 3.01 | $ - | $ 5.61 | $ 3.35 | 167% |
| Virginia | $ 8.15 | $ 2.71 | $ 5.00 | $ 15.86 | $ - | N/A |
| Conn/Mass | $ 12.20 | $ 3.59 | $ 15.18 | $ 30.97 | $ - | N/A |
| **Total** | **$ 109.65** | **$ 79.89** | **$ 79.95** | **$ 269.49** | **$ 140.88** | **191%** |

*(1) Equipment charge based on a rate to recover overhaul and rebuild costs, replacement cost and a finance charge.*

# State-supported Service Pricing Policy (cont'd)

- In addition, Amtrak envisioned that the federal government would enact a federal capital matching program comparable to other modes (80/20) by FY08 and stated that "without such a federal matching program in place, the increased operating burden on states would likely result in the curtailment or discontinuance of many if not most corridor services."

- The SRI further states that "in the event that a federal capital match program is not effective by FY08, the transition period will likely have to be <u>restructured or suspended</u>."

# State-supported Service Pricing Policy (cont'd)

- These increased expenses, combined with a delay in achieving an 80/20 federal/state capital match program, far exceed the ability of states to pay and would:

  - Seriously jeopardize our state partnerships

  - Weaken the fastest growing segment of the passenger rail market

- To mitigate these impacts, staff prepared the following approach to converting system corridor trains to state-supported service, to applying an equipment capital charge, and to applying appropriate overhead charges.

# Illustrative Pricing Policy

- Conversion of system corridor trains to state-supported status
  - Phased-in over four years, 25% per year
  - Allowing for those states that are currently not paying to be impacted the most initially
  - Estimated total impact of approximately $80 million by FY11.

# Conversion of System Corridor Trains / Illustrative Approach

| **Conversion of System Corridor Trains - Increase in Required Subsidy Based on FY05 Actuals as Reported by RPS**<br>***All amounts in 2005 dollars. (millions)*** | | | | |
|---|---|---|---|---|
| | FY08 | FY09 | FY10 | FY11 |
| California | 0.00 | 0.00 | 0.00 | 9.52 |
| Washington | 0.00 | 0.00 | 0.00 | 2.96 |
| Oregon | 0.00 | 0.00 | 0.00 | 0.00 |
| Wisconsin | 0.00 | 0.00 | 0.00 | 0.00 |
| Oklahoma | 0.00 | 0.00 | 0.00 | 0.00 |
| Michigan | 0.00 | 1.02 | 5.28 | 9.52 |
| Illinois | 0.00 | 0.00 | 0.00 | 3.22 |
| Missouri | 0.00 | 0.00 | 0.00 | 0.00 |
| Maine | 0.00 | 0.00 | 0.00 | 0.00 |
| Vermont | 0.00 | 0.00 | 0.00 | 0.00 |
| New York | 3.72 | 8.68 | 14.88 | 21.08 |
| Pennsylvania | 0.00 | 1.88 | 10.10 | 13.47 |
| North Carolina | 0.00 | 0.00 | 0.00 | 0.00 |
| Virginia | 1.25 | 2.50 | 3.75 | 5.00 |
| Conn/Mass | 3.80 | 7.59 | 11.39 | 15.18 |
| **Total** | **8.77** | **21.67** | **45.40** | **79.95** |

# Illustrative Pricing Policy (cont’d)

- Equipment Capital Charge
  - Recognizes critical need for federal capital matching program, as envisioned by the SRI.
  - Calculation based on a rate to recover overhaul and rebuild costs, replacement cost (40-year life for cars; 20-year life for locomotives) and financing costs (4.5%)
  - Phased-in approach at 25% per year.
  - Capped at 20% of total equipment charge so as to represent federal match via Amtrak.
  - Policy to be revisited if federal capital investment program is established.

# Equipment Capital Charge / Illustrative Approach

| **Equipment Charge - Increase in Required Subsidy<br>Based on 20% of Total Amount<br>*All amounts in 2005 dollars. (millions)*** | | | | |
|---|---|---|---|---|
| | FY08 | FY09 | FY10 | FY11 |
| California | 0.83 | 1.66 | 2.49 | 3.32 |
| Washington | 0.26 | 0.51 | 0.77 | 1.02 |
| Oregon | 0.10 | 0.19 | 0.29 | 0.38 |
| Wisconsin | 0.05 | 0.10 | 0.14 | 0.19 |
| Oklahoma | 0.08 | 0.16 | 0.23 | 0.31 |
| Michigan | 0.53 | 1.06 | 1.58 | 2.11 |
| Illinois | 0.62 | 1.23 | 1.85 | 2.46 |
| Missouri | 0.11 | 0.22 | 0.33 | 0.44 |
| Maine* | 0.00 | 0.00 | 0.00 | 0.00 |
| Vermont | 0.19 | 0.39 | 0.58 | 0.78 |
| New York | 1.20 | 2.39 | 3.59 | 4.78 |
| Pennsylvania | 0.39 | 0.78 | 1.17 | 1.55 |
| North Carolina | 0.13 | 0.26 | 0.39 | 0.52 |
| Virginia | 0.41 | 0.82 | 1.23 | 1.63 |
| Conn/Mass | 0.61 | 1.22 | 1.83 | 2.44 |
| **Total** | **5.49** | **10.97** | **16.46** | **21.94** |

* *Maine is exempt from equipment capital charge based on 20 year agreement.*

- Overhead Expenses
  - Due to the difficulty of allocating and explaining administrative overheads we recommend
  - A fixed overhead charge of 10%
  - Phased-in over 4 years, beginning in FY08

# Overhead Expenses / Illustrative Approach

| **System Overhead Expenses - Increase in Required Subsidy**<br><br>***All amounts in 2005 dollars. (millions)*** | | | | |
|---|---|---|---|---|
| | FY08 | FY09 | FY10 | FY11 |
| California | 2.80 | 5.60 | 8.40 | 16.00 |
| Washington | 0.61 | 1.22 | 1.84 | 2.45 |
| Oregon | 0.24 | 0.48 | 0.73 | 0.97 |
| Wisconsin | 0.32 | 0.65 | 0.97 | 1.30 |
| Oklahoma | 0.11 | 0.22 | 0.33 | 0.44 |
| Michigan | 0.45 | 1.19 | 2.23 | 3.56 |
| Illinois | 0.75 | 1.51 | 2.26 | 3.01 |
| Missouri | 0.24 | 0.48 | 0.73 | 0.97 |
| Maine | 0.18 | 0.37 | 0.55 | 0.73 |
| Vermont | 0.20 | 0.39 | 0.59 | 0.79 |
| New York | 0.71 | 2.30 | 4.76 | 8.09 |
| Pennsylvania | 0.35 | 0.87 | 1.56 | 2.42 |
| North Carolina | 0.41 | 0.82 | 1.23 | 1.64 |
| Virginia | 0.12 | 0.49 | 1.11 | 1.98 |
| Conn/Mass | 0.14 | 0.55 | 1.23 | 2.18 |
| **Total** | **7.64** | **17.15** | **28.51** | **46.52** |

# Illustrative Increase in Total State Subsidy Requirement by FY11

| **Total Proposed Increase in Required Subsidy - State-supported Services**<br>**Based on FY05 Actuals as Reported by RPS**<br>***All amounts in 2005 dollars. (millions)*** | | | | |
|---|---|---|---|---|
| | FY08 | FY09 | FY10 | FY11 |
| California | 3.63 | 7.26 | 10.89 | 28.84 |
| Washington | 0.87 | 1.74 | 2.60 | 6.43 |
| Oregon | 0.34 | 0.67 | 1.01 | 1.35 |
| Wisconsin | 0.37 | 0.74 | 1.12 | 1.49 |
| Oklahoma | 0.19 | 0.38 | 0.56 | 0.75 |
| Michigan | 0.97 | 3.27 | 9.09 | 15.19 |
| Illinois | 1.37 | 2.74 | 4.11 | 8.69 |
| Missouri | 0.35 | 0.70 | 1.06 | 1.41 |
| Maine | 0.18 | 0.37 | 0.55 | 0.73 |
| Vermont | 0.39 | 0.78 | 1.17 | 1.56 |
| New York | 5.63 | 13.37 | 23.23 | 33.95 |
| Pennsylvania | 0.74 | 3.53 | 12.83 | 17.45 |
| North Carolina | 0.54 | 1.08 | 1.62 | 2.16 |
| Virginia | 1.78 | 3.81 | 6.09 | 8.61 |
| Conn/Mass | 4.54 | 9.36 | 14.44 | 19.80 |
| **Total** | **21.90** | **49.79** | **90.36** | **148.42** |

# Illustrative Increase in Total State Subsidy Requirement by FY11

| **State-supported Service<br>Estimated State Payments<br>*(millions)*** | | | |
|---|---|---|---|
| | **FY07 Existing Policy** | **FY11 Illustrative Policy** | **% Chg** |
| California | 72.30 | 101.14 | 40% |
| Washington | 12.10 | 18.53 | 53% |
| Oregon | 4.50 | 5.85 | 30% |
| Wisconsin | 6.20 | 7.69 | 24% |
| Oklahoma | 3.70 | 4.45 | 20% |
| Michigan | 6.20 | 21.39 | 245% |
| Illinois | 12.70 | 21.39 | 68% |
| Missouri | 7.00 | 8.41 | 20% |
| Maine | 4.70 | 5.43 | 15% |
| Vermont | 4.00 | 5.56 | 39% |
| New York | 4.10 | 38.05 | 828% |
| Pennsylvania | 6.70 | 24.15 | 260% |
| North Carolina | 4.80 | 6.96 | 45% |
| Virginia | 0.00 | 8.61 | N/A |
| Conn/Mass | 0.00 | 19.80 | N/A |
| **Total** | **149.00** | **297.42** | **100%** |

# Illustrative Pricing Policy Recommendations (cont'd)

- The illustrative policy will increase estimated state-support payments by approximately $148M or about 100% in FY05 dollars by FY11 – assuming that all services continue.
- As a result of this illustrative policy, it is likely some states will discontinue service
- Faced with this reality, we are seeking feedback from SCORT on the following alternative strategy for implementing the SRI.

- Goals
  - Achieve equity among states as it relates to system corridor trains
  - Facilitate a smooth transition to the new pricing policy called for by the SRI
- Amtrak is committed to <u>begin</u> closing the financial gap between states that have been enjoying system corridor trains without making any financial contribution and states supporting state-supported service
  - Charge only 50% of proposed FY08 conversion of system corridor trains

# Draft Proposal for Discussion and Comment (cont'd)

- Delay implementation of Amtrak's Strategic Reform Initiatives related to state-pricing policy for the equipment capital charge and system overhead expense until FY09 for States engaged in comprehensive rail planning in cooperation with Amtrak

- States will commit to undertake a comprehensive passenger rail planning review for 2008 through 2012 including development or updating of the following
  - <u>Service plan</u>
    - To include analysis of route structure, frequencies, schedules, ridership revenue and expense forecasts, customer service plan and on-time performance strategy
  - <u>Capital improvement plan</u>
    - To include both infrastructure and equipment requirements
  - <u>Marketing Strategy</u>
  - <u>Funding and Implementation recommendations</u>

# Draft Proposal for Discussion and Comment (cont'd)

- Amtrak will commit to providing technical assistance including in the areas of
  - Development of scope of work
  - Consultant selection
  - Participation on planning review steering committee
  - Revenue and ridership forecasting
  - Amtrak shall complete enhancement to its RPS financial accounting system
  - Including refinement of the methodology for allocation of costs and thru-revenue
  - Proposed equipment charge and administrative overhead charges would be finalized with input from the states

# Draft Proposal for Discussion and Comment (cont'd)

- Ongoing support from Amtrak for SCORT, States for Passenger Rail and other efforts to secure an 80/20 federal/state capital matching program, as envisioned by the SRI.
- Timeframe for completion of comprehensive planning review
  - Development of scope of work/consultant selection – December 2006
  - Draft comprehensive planning review – June 2007
  - Finalize comprehensive planning review – October 2007
  - Execute FY09 State Operating Agreements – March 2008
  - Begin the phase-in under the State Pricing Policy – July/October 2008 the operation of state-supported services consistent with the recommendations produced by the comprehensive rail planning review