April 25, 2013

The Honorable Bill Shuster
Chair, Committee on
Transportation & Infrastructure
2165 Rayburn HOB
Washington, D.C. 20515

The Honorable Nick J. Rahall, III
Ranking Member, Committee on
Transportation & Infrastructure
2163 Rayburn HOB
Washington, DC 20515

The Honorable Jeff Denham
Chair, Subcommittee on Railroads,
Pipelines & Hazardous Materials
1730 Longworth HOB
Washington, D.C. 20515

The Honorable Corrine Brown
Ranking Member, Subcommittee on
Railroads, Pipelines & Hazardous Materials
2111 Rayburn HOB
Washington, D.C. 20515

Dear Chairs Shuster and Denham and Ranking Members Rahall and Brown:

On behalf of the States for Passenger Rail Coalition (SPRC), an organization representing 34 member states across the nation, I am submitting this letter in regard to the April 11, 2013 hearing on Amtrak's Fiscal Year (FY) 2014 budget. Specifically, I would like to address the implementation of the Passenger Rail Investment and Improvement Act (PRIIA) Section 209 pricing policy.

As you know, a total of nineteen (19) states and twenty-seven (27) Amtrak Intercity Passenger Rail routes of 750 miles or less are affected by the implementation of PRIIA Section 209. These routes represent nearly fifty percent (50%) of Amtrak's ridership. In September 2010, states and AASHTO formed a group consisting of individuals representing these various state intercity passenger rail (IPR) routes to develop a policy in conjunction with Amtrak that would meet the requirements of PRIIA Section 209. The State Working Group (SWG) included representatives from California, Maine, Virginia, North Carolina and Wisconsin. An overview and timeline of the cooperative development of the policy between Amtrak and the SWG is attached.

Tremendous progress was achieved and a policy was cooperatively developed by the SWG and Amtrak. The Amtrak Board of Directors and Governors from 18 of the 19 affected states concurred and approved the policy, cementing the states' commitment to fulfill the requirements of PRIIA Section 209. The Surface Transportation Board (STB) then approved the methodology used to develop the policy i in March 2012. Since last March when the methodology was approved, the affected states have been working diligently with Amtrak to come to agreement over the costs the states will each take over.

States have remained committed to the October 2013 implementation date, five years following the enactment of PRIIA. Most states included "placeholders" in their budgets, based on previously supplied cost estimates, while awaiting final FY2014 pricing. Those final FY2014 numbers were just finally transmitted to states on April 18, 2013, though states still have many questions for Amtrak regarding those numbers and whether or not they are justified. Although it is not comprehensive, provided below is a snapshot of actions taken or proposed by a few states to secure additional state funds to support cost increases associated with the implementation of the Section 209 Policy:

- **California:** PRIIA Section 209 required that California fully support the Pacific Surfliner route in addition to the Capitol Corridor and San Joaquin routes. The increase in state contributions, based on information provided in previous estimates, is estimated to be approximately $25 million. Final operating costs will be incorporated into the state's budget revision process for consideration in the final state budget act for FY2014.

- **New York:** PRIIA Section 209 required that New York fully support the Empire and Maple Leaf routes, in addition to the Adirondack. The increase in state contributions, based on information provided in previous estimates, is projected to be approximately $17 million, which has been included in the preliminary state budget, pending the final forecasted amount.

- **Northern New England Passenger Rail Authority (Downeaster – MAINE):** Maine has paid Amtrak for 100% of operating costs to support the Downeaster since 2001, including funding for overhaul of rolling stock. Section 209 pricing estimates reflected amounts reasonable consistent with historic payments and funding to continue to support Downeaster operations has been included in the State budget.

- **Vermont:** PRIIA 209 requires Vermont to develop completely new processes as it transitions its two Amtrak services, the Vermonter and the Ethan Allen Express, from a single state's decision making process to multi-state operational systems. Each route has different State partners and different Amtrak supervisory regions. Vermont has supported both services for more than 15 years. For the Vermonter route, Vermont worked with its new partners, Massachusetts and Connecticut, to craft the first multi-jurisdictional MOA in late 2012, based on cost estimates provided by Amtrak, and have put a place holder amount in their State budget (currently in the legislature) to cover both services, based on those estimates.

- **Virginia:** The Commonwealth of Virginia began its internal discussions in preparation for PRIIA Section 209 in 2009. To formalize discussions and alternatives, during its 2010 session, the Virginia General Assembly, directed the Virginia Department of Rail and Public Transportation to study funding strategies for State Sponsored Intercity and High Speed Passenger Rail to meet the requirements of PRIIA Section 209 and to provide for the expansion of intercity and high speed passenger rail. The report document recommended the creation of an Intercity Passenger Rail Operating and Capital Fund. In its 2011 session, the Virginia General Assembly created the Intercity Operating and Capital Fund (IPROC). In its 2012 session, the Virginia General Assembly appropriated sufficient funding to meet the estimated first two years of PRIIA Section 209 implementation; and, in its 2013 session, the Virginia General Assembly adopted a landmark transportation funding proposal that provided a reliable and sustainable source of dedicated revenue for IPROC sufficient to cover the costs of regional PRIIA Section 209 Amtrak intercity train service and to contribute to the costs of expanded intercity passenger service. IPROC has been included in the Commonwealth's Six Year Transportation Improvement Program since FY2012 and will be updated to reflect the FY2014 Amtrak operating and capital equipment estimates once finalized with Amtrak. Beginning in 2009, the Commonwealth became the 15th state to join Amtrak in state supported services. Under the *AmtrakVirginia* service, Virginia funds two regional trains today and will be supporting four additional regional trains currently provided by Amtrak upon implementation of PRIIA Section 209.

- **Washington:** Washington state has been a cost-sharing partner in *Amtrak Cascades* service since 1994 and has worked diligently with Amtrak to implement Section 209. For FY2012, Washington paid $9.6 million in operating costs for *Cascades* service, while it is estimated Oregon paid $6 million and Amtrak paid $4.2 million. After receiving the Amtrak forecast for FY2014 on April 18th, the projection for Washington's share of the *Cascades* service is reported to be $17.4 million; an 81.3 percent increase from the actual cost (of $9.6 million) the State spent in FY2012. The State is working with Amtrak to understand how they came to that cost estimate. While the Washington State Department of Transportation worked to include additional funding to accommodate the estimated increased 209 costs in the Governor's FY2014 Budget, the Washington State Legislature made the decision to wait until the 2014 legislative session to provide additional funding so the Amtrak PRIIA 209 Workbooks can be reviewed and validated, and to ensure the increased costs are accurate and fair.

- **Wisconsin:** The State of Wisconsin began discussing preparations for PRIIA Section 209 costing of the Hiawatha Service, jointly supported with the State of Illinois, as part of its biennial budget preparation efforts in early 2012. The proposed State budget for the biennium from July 1, 2013 to June 30, 2015 that was submitted by Governor Walker to the Wisconsin Legislature in early 2013 was crafted to include sufficient funding to allow Wisconsin to continue to provide its share of the costs of operating the current level of Hiawatha Service based on the best information available.

During the development of the Section 209 policy and the current implementation efforts, the SWG and Amtrak continued to provide the Federal Railroad Administration (FRA) with updates on the Section 209 Policy, identifying progress and areas of concern. One notable concern expressed by the SWG on behalf of the states was the lump-sum, one-year shift of approximately $58 million in operating costs and $42 million in equipment capital charges to states in FY2014 with the implementation of the Section 209 Policy (based estimates provided in an Amtrak update in January 2013). The SWG supports federal transitional operating assistance, as proposed in the FRA FY2014 budget request, which would begin in FY2014 and be phased out in 20% increments over a 5-year period. This would lessen federal support each subsequent year resulting in full responsibility for operating costs assumed by states in FY2018.

In closing, I want to emphatically state that states have been actively involved in the development and implementation of the PRIIA Section 209 pricing policy and have prepared for its implementation based on the information provided by Amtrak. States have a long history in the development and growth of IPR routes and their investment in these IPR corridors has strengthened the state and national surface transportation network. To that end, states have a vested interest in the outcome and implementation of the Section 209 pricing policy so that their citizens can continue to use these IPR trains as a safe, viable, convenient and affordable mode of transportation. However, as I am sure you can appreciate, we are accountable to taxpayers and must be sure that before we take on any additional costs that those costs are justified.

The SPRC looks forward to working with you on this critical issue. We will soon provide you with a more detailed analysis of the FY2014 Section 209 pricing policy proposal that the states received late last week, which will help frame the progress and issues for states as they attempt to implement Section 209 policy for their IPR services.

Sincerely,

Patricia Quinn

Patricia Quinn
Chair, States for Passenger Rail Coalition

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PRIIA
SECTION 209

POLICY OVERVIEW

Background

Overview of PRIIA Section 209

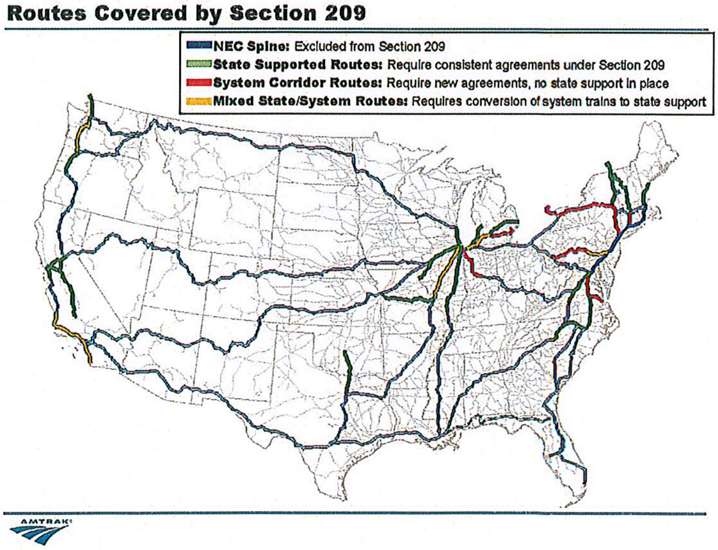
- Section 209 (S209) of the Passenger Rail Improvement and Investment Act (PRIIA) (P.L. 110-432, Division B):
    - Adopted October 16, 2008.
    - Requires the Amtrak Board of Directors, in consultation with the US Secretary of Transportation, and the governors of each relevant state, to develop and implement a single, nationwide standardized methodology for establishing and allocating the operating and capital costs among the states and Amtrak associated with trains operated on each of the state-supported Intercity Passenger Rail (IPR) routes under 750 miles.
- Implementation of S209 pricing methodology is required by FY2014 (October 1, 2013).

Overview of State-Supported Intercity Passenger Rail Routes/Services

- Currently, Amtrak operates IPR routes in 19 states. Those routes are fully or partially supported by 15 states including: California, Illinois, Maine, Michigan, Missouri, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Texas, Vermont, Virginia, Washington and Wisconsin.
- 16 routes are fully supported by states
- 5 routes are partially supported by states
- 6 route are not supported by states at all

- These 27 state-supported routes represent 48 percent of Amtrak's total ridership and 25 percent of Amtrak's revenue.

Routes Covered by Section 209



PRIIA 209 Policy Elements

The PRIIA S209 policy is a standard methodology for calculating state contributions for IPR routes and is not a budget commitment. The PRIIA S209 policy states that:

- **States will reimburse Amtrak for the verifiable Route Costs associated with operating their services.**
  - States reimburse Amtrak for route-specific operating expenses in 15 standard cost categories.
  - States will reimburse Amtrak for administrative costs (G&A) based on a standard percentage of Route Costs.
  - States will not reimburse Amtrak for certain costs associated with operating a national passenger rail network if they are not directly associated with the operation of a specific State route. These costs are included in the pool of Amtrak costs "allocated" to State routes.
  - States will reimburse Amtrak for actual 3rd Party Costs associated with operating their services, including fuel, host railroad maintenance and performance.
  - Operating Revenues will be credited against costs.

- **States will reimburse Amtrak for each state's fair share cost to keep Amtrak assets, such as rolling stock and stations, used to support the operation of a State Route in a state of good repair.**
  - Amtrak and States will agree upon 5-year capital programs required to maintain specific assets.
  - The amount reimbursed by states will be based on "units used" of an asset by a particular State route.

IPR service is a critical component to a comprehensive transportation network and through this policy states recognize their role in supporting and sustaining their IPR services. States do depend, however, on Amtrak and their ability to support backbone operations which benefit all states and the nation as a whole by reducing congestion, saving fuel, creating jobs and stimulating economic development.

PRIIA S209 Policy Attributes

- Mutually developed by Amtrak and states.
- A transparent, consistent and equitable methodology for states to reimburse Amtrak the cost of operating routes in their state(s).
- Enhances partnership between Amtrak and states and provides states with the ability to control direct (Route) and indirect (Support Fees) costs.
- Provides a reliable budget planning process and financial forecast to help stabilize Amtrak costs.
- Creates a state-supported capital investment program to maintain Amtrak assets with verifiable and tangible results.

PRIIA Section 209

Policy Development & Implementation Timeline

Spring/Summer 2010

Amtrak presented initial Section 209 Pricing Policy proposals to states.

- The original deadline to concur with a policy was October 16, 2010. Amtrak hosted its first state partners meeting in Chicago in April 2010 to unveil the new APT (Amtrak Performance Tracking) accounting/cost allocation system to current and prospective Section 209 states. Regional meetings were held throughout the next few months to provide and explain new APT system and provide examples of fully allocated operating costs using APT. Amtrak presented two proposals for a 209 cost methodology for operating and capital expenses to states, which were not accepted by the states.
- Amtrak states & Amtrak agreed to extend the deadline to April 16, 2011 and (then to June 16, 2011) to allow more time for negotiation.

Fall 2010

State Working Group Formed

A State Working Group (SWG) was established in September 2010 to work with Amtrak to develop a fair, equitable and transparent policy. The States collectively developed principles which would be required in an acceptable policy and shared them with Amtrak :

- The policy needed to be transparent & easy to understand.
- The direct relationship to services needed to be provided.
- States wanted the ability to control costs.
- The policy should include performance guarantees & standards.

Discussions, detailed analyses of costs and negotiations continued with Amtrak through March 2011 with significant input from all Section 209 states. During that time, the SWG made detailed side-by-side comparisons of cost elements, by various metrics, to help identify both consistencies and inconsistencies in Amtrak's past and current pricing models. The SWG then developed and presented a PRIIA 209 cost proposal to Amtrak which introduced the concept of three cost categories: 3rd Party Costs, Route Costs and Support Fees based on Additives. The Amtrak Board approved the policy concept and Amtrak staff evaluated additive rates and made a counter-proposal to SWG.

June 2011

A draft policy was jointly developed by Amtrak and the SWG

The draft policy was presented to states for comment in June 2011. A final policy was adopted by the Amtrak Board and presented to states for concurrence in August 2011.

November 2011

A final policy is adopted by states.

Eighteen of nineteen impacted states adopted the PRIIA Section 209 Cost Methodology Policy, which was then sent to the Surface Transportation Board (STB) for final adaptation. The STB finalized its decision to adopt the jointly-determined final policy on March 13, 2012.

June 2012

Amtrak provided FY2011 cost data to states for budgeting purposes.

APT workbooks reflecting FY2011 operating costs provided to states along with equipment capital forecasts for FY2012-FY2015 by Amtrak. States posed many questions regarding clarity and accuracy of costs.

November 2012

Amtrak provides revised FY2011 cost data to states for budgeting purposes.

States continued to pose questions to Amtrak regarding clarity and accuracy of costs.

January 2013

SWG and Amtrak met to discuss data needs and implementation challenges.

February 2013

Amtrak provided update at AASHTO/SCORT meeting.

Amtrak management provided overviews of the equipment overhaul process, food & beverage operations and various marketing related cost centers to states present at a Washington conference.

March 2013

Amtrak provided FY2012 cost data to states for budgeting purposes.

Amtrak hosted a conference call to update states on policy implementation. States presented written list of questions/issues to Amtrak for review.

April 2013

Amtrak provided FY2014 forecasts for PRIIA 209 operating costs and updated equipment maintenance capital costs to states.

The first forecasts for FY2014 operating and capital costs were transmitted to states along with a letter notifying states they have 180 days to reach agreement on final costs or face service cancellation.